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2018
TAX GUIDE

Our Firm

We wish Travis well as he ventures off into the world of industry. We welcome Jacqueline Sickora to the firm. She is a graduate of Pace University with a bachelor's degree in Business Administration and has eight years' public accounting experience.

Pat is continuing to transition most individual tax return client responsibilities to his son and partner Michael and his partner Tony.

Identity Theft and Refunds

The Internal Revenue Service and the States, as are we, continue to be very concerned with the issue of identity theft and fraudulent tax filings to claim fraudulent refunds. Consequently, the Internal Revenue Service and the States have again instituted procedures to control issuing of fraudulent refunds. Be alert that this could result in delays of refunds and possible requests for information.

REMINDER – Our policy is not to send copies of tax returns to third parties or to issue a "comfort letter" to banks or mortgage companies. Please do not put us in a compromising position.

Passport Revocation

- Code Section 7345 authorizes the Internal Revenue Service to certify to the State Department a taxpayer's serious delinquency, which can result in revoking or not renewing the taxpayer's passport.

- A serious delinquency is a tax debt in 2018 of $51,000 or more (adjusted for inflation) for which a notice of either a tax lien or levy has been filed.

- Section 7345 requires only two notices to be sent to the taxpayer:
  a. Notice of Collection Due Process.
  b. When the Internal Revenue Service sends certification to the State Department.

- Notice is not sent that the Internal Revenue Service intends to send certification to the State Department.

- No notices are sent to the taxpayer representative.

TAX CUTS & JOBS ACT – Most of the below changes are for years 2018 through 2025. Unless made permanent, we go back to rules in place in 2017.

A. Tax rates maintain 7 brackets but with maximum of 37% (down from 39%) and increase in the lower bracket amounts.
   1. Capital gains rates stay the same.
   2. The zero percent rate applies to long-term capital gains and qualified dividends where income is not above $38,600 (single), $77,200 (joint) and $51,700 (Head of Household).
   3. Alternative Minimum Tax (AMT) exemptions increased – $109,400 (joint), $70,300 (single), $54,700 (married filing separate) and $24,600 (estate & trust).
   4. AMT phase–out – $1 million (joint), $500,000 (single and married filing separate) and $81,900 (estate & trust).

B. Standard deductions of $24,000 for joint returns, $18,000 for head of household and $12,000 for all others.

C. Deduction for exemptions reduced to zero.
   1. Rules for determination of "dependent," however, has not changed.
   2. Need to determine allowable "dependent" for premium tax credit, ACA rules, head of household, college credits, child credit, etc.

D. Kiddie (Young Adult) tax still around but with major change in the calculation. Instead of keying into the parent's tax rates, the child pays tax at the trust income tax rates on unearned income. Consequently, if unearned income is over $12,500 the tax rate is 37%. Long-term capital gains and qualified dividends will be taxed at a maximum rate of 20%. Earned income is taxed at the single taxpayer rates. No longer need to hold up child's return until parents return is completed.

E. The child tax credit is increased to $2,000 per qualifying child with a maximum refundable amount of $1,400. There is also a $500 non-refundable credit for other qualifying dependents. Definition of dependent has not changed. Both credits phase out once AGI exceeds $400,000 for joint return and $200,000 for all others.

F. Section 529 plans can be used to pay tuition to elementary or secondary public, private or religious schools up to $10,000 per year.

G. If a refund of tuition is redeposited to the 529 plan within 60 days, the refund is tax free.

H. Distributions from a 529 plan can be rolled over within 60 days to an ABLE account. In addition, the beneficiary of the ABLE account can make contributions to their ABLE account equal to the lesser of their compensation or the previous years poverty level for a one–person household. For 2018 the limit is $12,060 based on the 2017 poverty level and for 2019 the limit is $12,140 based on 2018 poverty level.

I. Itemized deductions.
   1. Limitation on itemized deductions repealed.
   2. Interest expense deduction on newly acquired acquisition indebtedness is limited to mortgages of $750,000 ($375,000 for married filing separate). For mortgages prior to December 15, 2017, the $1 million ($500,000) rule still applies. If you refinance the old mortgage, the new limits could apply. After December 31, 2025 we go back to the $1 million ($500,000) rules.
   3. Interest on home equity loans are not deductible after December 31, 2017 unless the proceeds are used to buy, build or substantially improve the home which is securing the loan. After December 31, 2025 we go back to the old rules. Tracing rules still apply.
   4. State and local taxes are deductible up to $10,000. However, these expenses incurred in a trade or business or rental activity are fully deductible. After December 31, 2025 we go back to no limit on the deduction.
   5. For theft or casualty losses after December 31, 2017 and before January 1, 2026 no deduction is allowed except for casualty losses attributable to a presidential declared disaster area.
   6. Gambling losses and expenses related to the gambling activity after December 31, 2017 and before January 1, 2026 are limited to winnings. After December 31, 2025 the old rules apply. If you use the higher standard deduction, you generally lose ability to deduct the losses.
   7. After December 31, 2017 the 50% limit for deducting cash charitable contributions is increased to 60%.
   8. Miscellaneous itemized deductions subject to the 2% floor are not deductible after December 31, 2017 and before January 1, 2026. These include tax preparation fees, investment expenses, employee unreimbursed expenses, etc. Note: consider having IRA advisory fees deducted from the IRA rather than paying from other personal funds.
   9. Moving expenses are not deductible after December 31, 2017 and before January 1, 2026, except for the military. Reimbursement of these expenses are taxable. Employer reimbursements in 2018 for 2017 allowable moving expenses are NOT taxable. If your employer included them in payroll, your employer can file for a refund.
   10. The threshold for deductible medical expenses in 2018 is 7.5%. After 2018 the threshold goes back to 10%.

J. Big change with alimony. For divorces or legal separations after December 31, 2018 alimony is neither deductible by the payor nor taxable income to the recipient. Alimony payment for pre-January 1, 2019 agreements follow the old rules. Most likely, recipient of alimony under the new rules will not be able to use alimony to make an IRA contribution?

K. After December 31, 2017 the special provision allowing recharacterization of a ROTH contribution is repealed.

L. Like–kind exchange of real property is still permitted for rental real estate, business real estate and real estate held for investment property.

