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THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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INSIDE THIS ISSUE

YEAR-END TAX PLANNING

Year-end tax planning can ease the tax bite of capital gains and losses. While many people have made money on the stock market this year, there are others who have recognized losses on securities. The right year-end tax planning strategy for an individual's capital gains and losses will depend on a series of factors, including the amount of regular taxable income, the tax rate that applies to the individual's "adjusted net capital gain," whether recognized capital gains are long- or short-term, and whether there are unrealized capital losses.

> *"Success is the sum of small efforts, repeated day-in and day-out."*
>
> *-- Robert Collier*

DIG OUT YOUR BUSINESS PLAN TO PLAN FOR THE YEAR AHEAD

Like many business owners, you probably created a business plan when you launched your company. But, as is also often the case, you may not have looked at it much since then. Now that fall has arrived and year end is coming soon, why not dig it out? Reviewing and revising a business plan can be a great way to plan for the year ahead.

6 sections to scrutinize

Comprehensive business plans traditionally are composed of six sections. When revisiting yours, look for insights in each one:

1. Executive summary. This should read like an "elevator pitch" regarding your company's purpose, its financial position and requirements, its state of competitiveness, and its strategic goals. If your business plan is out of date, the executive summary won't quite jibe with what you do today. Don't worry: You can rewrite it after you revise the other five sections.

2. Business description. A company's key features are described here. These include its name, entity type, number of employees, key assets, core competencies, and product or service menu. Look at whether anything has changed and, if so, what. Maybe your workforce has grown or you've added products or services.

3. Industry and marketing analysis. This section analyzes the state of a company's industry and explicates how the business will market itself. Your industry may have changed since your business plan's original writing. What are the current challenges? Where do opportunities lie? How will you market your company's strengths to take advantage of these opportunities?

4. Management team description. The business plan needs to recognize the company's current leadership. Verify the accuracy of who's identified as an owner and, if necessary, revise the list of management-level employees, providing brief bios of each. As you look over your management team, ask yourself: Are there gaps or weak links? Is one person handling too much?

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5. Operational plan. This section explains how a business functions on a day-to-day basis. Scrutinize your operating cycle — that is, the process by which a product or service is delivered to customers and, in turn, how revenue is brought in and expenses are paid. Is it still accurate? The process of revising this description may reveal inefficiencies or redundancies of which you weren't even aware.

6. Financials. The last section serves as a reasonable estimate of how your company intends to manage its finances in the near future. So, you should review and revise it annually. Key projections to generate are forecasts of your profits and losses, as well as your cash flow, in the coming year. Many business plans also include a balance sheet summarizing current assets, liabilities and equity.

Keep it fresh

The precise structure of business plans can vary but, when regularly revisited, they all have one thing in common: a wealth of up-to-date information about the company described. Don't leave this valuable document somewhere to gather dust — keep it fresh. Our firm can help you review your business plan and generate accurate financials that allow you to take on the coming year with confidence.

"Because Accounting Matters"

529 PLANS OFFER TWO TAX-ADVANTAGED EDUCATION FUNDING OPTIONS

Section 529 plans are a popular education-funding tool because of tax and other benefits. Two types are available: 1) prepaid tuition plans, and 2) savings plans. And one of these plans got even better under the Tax Cuts and Jobs Act (TCJA).

Enjoy valuable benefits

529 plans provide a tax-advantaged way to help pay for qualifying education expenses. First and foremost, although contributions aren't deductible for federal purposes, plan assets can grow tax-deferred. In addition, some states offer tax incentives for contributing in the form of deductions or credits.

But that's not all. 529 plans also usually offer high contribution limits. And there are no income limits for contributing.

Lock in current tuition rates

With a 529 prepaid tuition plan, if your contract is for four years of tuition, tuition is guaranteed regardless of its cost at the time the beneficiary actually attends the school. This can provide substantial savings if you invest when the child is still very young.

One downside is that there's uncertainty in how benefits will be applied if the beneficiary attends a different school. Another is that the plan doesn't cover costs other than tuition, such as room and board.

Fund more than just college tuition

A 529 savings plan can be used to pay a student's expenses at most postsecondary educational institutions. Distributions used to pay qualified expenses (such as tuition, mandatory fees, books, supplies, computer equipment, software, Internet service and, generally, room and board) are income-tax-free for federal purposes and typically for state purposes as well, thus making the tax deferral a permanent savings.

In addition, the Tax Cuts and Jobs Act expands the definition of qualified expenses to generally include elementary and secondary school tuition. However, tax-free distributions used for such tuition are limited to $10,000 per year.

The biggest downside may be that you don't have direct control over investment decisions; you're limited to the options the plan offers. Additionally, for funds already in the plan, you can make changes to your investment options only twice during the year or when you change beneficiaries.

But each time you make a contribution to a 529 savings plan, you can select a different option for that contribution, regardless of how many times you contribute throughout the year. And every 12 months you can make a tax-free rollover to a different 529 plan for the same child.

Picking your plan

Both prepaid tuition plans and savings plans offer attractive benefits. We can help you determine which one is a better fit for you or explore other tax-advantaged education-funding options.

2 Ways to Transfer a Family Business

For many people, a family-owned business is their primary source of wealth, so it's critical to plan carefully for the transition of ownership from one generation to the next.

