Loose Change

a penny saved is a penny earned

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Two Ways to Save Taxes

As federal and state tax filing deadlines approach, you may naturally wonder how to minimize your taxes. Traditional and Roth IRAs are two options that may help reduce your total tax bill for 2018 and beyond, and you can open one for tax year 2018 up to the tax filing deadline in 2019.

Traditional IRA

If you qualify by income, contributions* made to this IRA are tax-deferred. In 2018, contribute up to $5,500, indexed to inflation, and an extra $1,000 catch-up contribution if you are age 50 or older during any part of 2018. The $5,500 annual limit, incidentally, applies to all contributions made to all of your IRAs. Whether they contribute before or after tax, everyone can take advantage of any IRA's tax-deferred potential earnings.

The current tax reduction can be considerable if you make a deductible contribution of $6,500 to a traditional IRA and are in the 30% combined tax bracket (state and federal taxes), saving $1,950 on your 2018 taxes. These savings add up over time and can benefit you in other areas—especially if you add the savings to, say, your 401(k) plan contributions or 529 plan college savings.

Roth IRA

In contrast, a Roth IRA does not offer a current tax deduction for contributions, so you can't reduce your 2018 tax bill by opening one. You will, however, find a number of advantages to this type of IRA account, not the least having to do with future taxes.

Like a traditional IRA, the Roth offers tax-deferred potential growth. Unlike the traditional type, the Roth doesn't mandate minimum distributions at age 70½; you don't even have to take a Roth distribution during your lifetime.

The biggest advantage, however, is the tax-free nature of distributions if you are at least age 59½ and have owned the Roth IRA five years or more.

Talk to Your Professional

Your financial professional can help you decide which type of account is right for you. It's your choice whether to take advantage of tax savings now or in retirement.

**https://www.irs.gov/newsroom/irs-announces-2018-pension-plan-limitations-401k-contribution-limitincreasesto-18500-for-2018*

Last-Minute Tax Break

If you are self-employed or own a business, a Simplified Employee Pension IRA (SEP-IRA) can be one way to minimize taxes and plan retirement.

A SEP-IRA Primer

This particular retirement account is well-suited for smaller businesses. That's because qualified employees must be allowed to participate in the plan, to which employers make contributions.

Any employee who is at least age 21 and was an employee of your business in three of the last five years is eligible to participate in the SEP plan. You don't have to contribute to the plan every year but when you do, everyone who qualifies must receive contributions, which immediately vest to employees.

The Total Package

A SEP-IRA is easy to set up and administer, with no tax filing required. It also allows larger contributions than most qualified retirement plans do. You have until your business' tax filing deadline plus extensions to open and make tax-deferred contributions to SEP-IRAs for tax year 2018.

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Tips to Help Boost Your Credit Score

Your credit score is often the driver when looking for the best deal on a credit card or auto loan. Here are some steps to help increase your credit score:

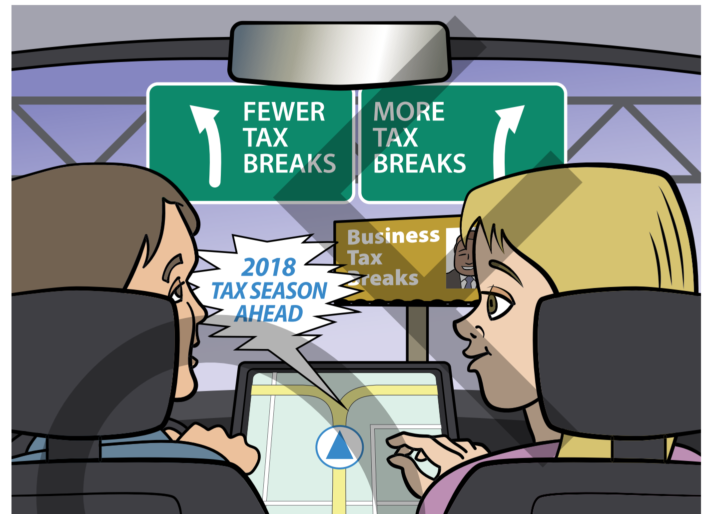
1. Check your credit scores. Get a free credit report every year from Equifax, Experian and TransUnion. Examine each for errors.
2. Shrink your debt. You may want to start by paying off your credit card with the highest interest. This is one step to a better income-to-debt ratio and a better credit score.
3. Expand your income. You might accomplish this step with a part-time job, overtime or freelancing.
4. Automate your savings. Lower debt and more income means you can save more for big goals, including retirement. Make your IRA and 401(k) plan contributions automatic.
5. Once you create a sparkling credit profile, check it regularly to keep it that way.