M. Effective after December 31, 2018, the ACA shared responsibility penalty is reduced to zero. For 2018 returns the $695 per person or 2.5% of household income penalty still applies.
   1. The Internal Revenue Service advises that exemption provisions will still be used to calculate the ACA. It will also be used to calculate the premium tax credit.
   2. The Support for Patients and Communities Act was signed by the President expanding the religious exemption from ACA effective December 31, 2017.
   3. On Friday December 14, 2018, a Texas Federal Judge ruled ACA unconstitutional. However, he stayed the ruling, pending appeals, which may wind up going to the Supreme Court.
   4. Governor Murphy in March, 2018 signed a law, effective January 1, 2019, which imposes the federal penalties that were repealed on all New Jersey residents who do not have health insurance.

N. For estates of decedents dying and gifts made after December 31, 2017 and before January 1, 2026 the lifetime exclusion is doubled to $10 million per person, adjusted for inflation. For 2018 the Lifetime exclusion is $11.18 million. For 2019, the exclusion is $11.4 million.

O. Effective for years beginning after December 31, 2017, a qualified plan loan offset amount can be rolled over to another retirement plan up to the due date for filing the tax return, including extensions.

P. Qualified Opportunity Fund Investments.

1. Internal Revenue Service has issued proposed regs NPRM – REG–115420–18 and Rev. Rul. 2018-29 under Section 1400Z–2 describing and clarifying requirements to benefit from the new tax deferral and savings provisions.
2. Taxpayers can elect to defer capital gains that are invested in a "qualified opportunity fund" (QOF) within 180 days after the sale or exchange which triggered the gain. Only "equity interest" in the QOF allow the deferral. Preferred stock and partnership interest with special allocations are considered "equity interest."
3. In general, the gain is deferred until the earlier of December 31, 2026 or when the investment in the fund is sold.
4. If the fund is held for five years there is a 10% step-up in basis. If held for another two years there is an additional 5% step-up in basis. After 10 years, the taxpayers may make a basis step-up election to avoid tax on any appreciation.
5. Gain on sales to related parties are not eligible for the deferral.
6. Individuals, C-Corps, partnerships, REITS, Estates and Trusts can defer gains.
7. If a partnership does not make the election, the individual partners can make the election.
8. Form 8949 is used to make the election. A draft of the form and instructions are on the Internal Revenue Service website.
9. New Jersey has identified 75 municipalities as opportunity zones. The Department of Community Affairs has a link with respect to the program. www.state.nj.us/dca/divisions/lps/opp_zones.html
10. How it works: Sell asset for $250,000 with a tax basis of $150,000 and a gain of $100,000, federal tax is $15,000 to $20,000 plus New Jersey. If you invest $100,000 in a QOF the tax is deferred until the QOF is sold (no later than December 31, 2026). If held for five years, basis is increased 10% which reduces the taxable gain by 10,000. If held for seven years, an additional $5,000 of gain is reduced. So, gain of $85,000 is taxed. Let's say the $100,000 investment is held for 10 years and now is worth $160,000, none of the $60,000 appreciation in value is taxable.

Q. As a result of TCJA, the Internal Revenue Service has completely revised Form 1040 and created six new schedules. Consequently, your return for 2018 will have a different look than prior year returns.

HIGHLIGHTS FOR 2018 TAX RETURNS

- ***For 2017 tax returns the Internal Revenue Service instituted rules requiring us to perform "Due Diligence" when preparing a tax return, which claim the earned income tax credit, child tax credit or American Opportunity Credit.*** **For 2018 the Internal Revenue Service added to this requirement the use of the Head of Household tax rates (HofH).** ***Consequently, we need to make inquiries, obtain documents and retain records which support the claiming of the credit or HofH. If your tax return is claiming any or all of these credits or HofH we are required to complete a new two-page Form 8867 to certify that we have made the inquires and obtained documentation to satisfy ourselves that you are entitled to the credit or use of HofH. If the Form 8867 is not completed correctly, we are subject to a penalty of $520 per form.***

- ❖ If you own investments in a foreign country, please let us know as we may have to prepare a Form 8938 and certain other forms to go with your tax return and you may have to electronically file before April 15, 2019, Form FinCEN 114. Failure to file these forms can result in penalties of $10,000 to $50,000. (Page 22)

- ❖ *Internal Revenue Service continues to be successful in court not allowing business auto expenses where detailed accurate records of business and non-business miles were not contemporaneously maintained. The same applies for charitable miles. (Page 16)*

- ❖ The Health Care laws put into place four significant tax provisions:

  - Earned Income Medicare Tax of .9% on earned income over $200,000 (single) $250,000 (married filing a joint tax return) and $125,000 (married filing separate tax return). (Page 14)

  - Unearned Investment Income Surtax of 3.8% on the lesser of Net Investment Income (NII) or the amount that exceeds the Adjusted Gross Income threshold of $200,000 (single) $250,000 (married filing joint tax return) and $125,000 (married filing separate tax return). (Page 14)

  - The Affordable Care Act (ACA) requires everyone to have health insurance, with a few exceptions. Failure to have health insurance will result in a penalty being assessed. Internal Revenue Service will not process tax returns without answering the questions. (Page 19)

  - The ACA provides individuals with an opportunity to obtain a Premium Tax Credit to assist in paying for health insurance. (Page 19)

- ❖ The Internal Revenue Service requires all business tax returns, including Form 1040 Schedule C, to give a response to questions about the requirement to file 1099s. REMINDER – in general, if a business makes payments of $600 or more to unincorporated non-employees or any business related payments to attorneys and law firms, regardless of being incorporated, you MUST issue them a Form 1099 with filings to the Internal Revenue Service and copies to New Jersey.

- ❖ Alternative Energy Source Credit of 30% of the cost of the improvements, without any limit on the amount of the credit. (Page 12)

- ❖ The American Opportunity Credit of up to $2,500, is equal to 100% of the first $2,000 of college tuition and 25% of the next $2,000. 40% of the credit is refundable. (Page 11)

- ❖ Qualified Education Expenses include the cost of tuition and related expenses such as course materials, but do not include room and board, transportation, etc.

- ❖ Employee Transportation fringe benefits of up to $260 per month for transit passes, parking or vanpools are non-taxable.

- ❖ Interest received on certain Build America Bonds issued by states before January 1, 2011 is taxable. However, some of these bonds may qualify for a 35% non-refundable credit calculated on the taxable interest. Check with your financial advisor and let us know.

- Under the Tax Reform and Jobs Act signed into law on December 22, 2017 by President Trump, businesses get extra depreciation for assets placed in service before January 1, 2019. One provision allows expensing certain assets up to $1 million. The other provision allows a first year depreciation of 100% of the cost of new or used assets acquired and placed in service. Assets placed in service after September 27, 2017 are eligible for 100% bonus depreciation whether new or used.

