2018 Income Tax Changes & Retirement Planning

Bryant, Katt & Associates, P.C.
Robert Bryant, C.P.A.

Retirement Contributions:

* Qualified Plans: 401-K, 503-B, 457, defined contribution plans, defined benefit plans, simple IRA plans, traditional and SEP-IRA plans
* Matching employer contributions must be number one in an employee’s retirement consideration
* Employer contributions are optional and vary significantly between various plans
* Simple IRA is an exception – the employer must match up to 3% of qualified wages for those employees that choose to participate. The employer can choose to reduce the 3% to a lesser amount for the first two years of the plan. Employees can contribute up to $12,500, plus $3,000 if age 50 or over
* 401-K, 503-B, 457 and SEP-IRA plans all allow for employer deferral and optional company matches and contribution.

Example:

Employees Gross Wages	**$ 80,000**
Employees Deferral Maximum	18,500
Company Match – 5% of wages	4,000
Company Contribution – 7% of wages	5,600
Total Annual Contributions	28,100
The 2018 Maximum contribution is	$ 55,000

Non-Qualified Annuities

* Income within the annuity is not taxed until withdrawn
* If withdrawals are taken, the income accumulated is the first to come out
* The income is taxed as ordinary income and is not qualified for lower rates for dividends and capital gains
* The tax rate on dividends and capital gain is 0% for a married couple with income less than $101,400
* My conclusion would be that non-qualified annuities are not appropriate for married couples with income less than $101,400

Roth IRA & 401-K Roth

* The benefit of using Roth is that future distributions are non-taxable The disadvantage is that the contribution is not deductible
* If we knew the annual tax situation for our clients the decision could be more certain
* Certain clients are an easy call to favor a Roth over a Traditional IRA
  * Children or Grandchildren with earnings, but no tax (usually they have no money). The parent or grandparent could fund the Roth up to the income earned by the child up to $5,500
  * Young professionals earning low wages with a future of significantly higher income such as medical students

Conversion from Traditional IRA to a Roth IRA:

* Changes for 2018 – you can no longer reclassify your decision to convert

* Conversion may be a benefit if taxable income is lower than normal years

* The doubling of the child tax credit from $1,000 to $2,000 per child and the increase in phase-out from $110,000 to $400,000 may create a tax credit that pays all the tax Note: the taxpayer is giving up refundable credit

Example:

Gross Income	**$ 101,400**
Federal Tax	8,900
5 kids X $2,000	(10,000)
Refund	1,100
Gross income is	74,000
IRA Conversion	27,400
	$ 101,400

History of Federal Tax Rates:

- All amounts are based on married filing joint with two exemptions and a standard deduction:

	Total Income	Standard Deduction	Personal Exemption	Taxable Income	Tax
1971	$ 54,200	$ 1,500	$ 675 X 4 = $ 2,700	$ 50,000	$ 17,060
• Marginal rate 50%; Child Credit = $0					
2000	$ 60,150	$ 7,350	$ 700 X 4 = $ 2,800	$ 50,000	$ 8,300
• Marginal rate 15%; Child credit $ 1,000 X 2; Tax after credit $ 6,300					
2018	$ 74,000	$ 24,000	$ 0	$ 50,000	$ 5,612
• Marginal Rate 12%; Child Credit $2,000 X 2; Tax After Credit $ 1,612					
• Capital Gain and Dividend are tax free up to $101,200 of AGI					
• Increase A.M.T exemption from $86,200 to $109,400					

I.R.A. Tax Considerations:

1.	
M-J Social Security Benefits - $40,000 Taxable	$ 34,000
FMV of IRA Accounts $1,400,000 Ave. RMD	70,000
Total Income ($8,667/month)	104,000
Standard Deduction	(26,600)
Taxable Income	77,400
Federal Tax (marginal rate 12%)	$ 8,907
2.	
M-J Social Security Benefit - $30,000 Taxable	$ 0
FMV of IRA Accounts $340,000 Ave. RMD	17,000
Federal Tax	0
3.	
M-J Social Security Benefit - $30,000 Taxable	$ 17,250
FMV of IRA Accounts $721,000 Ave. RMD	36,000
Standard Deduction	(26,600)
Taxable Income	26,650
Federal Tax (marginal rate 12%)	2,815

2018 Income Tax Changes:

- **Elimination of personal exemptions**
- **State and real estate taxes – caps at $10,000**
  - **Real Estate taxes on rental and farms are allowed**
- **Home mortgage interest on loans to $750,000**
- **Charity limitations increased from 50% to 60% of AGI**
- **2% deductions eliminated (tax prep fee, investment fee, unreimbursed business expenses)**
- **Moving expenses/company paid move – both eliminated (except military moves)**
- **A.M.T. limits – with real estate tax and state taxes limited**
  - **Lots less subject to A.M.T.**
- **Gifts lifetime limit $11,180,000/person/portability (annual gift of $15,000/person does not use up the lifetime limit)**
- **Eliminate alimony deduction and inclusion after January 1, 2018**

2018 Income Tax Changes:

* **Eliminate affordable care act shared responsibility pay, effective January 1, 2019**
* **Reduction of corporate tax rate from 35% to 21%**
* **Eliminate like-kind exchanges, except real estate**
* **20% deduction of pass-through income**
* **Increased standard deduction from M-J to $24,000, single $12,000 and head of household $18,000**
* **Lower tax rates by 3% to taxable income of $400,000 or less**
* **529 plan changes are not in effect for Nebraska**
* **Revised business entertainment expenses**
* **Right to buy ticket contribution eliminated**