Important 2018 Tax Law Changes to Note

As the filing deadline nears for your 2018 federal tax return, it may be helpful to brush up on changes that can affect how much you pay. Be aware that some of the changes cited below are subject to income limits and other qualifications, so check with your tax professional to learn about these and other changes to your 2018 return. Also beware that many individual changes will expire in 2026.

More Tax Breaks

The standard deduction increased significantly to $12,000 for individuals, $24,000 for couples filing jointly and $18,000 for heads of households. Income brackets at which you pay ordinary and capital gains tax also increased significantly, as did the threshold at which taxpayers must pay the Alternative Minimum Tax (AMT).



Your children under age 18 may net you a $2,000 child tax credit, if you qualify by income.

The estate tax exemption* more than doubled to $11.18 million for single taxpayers and $22.36 million for couples filing jointly. You can deduct charitable contributions of up to 60% of your adjusted gross income, and inflation indexing boosts the annual gift tax exclusion to $15,000 per taxpayer per recipient. The limit on qualifying income for taking itemized deductions also disappears in 2018.

Fewer Tax Breaks

A combined limit of $10,000 for state and property tax deductions is new to 2018, which taxpayers in highly taxed states will notice. The mortgage cap on the amount of all home loan interest you can deduct is $750,000, down from $1 million. Interest on home equity loans and second mortgages is deductible only for money used for home improvements. Deductions for personal exemptions, moving expenses (service members exempt), unreimbursed job expenses, and casualty and theft losses outside a federal disaster area are also history.

Business: Give and Take

Corporate income taxes decreased, and owners of S corporations and other business entities may see taxes reduced through a special pass-through income tax provision. Section 179 expensing limits doubled to $1 million with a $2.5 million phaseout, and certain equipment and bonuses may be 100% depreciated in the year the expense is incurred.

However, employee transportation benefits are no longer deductible. Neither are entertainment expenses. Larger businesses will also see the end of full interest expensing, which is now limited to any business interest income plus 30% of the business' adjusted taxable income.

Look Ahead

Alimony payments received according to agreements created or modified after 2018 will no longer be taxable.** In 2019, you may deduct unreimbursed medical expenses exceeding 10% of adjusted gross income, up from 7.5% in 2018. If you don't have a qualified health insurance plan, you may owe a tax penalty of $695 per adult or 2.5% of household income, whichever is higher, in 2018. The penalty expires in 2019.

Still Time

Income qualification and contribution limits, which are indexed to inflation, increased for a variety of qualified retirement plans and you still have time to set up and contribute to a traditional IRA before your tax filing deadline. You may also contribute to a Roth IRA until that date. While a Roth IRA doesn't offer tax-deferred contributions, its growth and eventually distributions (when meeting certain terms) are tax-free.***

**https://www.irs.gov/businesses/small-businesses-self-employed/whats-new-estate-and-gift-tax*

***https://www.irs.gov/taxtopics/tc452*

****Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty.*

Spring-Clean Your Finances

Now is not only a good time to spring-clean your house, but to take care of financial matters you may have put off. Consider the following:

Get Your Act Together

If you have receipts here, statements there and insurance documents who knows where, start your spring cleaning by organizing them and streamline your recordkeeping. The accompanying article lists how long you should keep certain tax records, but you can also use it as a guide to reduce other financial records, including utility statements and most credit card receipts.

Document the Important Stuff

This begins with a will so that your loved ones have direction when you can't give it. Talk to an attorney to draw up a will and, while you're at it, a healthcare proxy and powers of attorney.

Coordinate Your Insurance

Consider putting all of your insurance documents in one place so that loved ones can find the information needed to make a claim. Include policy and contact information not only for individual life, health and property/casualty insurance, but also for any benefits you may buy through work, such as disability income insurance. While you're at it, talk with your insurance professional to make sure you're covered appropriately and beneficiary designations are current.

Organize Your Investment Information

Leave information about your various investments and retirement accounts in an accessible place for loved ones to find. Use technology to organize these documents.

And work with a financial professional to help you stay on track with your investing goals.

Buy or Rent

If you're young and starting out, home ownership may seem like an impossible dream. However, you can increase your chances by reducing your debt. Answer the following questions to see where you stand.

How much credit card debt do I owe?

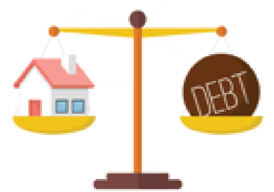
Cards from department stores and gas stations are revolving charge accounts, and they often carry interest rates of 20% and higher. If you have a balance on a revolving account, consider paying it off first. Look at tackling high-interest-rate credit cards next.

What about my student loans?