- Federal – if you meet certain tests, the estimated tax penalty will not apply as long as at least 90% (85% for 2018) of your 2018 tax liability has been paid through withholding or estimated taxes. You can avoid the penalties for underpaying your estimated taxes, if you pay at least 100% of your 2017 tax liability. If your income exceeded $150,000 in 2017, you need to pay in 110% of 2017 tax liability to avoid the penalty.

- New Jersey – requires a minimum of 80% of the 2018 tax "paid in," including your estimated tax payments, withholdings and extension payment, or New Jersey will deny the extension to file and late filing penalties will be assessed.

- Internal Revenue Service and New Jersey requires us to e-file all individual income tax returns, with only a few exceptions. The Internal Revenue Service and New Jersey also requires us to e-file all fiduciary income tax returns (Form 1041).

- If you have a federal overpayment, you are able to elect to use the refund to purchase up to $5,000 of Series I Savings Bonds.

- Same sex "married" couples, as a result of the two Supreme Court cases, the Windsor case and Obergefell case, have the same tax filing requirements as opposite sex "married" couples. Same sex married couples therefore must file joint tax returns or married filing separate tax returns. Domestic partnerships and civil unions are not viewed by the Internal Revenue Service as being "married" for federal tax purposes. Consequently, the same sex couples in these or similar arrangements file their separate returns as "single" or, if they qualify, as "head of household."

Note: If your tax return can not be finalized and filed by April 15, 2019, any balance due must be paid with the request for an Extension to File to avoid possible penalties. Some states require the payment to be made electronically.

2018 TAX CHECKLIST

- ❑ Let us know if any changes were made to your home and/or business telephone numbers, email, addresses, bank accounts used for direct deposit of refunds or direct payment of balance due.

- ❑ Confirm your and your spouse's date of birth.

- ❑ Confirm your children's Social Security numbers and their dates of birth. Name shown on Social Security card - no nicknames!! ***Note – The "kiddie tax" is now a "young adult" tax.*** **(Page 14)**

- ❑ Confirm Social Security numbers of other dependents and their dates of birth. Name shown on Social Security card – no nicknames!!

- ❑ Veterans – New Jersey is allowing an exemption of $3,000 if you are a military veteran who was honorably discharged or released under honorable circumstances from active duty in the Armed Forces of the United States by the last day of the year. A copy of your DD-214 will be required the first year you claim the exemption.

- ❑ W-2s – Wage Reporting Forms.

- ❑ 1095–A – Advanced Premium Tax Credit notice. (Page 19)

- ❑ 1095–B or 1095–C to evidence health insurance coverage.

- ❑ 1098 – Mortgage Interest.

- ❑ 1098–C – Vehicle donation to charity. (Page 17)

- ❑ 1098–T – Tuition statement. **Note – must also send us receipts for the tuition you paid.**

- ❑ 1099s – Information Document for Interest, Dividends, Retirement Account Distributions, etc.

- ❑ Form 1099–B and brokerage statements when you bought and sold – including selling price, cost of security sold, and the date the security was acquired and sold. (Page 13)

- ❑ Unemployment Benefit – The Form 1099G must be downloaded from the New Jersey website at https://njsuccess.dol.state.nj.us/html/uimain.html (Page 18)

- ❑ 1099-K – Merchant Card and Third-Party Network Payments.

- ❑ Form 1099-Q – Distributions from Education Savings Account or Section 529 Plan.

- ❑ Form 1099-SA – Distributions from Health Savings Account.

- ❑ K-1s for Partnerships, Trusts, etc. (Page 21)

- ❑ Amount of New Jersey Homestead Rebate and/or New Jersey Property Tax Reimbursement (Senior Freeze) you received in 2018.

- ❑ Charitable contributions – cash or non-cash **REQUIRES** documentation. You can no longer simply estimate. Please complete the attached charitable contribution form and return it to us. (Page 17)

- ❑ Claiming a credit for a dependent child that does not live with you? We need a signed Form 8332 from the custodial parent.

- ❑ If you pay rent - we need the total amount of rent paid. If you share an apartment or house - we need the name of other tenants and your portion of rent paid.

- ❑ Own vacation/rental property – need number of days rented and days of personal use. If your personal use was more than fourteen days or ten percent of rental days, your loss, if any, is limited. If rental for the year is less than 15 days total, the rent is not taxable.

- ❑ IRA contributions must be made by April 15, 2019. (Page 19)

- ❑ If income is over the limits for a deductible IRA or ROTH IRA, a nondeductible IRA contribution can still be made. If you make a nondeductible IRA contribution or ROTH IRA contribution, we still need to know the details. (Page 20)

- ❑ Did you convert all or part of your IRA to a ROTH IRA – If yes – we need the details. (See page 20 for planning opportunity.)

- ❑ Transfers from your IRA to charity. (Page 17)

- ❑ Health Savings Account (HSA) contributions must be made by April 15, 2019. (Page 15)

- ❑ Sales tax paid on large purchases, i.e., auto, boats, planes, etc.

- ❑ Foreign bank, brokerage account or foreign credit/debit cards and ownership of foreign investments – If you have any, we need details to prepare a report for you to send to the U.S. Treasury Department and/or submit with your tax return. (Page 22)

- ❑ Education Savings Account (ESA) contributions. (Page 12)

- ❑ Section 529 College Tuition Account contributions – may require filing a gift tax return, Form 709, if you contributed more than $15,000 for any one beneficiary. (Page 12)

- ❑ Sold your home – need closing statement when you purchased and sold it. Remember – all improvements add to the cost of your home and lower your gain. (Page 21)

- ❑ Business autos – we need actual total miles driven, actual total business miles and actual total non-business miles – if you have more than one business auto - information is needed for each auto. (Page 16)

- ❑ List of estimated tax payments (IRS and State(s)) with dates paid.

- ❑ Alimony paid or received? Need details. If paid, need name and Social Security number of recipient.

- ❑ Any unusual items of income or expense – bring or send in information so we can determine if they have any tax impacts.

- ❑ Use Tax to New Jersey – Did you make out of state purchases and did not pay sales tax? – You may need to pay use tax with your New Jersey Income Tax Return. Bring in details with your income tax information.

- ❑ Energy Credit – information to calculate the credit. (Page 12)

- ❑ Elder Care – let us know if we can assist you or your loved ones in handling financial affairs.

- ❑ Need Estate and Financial Planning? Let us know – we can help you with your planning.

ELECTRONIC FILING (E-FILE)

As required by the Internal Revenue Service and the State of New Jersey, we will e-file most Federal and New Jersey 1040 and 1041 tax returns. We may not be able to e-file all State tax returns. If this occurs, you will receive a paper tax return to file with the State. No need for concern, we will provide you with all the details and instructions. If you do not wish to e-file your Federal and State of New Jersey tax returns we are required to have you sign “opt-out” e-filing forms. The Internal Revenue Service also requires us to complete Form 8948 and attach it to your tax return. The State of New Jersey requires a completed E-File Opt-Out Request Form (Form NJ-1040-O) be sent with the paper return.

TAX RETURN PREPARATION

Your Copy – As an alternative to receiving a “hardcopy” of your tax return we can send you your tax returns electronically in a “PDF format” along with the e-file authorization forms you have to send back to us in order for us to “e-file” the tax return. **Let us know what you prefer**. We will mail you a “complete client hardcopy” or a PDF File of the tax returns for your files. Please keep these copies for any future use. ***If you cannot locate your copy in the future, we can send you a copy for a minimum fee of $150 per tax return.***

Penalties

The Internal Revenue Service and Congress have gotten “tougher” on taxpayers and tax return preparers to assure that deductions and expenses claimed on the tax return are “legit” and can be substantiated with adequate records. As previously advised, Congress changed the law, raising standards, and increasing penalties. The Internal Revenue Service also revised their rules which the tax preparers must follow. Because of these rule changes more time and cost could be involved to prepare the tax returns – which in turn could increase tax return preparation fees.

If items you report on your tax return are not allowed, you may be subject to paying substantial penalties to the Internal Revenue Service and possibly the state. In addition to penalties against you, the Internal Revenue Service can also charge **us** with substantial penalties for not following the “rules.” (Generally, 50% of our fee or $1,000, which ever is higher.)

What does it all mean? – Less “guessing,” “estimating,” no “same as last year” and more “documentation!”

ELECTRONIC REFUND

If you are entitled to a refund you may be able to have it electronically deposited to one bank account or split the refund into three separate accounts. To do the electronic deposit we need the name of your bank, type of account, account number, and your bank's routing number. Refunds can be deposited to the following type of accounts if your financial institution accepts them:

1. Regular checking or savings.
2. IRA or ROTH IRA.
3. Health Savings Accounts (HSA).
4. Archer Medical Savings Accounts (MSA).
5. Education Savings Accounts (ESA).

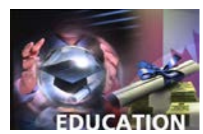
If you have the deposit go to your IRA, HSA or MSA, you must advise the financial institution whether to apply it to 2018 or 2019. If you do not, it will automatically go towards your 2019 contribution.

ELECTRONIC PAYMENTS

If you have a balance due to Internal Revenue Service and/or a state(s), you can request that we process the return to have the payment made electronically to Internal Revenue Service and/or the state(s). The payment will be programmed to withdraw the funds from your account on the due date of the return. If the return is on extension, the payment will be withdrawn from your account the day the return is e-filed.

If you request electronic payments, you need to provide us with your bank information.

Education Incentives



1. Education Credits

Congress has given us two credits to help pay for college education:

- American Opportunity Credit

  The credit is the sum of 100% of the first $2,000 of qualified tuition and related expenses plus 25% of the next $2,000 of qualified tuition and related expenses for a total maximum credit of $2,500. The credit phases out with income between $80,000 – $90,000 ($160,000 and $180,000 for joint returns.) Married filing separate can not use this credit. Note: up to 40% of the credit is refundable. This credit applies to the first four years of college education. To obtain the credit, you must give us a copy of the 1098-T and verify your payments of the tuition and related expenses.

- Lifetime Learning Credit – provides a credit of up to $2,000 per year (20% of the first $10,000 of qualified tuition expense) for tuition paid for "post-secondary education." The credit phases out with income between $57,000 – $67,000 ($114,000 and $134,000 for joint returns). Married filing separate can not use this credit. If you use the American Opportunity Credit, you cannot use the Lifetime Learning Credit and vice versa, but you can use the American Opportunity Credit for one student and the Lifetime Learning Credit for another student.

- In some cases, it is better to let the child claim the education credit. If you think this may be the case for you, let us know and we will do the calculations.

2. **Education Loan Interest**

   Interest paid on qualified higher education loans may be deductible. The maximum amount deductible is $2,500 – but it is deductible directly from gross income. In other words, even if you use the standard deduction you can still take the deduction. As usual, Congress put in a little clinker. If you file a joint return, your deduction is reduced if your income is over $135,000 ($65,000 for all others) and eliminated when income is $165,000 for joint returns ($80,000 for all others).

3. **Series EE Bonds used for College Tuition**

   Interest income on qualified bonds cashed in to pay college tuition may be excluded from income. This is a big plus for many faced with high tuition bills – a good planning opportunity – but with some restrictions. Bonds must be issued after 1989 to a parent, spouse or dependent over age 24. There is a phase out of the exclusion with income between $119,300 and $149,300, if married filing jointly, and $79,550 and $94,550, for all others. Note: The bonds must be cashed in the same year the tuition is paid.

4. **Coverdell Education Savings Account (ESA)**

   Non-deductible contributions, up to $2,000 per child under 18 years old, can be made by April 15, 2019. Qualified distributions before age 30 are tax free, if used to pay expenses of primary, secondary and higher education. More individuals are able to contribute to the ESA since the gross income phase out levels have increased to between $190,000 and $220,000 if filing jointly, and $95,000 and $110,000 if single.

5. **Qualified Tuition Programs (Section 529 Plans)**

   These plans are available through private colleges and universities, as well as the current state plans. Qualified distributions to pay for higher education expenses are tax free. Section 529 Plans, unlike ESA, have no age limits for putting the money in or taking the money out. Subject to certain gift tax provisions, including filing a gift tax return, Form 709, up to $75,000 ($150,000 for "split gift" by a married couple) can be put into a plan for each beneficiary. There are many other provisions, conditions and benefits. If interested, call us to discuss. If you have a refund of the tuition paid with Section 529 funds, you can put the refund back in the Section 529 plan within 60 days without adverse tax impacts.

6. **Tuition Gifts**

   If you or someone else (i.e., grandparents) pay tuition directly to the school, no gift tax is applicable and no gift tax return is required, even if tuition paid is over $15,000 per year for any one student.

7. **Coordination of benefits** can allow you to utilize the ESA, Section 529 Plan, American Opportunity Credit and Lifetime Learning Credit, but eliminates duplication.