Typically, student loans, held by federal agencies, have lower interest rates than other types of credit. So tackle debt with higher interest rates first.

So, buy or rent?

Work on your total-debt-to-gross income ratio. Depending on the mortgage provider, your ratio should range anywhere from 28% to 40% or so. Next, check housing prices compared to paying rent. If rent rates are reasonable and home sale prices are high, money talks. Don't forget to compare other ownership costs, including insurance, taxes, maintenance and travel to work.



How Long to Retain Documents

Organizing your financial records can help you find what you need this tax season. Begin by understanding how long you need to keep the following records, courtesy of the IRS:

- **3 YEARS** — Minimum timeframe for most records provided you have reported all your income
- **4 YEARS** — Employment tax records
- **6 YEARS** — If you under-reported your income by at least 25%
- **7 YEARS** — Claims for worthless securities or bad debt
- **INDEFINITELY** — Documentation for years when you didn't file a tax return or filed a fraudulent one

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Unmarried Parents

Pew Research Center analysis of 2017 census data found that one in four parents was unmarried, a sharp increase in recent years. Being married or unmarried does not change the fact that most parents—especially single ones—should have life insurance.

The Situation

Unmarried couples can name each other as beneficiaries if they can prove they have an insurable interest in each other because they provide financial or other support. Then, if the unthinkable happens to one of them, the other could keep their financial ship afloat with life insurance proceeds.

In contrast, single parents living with their minor children, but without a partner, have to depend on themselves. They likely need life insurance, and also the legal documentation that addresses their children's care if the parent is out of the picture.

Determining Your Needs

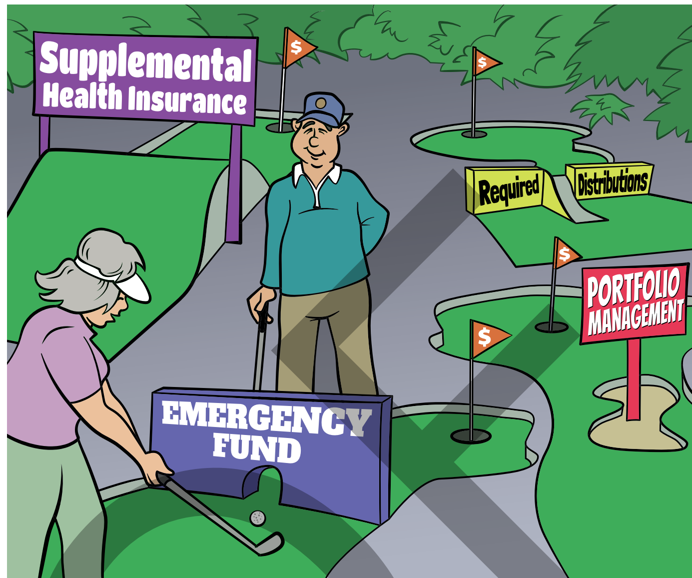
How much insurance will you need? It depends on how many children you have, if they would need childcare, whether your surviving spouse or partner intends to work and more. You can work with an insurance professional to determine how much and what type of insurance is best with your situation.

Retirees Stay the Course

Has life thrown you a curveball and knocked your retirement expectations off track? With the help of a financial professional, you may be able to find alternatives to most financial setbacks and get back on track. Here are some post-retirement challenges and their potential solutions.

Home Repairs

You need a new roof or heating system and you don't have the money budgeted for it. Now you have to withdraw more from your retirement funds than anticipated. While establishing an emergency fund equal to a few months of expenses won't help you this time around, it may help you the next time you incur a large, unexpected expense.



Vacation Envy

If you budget to the penny because you lack disposable income, it can be next to impossible to find the money to take a vacation. You might consider going away by car instead of flying or vacationing with family and friends when they make the offer. But if you really can't find the money for a vacation, or for an emergency fund for that matter, consider getting a part-time or temporary job.

Health Insurance

When a costly illness is your biggest financial risk, it pays to have the right health insurance. Make sure you have not only basic Medicare, but other insurance you need to defray out-of-pocket costs.

There's More

Other risks to your retirement security include an increase in your tax rate, withdrawing too much or too little—with the latter resulting in penalties for not taking required minimum distributions, investing too aggressively or conservatively, and outliving your retirement income. Your financial professional can suggest investments to help alleviate these concerns.

**Converting from a traditional IRA to a Roth IRA is a taxable event. A Roth IRA offers tax free withdrawals on taxable contributions. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59 ½ or due to death, disability, or a first time home purchase (up to a $10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.*

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The communication submitted appears consistent with applicable standards.

Reviewed by,

Wayne L. Louviere
Manager

aec

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