Energy Credit

Alternative source of energy improvements, such as solar, wind, etc. whether to your residence, rental property or business property, can generate a credit of 30% of the cost without any limit on the amount of the credit. This credit is available for improvements made before January 1, 2022. For costs incurred after December 31, 2019 and before January 1, 2022, the credit is phased out. Subsidies received from utility companies or the government to install solar energy systems are not taxable. However, the amount of the subsidy reduces the cost for calculating the 30% credit.

Child and Dependent Care Credit

You may be eligible for a credit of up to 35% (20% if income over $43,000) of what you pay for child or dependent care expenses for your children under age 13 and expenses of certain dependents, which allows you to be employed. Maximum credit is $1,050 for one child or qualifying dependent and $2,100 for two or more, based on $3,000 of expenses for one person or $6,000 for two or more. A form must be attached to your tax return disclosing the amount of expenses, the name and address of provider, and identification number of provider. If you received non-taxable reimbursement for these expenses from your employer, the expenses eligible for the credit must be reduced by this reimbursement.

Child Tax Credit 

The TCJA effectively eliminated a deduction for exemptions. However, the child tax credit was doubled. If your adjusted gross income is under $400,000 (joint tax return), $200,000 all others (single), you may be entitled to a nonrefundable credit of up to $2,000 per qualifying child under 17 years old. Under certain circumstances, the credit could be refundable, up to $1,400 per qualifying credit. Is this motivation to have a big family? If your child is 17 years and over or if you have a qualifying relative as a dependent, the non-refundable credit is $500.

Capital Gains Tax Rates

In general, the 2018 maximum long-term capital gains rate is 15%. If you are in the 15% or lower tax bracket the tax rate is “zero percent.” There are various exceptions to these general rules when you sell collectibles, rental property, and business property. In addition, in some cases, depending on your total income and deductions, the Alternative Minimum Tax (AMT) rate may effectively apply to the capital gains. Also, the “kiddie tax/young adult tax” may cause children to lose the zero percent tax rate. The Tax Act signed into law on January 2, 2013 raised the top rate for capital gains to 20% if total “taxable income” for 2018 exceeds $425,800 for single filers, $479,000 for joint filers, $452,400 for head of household and $235,350 for married filing separate.

Capital Gains

Generally, all sales are reported – whether a gain or loss – with a 2018 trade date. Net capital losses are still deductible (but - only up to $3,000) – the balance is carried forward. For New Jersey – these losses are only deductible to the extent of income with no carry forward – you lose both ways – lost the money and the tax deduction. Internal Revenue Service is requiring us to use Form 8949 to report your sales of securities and other capital gains transactions. It is possible that we may need to prepare up to six different Forms 8949 and reconcile the information to the Form 1099-B, which you receive from your broker. The revised Form 1099-B will be providing more information to report on the Form 8949. If you believe the 1099-B is incorrect, you need to advise us as well as contact your broker. Each transaction must be reported on Form 8949. (We can use a prepared summary, if the detailed schedule is in the same format as Form 8949, which will be directly sent to the Internal Revenue Service.) If you have many transactions, these additional forms and requirements could add to the cost of preparing your tax return.

Qualified Dividends

In general, most dividends, on common stock and preferred stock, are taxed at a maximum rate of 15% or zero percent if you are in the 15% or lower tax bracket. In some cases, as a result of paying tax at this low rate the AMT might kick-in. There are some exceptions to using this low rate but for the vast majority, the general rule will apply. Dividends from closely held companies generally also qualify for the reduced tax rate. As noted above with respect to capital gains, the favorable 15% or zero percent tax rates will not apply if your "taxable income" exceeds $425,800 for single filers, $479,000 for joint filers, $452,400 for head of household and $239,500 for married filing separate. Instead, the dividends will be subject to a 20% tax.

Earned Income Medicare Tax

The Medicare tax of .9% applies to all wages and self-employment income over statutory amounts $200,000 ($250,000 MFJ and $125,000 MFS). As an employee, the employer must withhold the .9% on all wages over $200,000. When filing your tax return, the .9% withholding will be treated like a credit similar to regular withholding. If the .9% tax is not covered by withholding, it must be paid with the tax return using Form 8959.

Net Investment Income Surtax (NII)

The tax of 3.8% kicks in when your adjusted gross income exceeds $200,000 ($250,000 MFJ and $125,000 MFS). In general, it applies to interest income (except muni-bond tax free interest), dividends, capital gains, net rental income (some exceptions), net royalty income, passive business income, annuities (other than retirement programs), etc. Limited deductions are allowed in arriving at NII for investment interest expense, investment expenses, state and local income taxes and capital losses. If you are subject to the NII tax, the Internal Revenue Service is requiring the preparation of a Form 8960. There are a lot of complex rules dealing with this new tax.

Head of Household Rates (H of H)

If you are unmarried, have a qualified child or a dependent that lives with you for more than half the year and you provide for more than half the cost of maintaining your house, you can generally use the favorable H of H rates. A special rule allows you to use the H of H rates if your parent(s) is your dependent, even though they do not live with you. There is also a special rule that allows you to use H of H if you are married, have a qualified child that lives with you, and your spouse has not lived with you for any time during the last half of the year.

Exemptions – As noted earlier, TCJA has eliminated a deduction for exemptions from 2018 through 2025.

Kiddie Tax – The kiddie tax is really a "**YOUNG ADULT TAX**," since it applies to children 18 or younger and children under 24 who are full time students. Children with unearned income over $2,100 are subject to these rules and will pay tax using the trust and estate tax rates on unearned income over $2,100. All earned income is taxed using the single taxpayer rates. These rules do not apply if the child is married and file joint tax returns.

Health Savings Accounts (HSA)

If you are covered by a high deductible health insurance policy ($1,350 single and $2,700 family), which also provides that the annual "out-of-pocket" expenses cannot exceed $6,650 in 2018 for self only coverage ($13,300 for family coverage), you can generally contribute up to $3,450 ($3,500 in 2019) to an HSA for a single policy and $6,850 ($7,000 in 2019), for family coverage. The contributions are deductible similar to an IRA. The contribution to an HSA for 2018 can be made up until April 15, 2019. In addition, if the HSA is used solely to pay medical expenses, withdrawals are not taxable. If your employer has not established an HSA program, you can establish one yourself at various financial institutions.

Standard Deductions for:

	2018	2019
Married - Joint Return	$24,000	$24,400
Married – Separate	12,000	12,200
Surviving Spouse	24,000	12,200
Single	12,000	12,200
Head of Household	18,000	18,350

Note: If you are over 65 years of age or blind, there is an additional standard deduction of $1,300 ($1,600 if unmarried).

Itemized Deductions

State and Local Tax – As a result of TCJA state and local income tax and real estate taxes combined are deductible up to $10,000.

Medical Expenses – As part of the TCJA, for 2018 the threshold for deducting medical expenses is 7.5% of your adjusted gross income. For 2019 and subsequent years it is 10%. New Jersey remains 2% of adjusted gross income. Deductible medical expenses include: prescriptions, doctors, health insurance, eyeglasses, contacts, nursing care, travel, 18¢/mile plus parking and tolls.

If you are self-employed or a more than a 2% owner of an S–Corporation, Limited Liability Company or Partnership – your health insurance premiums paid by the company are directly deductible from gross income up to the amount of the income from these sources – with the balance deductible as an itemized deduction. Since the premiums paid on your behalf are in your W-2 or K-1 as income, it becomes a "wash" with the deduction offsetting the income. On the New Jersey tax return 100% of the cost is allowed as a deduction.

Qualified long-term care insurance premiums are deductible up to the following amounts:

Age	2018	2019
40 and under	$ 420	$ 420
41-50	780	790
51-60	1,560	1,580
61-70	4,160	4,220
Age 71 or older	5,200	5,270

NOTE – under the New Jersey “Offset Program,” if you owe a hospital bill, New Jersey refunds and rebates might be sent directly to the hospital to be applied toward your bill.

Employee Business Expenses – TCJA has eliminated miscellaneous itemized deductions for 2018 through 2025 which include union dues, certain work clothes and uniforms (not adaptable to normal street wear), job hunting expenses, technical and trade magazine subscriptions, business related education expenses, use of your car for business, if not reimbursed, financial and estate planning, tax preparation, etc.

Home Office – Area must be exclusively (solely -100%) used for your business or required by your employer. The Internal Revenue Service requires attaching Form 8829 detailing the expenses claimed and square feet of the house and office. If you use your home to do work, administration, paperwork, etc., and do not have a regular office, let’s discuss to see if the rule applies to you. **Caution** – Using your home for business and claiming expenses can result in some taxable gain when and if you subsequently sell your home. Starting in 2013, Internal Revenue Service is allowing a simplified method for calculating the home office deduction. The amount is $5/square foot up to $1,500. Note: The area being used must still qualify under the “exclusive use” rule.

Mortgage Interest – Generally, mortgage interest to acquire and improve your personal residence and a second residence is deductible on loans, prior to December 15, 2017, up to a combined total of $1,000,000 ($500,000 if married filing separate). For mortgages after December 15, 2017, the limit is $750,000 ($375,000 married filing separate). TCJA eliminated the deduction for interest paid on a home equity loan. As a result of a recent tax case, interest paid on a construction mortgage to build a personal residence is deductible. As a result of another recent case, each unmarried joint owner of a home is eligible to deduct interest expense up to the statutory limitation of qualifying loans.

Mortgage Points – Deductible on acquisition of home or loans to do improvements. According to the latest Internal Revenue Service ruling - must amortize in all other cases.

Private Mortgage Insurance (PMI) – Unless Congress extends this provision PMI will not be deductible for 2018.

Personal Interest – still not deductible. With planning, you may be able to generate business interest or investment interest expense instead of personal interest.

Investment Interest – lots of interesting rules to determine if deductible – generally deductible to the extent of net investment income. Because of the lower maximum 15% federal tax rate for dividends and capital gains, this income generally does not qualify to allow a deduction for investment interest expense unless you elect to have it apply. Any unused investment interest expense is allowed as a carryover to subsequent years.

 **Charitable Contributions** – only deductible if you itemize, unless the charitable contribution was made from your IRA (see below). You are required to substantiate all cash charitable contributions with a cancelled check, bank or financial record, or a signed and dated receipt. There is no longer the ability to deduct "miscellaneous" cash contributions without having this substantiation.

REMINDER, if you give $250 or more at any one time, you must have a receipt from the charity in your possession **before the return is filed and the receipt must state that you received nothing in exchange**. The Internal Revenue Service says the canceled check is not enough. In recent court cases, the courts are agreeing with the Internal Revenue Service disallowing the deduction if this documentation is not available.

Charitable travel is deductible at 14¢/mile – so are out of pocket expenses you incur as a volunteer for a charitable, religious or governmental agency. As noted above, documentation must be maintained to support the "out of pocket" expenses and the mileage you drove.

All those bags of "goodies" that you drop off at the bin, truck, etc., Internal Revenue Service requires you to keep a list of what is in the bag and the date you gave the "stuff." If the value is more than $250 – then you need a receipt, if you are dropping off at a bin it is not good enough. If the total value of items you gave is over $500 – we must prepare a Form 8283 with all specifics. For contributions of clothing and household goods, a charitable contribution deduction is only allowed for items in "good condition" and of more than "nominal value." This could be a "sticky" issue with the Internal Revenue Service, so you will need to be careful. Note – multiple donations of the same category must be combined to determine the above dollar rules.

By the way – an excellent opportunity exists if you will be making a "sizable" charitable contribution. Instead of donating cash – donate capital gain property. The fair market value is generally deductible and you do not pay tax on the appreciated value (the difference between your cost and the current fair market value). Unless what you give is publicly traded securities – if the value is over $5,000, then you need a "qualified appraisal" from a "qualified appraiser" to go with the tax return to support the claimed deduction.

As a result of TCJA increasing the standard deduction, many of you will not need to itemize your deductions. However, if you are 70 ½ years "young" or older you could elect to have funds **transferred directly from your IRA to the charity** (up to $100,000) and not have the income reported on your tax return even through you are using the standard deduction. You can also have the IRA generate a check payable to the charity which you must then give to the charity. By reducing your adjusted gross income, this could reduce the tax on Social Security. In addition, the transfer to the charity qualifies towards your "minimum required distribution." Note: for New Jersey a portion of the distribution is taxable. Let us know if you took advantage of this provision.

Vehicle Donations – you probably heard or read the "marketing" – donate your car to charity; the tax savings could be more than what you would receive if you sell it. While this statement is really not totally accurate, many people do donate their vehicles. If you donate your vehicles to charity, the deduction is generally limited to the gross proceeds received by the charity and not the value in the Kelley Blue Book or NADA website as in the past. The charitable organization must give you written certification of your donation and a Form 1098-C. Documentation of the vehicle donation MUST be attached to the tax return. There are exceptions where you can use the FMV if the charitable organization gives you written certification that they are using the vehicle or are making substantial improvements to it. One more important point – anything you receive of value, including a "free vacation," reduces the amount of the deduction.

 **Moving Expenses** – TCJA has eliminated this deduction for 2018 through 2025, except for military.

Real Estate Taxes – Generally, all deductible regardless of whether a personal residence or not up to the TCJA maximum of $10,000 combined with state and local income tax. However, the amount of your deduction is reduced by any real estate tax rebate you received. For New Jersey, the real estate tax deduction on your personal residence is limited to $15,000. Also, if you own the home with another person, New Jersey limits your deduction to your percent of ownership even if you paid the full amount of the real estate taxes.

Job Hunting – TCJA eliminated this deduction for 2018 through 2025.

Gambling Losses – Deductible as an itemized deduction, but only to the extent of winnings. That's right - if you use the standard deduction, you lose the ability to deduct your losses. If talking "big" numbers - be sure to keep good records. As a result of a recent ruling – if you do not itemize – the gambling income you report can be reduced by the losses sustained in the same "gambling session." New Jersey also allows you to reduce your winnings by your losses.

Tax planning, **financial planning**, and **investment expenses** – TCJA eliminated the deduction for 2018 through 2025.

Unemployment Benefits

Unemployment benefits are taxable (so far unemployment benefits are still not taxable to New Jersey). Reminder – if you are collecting unemployment, you should make estimated tax payments or increase your future withholding to cover the tax liability – otherwise, you may be in for a "big hurt" when you file your tax return. You can now elect to have income tax withheld from your unemployment check to eliminate or reduce this problem. NOTE: the 1099-G is not mailed. You must go to the NJ website to download a copy.

Social Security

Maybe taxable – depends on the amount of your income. Generally, if your income, including tax exempt income, is more than $25,000 ($32,000 for married filing jointly) you can figure paying tax on some of your Social Security. If your income is more than $34,000 ($44,000 for married filing jointly) you may pay tax on 85% of your Social Security. If you are married filing separately, you may have to pay tax on 85% of all your Social Security without regard to the above base levels. By the way, notice the "marriage penalty." If you receive a "lump sum" payment from Social Security for prior years, a special rule may apply to reduce the amount of payment that is taxable. Please advise us if you received the lump sum and for what years.

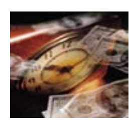
Affordable Care Act (ACA) 

The ACA mandates that you have health insurance. There are many pages of regulations and complex rules implementing approximately 2,000 pages of Health Care Laws. In general, you and members of your household (dependents that you claim as an exemption) must have minimum coverage health insurance or pay a penalty. (By the way, the Internal Revenue Service refers to the penalty as a “shared responsibility payment.”) The penalty is equal to the higher of $695 ($347.50 if a child is under 18 years old) per uninsured household member up to $2,085 or 2.5% of your household income minus the amount of your filing threshold. Household income includes all your income and all income of members of your household. When preparing your tax return, we need to know if you and members of your household had the required health insurance. If not, we need to know the income of the members of your household, even if we are not preparing their income tax return. This information is required for us to calculate the penalty. **Note**: If the penalty is not paid, the Internal Revenue Service is prohibited from enforcing collection other than offsetting with any refund you are entitled to receive. **Note**: For 2019 and subsequent years, the penalty has effectively been repealed. On December 14, 2018, a Federal Judge in Texas ruled the ACA as unconstitutional (See our client alert dated December 19, 2018 on our website www.dldcpa.com.)

New Jersey has enacted a law which is effective January 1, 2019 to have health insurance with the same requirements and penalties as the ACA.

A Premium Tax Credit may be available to help fund the cost of health insurance. If your household income is between 100% and 400% of the poverty level for your size household, you may be eligible for a premium tax credit by purchasing health insurance through the Marketplace Exchange Program. The credit is available in advance to reduce your monthly premium or can be taken when your tax return is prepared to reduce your tax liability. If you purchased insurance through the Health Insurance Marketplace, you need to give us a copy of the notice (Form 1095-A) you received advising of the amount of the credit so that Form 8962 can be prepared and submitted with your tax return. If you received the advanced premium credit and your income is different than estimated when going through the exchange program, you may be entitled to an additional credit or you may need to pay back all or some of the credit.

The Internal Revenue Service issued Publication 5187, explaining some of the provisions of the Health Care Laws including who may be exempt from the health insurance mandate. In addition, the Internal Revenue Service website (www.irs.gov) has a lot of other information about the ACA.

RETIREMENT INCENTIVES 

1. **IRAs –** A way to save for your future retirement (hallelujah). As long as you and your spouse (if married) are not covered by a company retirement or profit sharing plan, you can put up to $5,500 ($6,000 in 2019) into an IRA and get a tax deduction. Even if only one spouse is working, you can put up to $11,000 into an IRA ($5,500 for you and $5,500 for your spouse) and get a tax deduction. If you are a participant in a company retirement plan, the deduction for your IRA contribution is phased out. If you are single, the IRA deduction begins to phase out – with income of $63,000 ($64,000 in 2019), (if married – with income more than $101,000 [$103,000 in 2019]). If married and filing a separate tax return – watch out – the deduction is phased out with income of more than one dollar. Can you believe this “marriage penalty?” If your spouse is an “active participant” in a company plan, but you are not, you can still make a deductible contribution if your combined income is less than $189,000 ($193,000 in **2019**). Again, the deduction begins to phase out after reaching these thresholds.

   Note: If you are 50 or older, you can make an additional contribution (catch-up contribution) of up to $1,000 to your IRA. In 2018 the maximum IRA contribution is $5,500. ($6,500 if 50 or older)

You have another choice to make if your income is between $189,000 and $199,000 in 2018 or between $193,000 and $203,000 in 2019 ($120,000 to $135,000 if single and between $122,000 and $137,000 in 2019) – put $5,500 ($6,500 if 50 or over) into a ROTH IRA rather than a regular IRA. ROTH IRA contributions are not deductible – but then "qualified distributions" are not taxable. Also, unlike regular IRAs, you are not required to take minimum distributions at age 70 ½. This could lower your taxes in your retirement years. Issue – "pay now or pay later."

Conversion of a regular IRA to a ROTH IRA can be made regardless of the amount of your adjusted gross income. The amount you convert must be reported as taxable income but savings down the road may make it worth while.

By the way – IRAs can be a good way to build an investment portfolio. Since the income is tax deferred, the compounding effect builds a bigger investment base faster than non-tax deferred portfolios. Example: put $2,000 away each year for 35 years (a $70,000 investment) earning 4% – your portfolio will grow to more than $155,000.

Want to build a "nest egg" for your child or grandchild who is working but – can't afford to put money in a ROTH IRA (Party times, girlfriends/boyfriends, cars - all cost money you know) – set one up for them. Do this for only 4 or 5 years while they are in high school or college - by the time they retire, the fund could be worth a million dollars if properly invested. Contributing to a "ROTH" will make all the accumulation tax free – if they wait till age 59½ before taking any distributions.

2. Allowable Contributions to SIMPLE Accounts – For 2018, the maximum contribution is $12,500 ($13,000 for 2019). Catch-up contributions are allowable up to $3,000 if age 50 or older.

3. 401(k) Elective Deferrals can be made up to $18,500 for 2018 ($19,000 for 2019). If 50 or older, "a catch-up" contribution is allowed up to $6,000 ($6,000 for 2019). If your employer's plan allows it, you are able to elect to treat some or all of your 401(k) contributions as a ROTH contribution. A ROTH 401(k) sub-account is like a ROTH IRA in many ways. However, you can contribute to the ROTH 401(k) sub-account regardless of your income. Also, you can put $18,500 into the ROTH 401(k) sub-account, plus another $6,000 if 50 or older. (You can only put $5,500, plus $1,000 if 50 or over, into a ROTH IRA if you meet the income test.)

4. Other Retirement Plans also have changes that allow employees to increase the amount of money being set aside for retirement. If you have your own business, call us to discuss establishing a retirement program for your company.

5. Retirement Savings Tax Credit – If your income is under $63,000 ($47,250 for Head of Household and $31,500 for unmarried), you are entitled to a tax credit of up to $1,000 for contributions to an IRA, 401(k), etc. The credit begins to phase out if your income is over $38,000 for joint tax return, $28,500 for H of H or $19,000 for all others.

6. New Jersey Retirement Income Exclusion – The amount of pension and/or other retirement income that may be excluded from gross income is $60,000 (married, filing joint tax return), $30,000 (married, filing separate tax return), and $50,000 (filing single, head of household, or qualifying widow [er]). Note: If your total income is over $100,000 no retirement exclusion is allowed.

Distributions from a Pension Plan, Profit Sharing Plan or an IRA

Need documents and 1099-R explaining distribution. Generally, you may roll over some distributions within sixty calendar days into an IRA account to avoid current tax. As a result of a recent Tax Court ruling, effective January 1, 2015 you can only do one IRA rollover during the course of a 12-month period from the date of rollover, although you can do multiple trustee to trustee transfers. Under age 59½ - distributions may be subject to a 10% penalty. Since New Jersey does not allow an IRA deduction – only a portion of the IRA distribution is taxable to New Jersey. Generally – by April 1 following the year you become 70½, you must begin making minimum required distributions (MRD). Failure to take the required MRD will result in a substantial penalty. If you turned 70½ in 2018, you could have taken your first MRD in 2018 or you can take your first MRD by April 1, 2019. In either case, you are also required to take your 2019 MRD by December 31, 2019. Note: There is no MRD for money sitting in a ROTH IRA. That's right – you can – if you want to – not take any distribution from a ROTH and leave the whole thing income tax free to your beneficiary.

Sale of Personal Residence

Generally, gain of up to $250,000 ($500,000 if married filing a joint tax return) is not taxed – provided you used the property as your principal residence for at least two years of the five preceding years and satisfy all of the other criteria. If you did not use the property as your principal residence for the required two years, there are some exceptions that allow us to calculate a reduced exclusion. Give us the facts and we will assist you in determining if the reduced exclusion can apply.

Rental Property

If your income is less than $100,000, you can generally deduct losses up to $25,000 if you "materially and actively participate." If your income is more than $100,000, this maximum deductible loss is reduced one dollar for every two dollars your income exceeds $100,000. But – don't despair - the loss is not lost – it is only "suspended." The "suspended loss" will, in almost all cases, become a loss deduction sometime in the future when you have rental/passive income or dispose of the property. A problem - record keeping by you to assure the loss is not lost sight of. Hold on – again New Jersey says "no dice" – losses can only offset rental income with limited carry forward to future years. However, as a result of a New Jersey court case, we can adjust your federal tax basis in the property to reduce New Jersey income by the amount of prior depreciation for which you received no tax benefit. Vacation Homes – there are special limitation rules if used personally or the average rental is 7 days or less.

Partnership or S-Corporation Losses

Not all the losses may be currently deductible. If you are a "passive" investor or your investment is insufficient, the loss deduction is restricted. New Jersey Law – like capital losses - these losses can only be used to offset like kind income – and to make matters worse – any unused loss have limited amounts available in the following years.

Alternative Minimum Tax (AMT)

TCJA has minimized the number of taxpayers subject to this tax. In almost every case where your income is in excess of $109,400 ($70,300 single), a complicated calculation will need to be made to determine if you are subject to the tax – which is at a flat rate of 26% or 28%. Personal non-refundable credits will reduce your AMT, similar to regular tax. TCJA also increased the income when the exclusions phase out. The new threshold is $1 million ($500,000 single and married filing separate).

Household Employees 

Did you have any? Did you pay any one person more than $2,100 in 2018? If yes, you may be responsible for withholding Social Security and filing a form Schedule H (Form 1040). You are also responsible for obtaining an employer identification number and for filing W-2s and New Jersey unemployment reports for the household employee.

Foreign Bank and Financial Accounts

You are required to notify the Internal Revenue Service and the Treasury Department if you have foreign financial accounts. On the bottom of Schedule B (the Interest and Dividend Schedule) you must answer "Yes" or "No" to the question – "Do you have an interest, signature or other authority over foreign accounts?" If you respond "No" to this question and you do have such an account, the penalty is up to $10,000, "without regard to willfulness." You must answer "Yes" if you have foreign credit or debit cards or you have control over a company's foreign account. If the balance in the accounts, at any one time, is $10,000 or more, you must file a Form FinCEN 114 by April 15, 2019. New law changes provide procedures to allow filing for an extension up to October 15, 2019. The FINCEN 114 is required to be filed electronically to the Treasury Department. If you want us to electronically e-file the Form FINCEN 114, you must sign a Form FinCEN 114A authorizing us to file it.

Foreign Financial Assets

The Internal Revenue Service requires a Form 8938 to report ownership of "Specified Foreign Financial Assets," for example: foreign brokerage accounts, foreign corporations, foreign partnerships, pension accounts in a foreign country, etc. The Form 8938 is required if the assets had a value of $50,000 ($100,000 for joint tax returns) at December 31, 2018, or the value at anytime during the year exceeded $75,000 ($150,000 married filing jointly). This form will need to be attached to your 2018 tax return when it is filed. Failure to file the form where required can result in substantial penalties.