The best approach depends on your particular circumstances. If your net worth is well within the estate tax exemption ($11.18 million for 2018), for example, you might focus on reducing income taxes. But if you expect your estate to be significantly larger than the exemption amount, estate tax reduction may be a bigger concern.

Here are two techniques to transfer a family business — one if gift and estate taxes are a concern, and one if they aren't:

1. ***IDGT***. An intentionally defective grantor trust (IDGT) is an income defective trust. As such, it can be a highly effective tool for transferring business interests to the younger generation at a minimal gift and estate tax cost if your estate exceeds the gift and estate tax exemption.

An IDGT is designed so that contributions are completed gifts, removing the trust assets and all future appreciation in their value from your taxable estate. At the same time, it's "defective" for income tax purposes; that is, it's treated as a "grantor trust" whose income is taxable to you. This allows trust assets to grow without being eroded by income taxes, thus leaving a greater amount of wealth for your children or other beneficiaries.

The downside of an IDGT is that, when your beneficiaries inherit the business, they'll also inherit your tax basis, which may trigger a substantial capital gains tax liability if they sell the business. This result may be acceptable if the estate tax savings outweigh the income tax cost.

2. ***Estate defective trust***. If the value of your business and other assets is less than the current estate tax exemption amount, so that estate taxes aren't an issue, you might consider an estate defective trust. Essentially the opposite of an IDGT, an estate defective trust is designed so that beneficiaries are the owners for income tax purposes, while the assets remain in the estate for estate tax purposes.

This technique provides two significant income tax benefits. First, assuming your beneficiaries are in a lower tax bracket, this strategy will result in lower "familywide" taxes. Second, because the trust assets remain in your estate, the beneficiaries' basis in the assets is "stepped up" to fair market value at your death, reducing or eliminating their potential capital gains tax liability.

Determining the right strategy to implement when transferring ownership of the business to heirs depends on the value of your business and other assets and the relative impact of estate and income taxes. Also keep in mind that the gift and estate tax exemption is scheduled to drop to an inflation-adjusted $5 million in 2026. Contact us with any questions.

Could "Bunching" Medical Expenses into 2018 Save You Tax?

Some of your medical expenses may be tax deductible, but only if you itemize deductions and have enough expenses to exceed the applicable floor for deductibility. With proper planning, you may be able to time controllable medical expenses to your tax advantage. The Tax Cuts and Jobs Act (TCJA) could make bunching such expenses into 2018 beneficial for some taxpayers. At the same time, certain taxpayers who've benefited from the deduction in previous years might no longer benefit because of the TCJA's increase to the standard deduction.

The changes

Various limits apply to most tax deductions, and one type of limit is a "floor," which means expenses are deductible only to the extent that they exceed that floor (typically a specific percentage of your income). One example is the medical expense deduction.

Because it can be difficult to exceed the floor, a common strategy is to "bunch" deductible medical expenses into a particular year where possible. The TCJA reduced the floor for the medical expense deduction for 2017 and 2018 from 10% to 7.5%. So, it might be beneficial to bunch deductible medical expenses into 2018.

Medical expenses that aren't reimbursable by insurance or

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paid through a tax-advantaged account (such as a Health Savings Account or Flexible Spending Account) may be deductible.

However, if your total itemized deductions won't exceed your standard deduction, bunching medical expenses into 2018 won't save tax. The TCJA nearly doubled the standard deduction. For 2018, it's $12,000 for singles and married couples filing separately, $18,000 for heads of households, and $24,000 for married couples filing jointly.

If your total itemized deductions for 2018 will exceed your standard deduction, bunching nonurgent medical procedures and other controllable expenses into 2018 may allow you to exceed the applicable floor and benefit from the medical expense deduction. Controllable expenses might include prescription drugs, eyeglasses and contact lenses, hearing aids, dental work, and elective surgery.

Planning for uncertainty

Keep in mind that legislation could be signed into law that extends the 7.5% threshold for 2019 and even beyond. For help determining whether you could benefit from bunching medical expenses into 2018, please contact us.

> *"Believe you can and you're halfway there.*
>
> *-- Theodore Roosevelt*

~ I R S Corner

IRS Tax Reform Tax Tip 2018-166, Business owners can claim a qualified business income deduction

Eligible taxpayers may now deduct up to 20 percent of certain business income from domestic businesses operated as sole proprietorships or through partnerships, S corporations, trusts, and estates. The deduction may also be claimed on certain dividends.

Eligible taxpayers can claim the deduction for the first time on the 2018 federal income tax return they file in 2019. This provision is the result of tax reform legislation passed in December 2017.

Here are some things business owners should know about this deduction:

- The deduction applies to qualified:
  - Business income
  - Real estate investment trust dividends
  - Publicly traded partnership income
- Qualified business income is the net amount of qualified items of income, gain, deduction and loss connected to a qualified U.S. trade or business. Only items included in taxable income are counted.
- The deduction is available to eligible taxpayers, whether they itemize their deductions on Schedule A or take the standard deduction.
- The deduction is generally equal to the lesser of these two amounts:
  - Twenty percent of qualified business income plus 20 percent of qualified real estate investment trust dividends and qualified publicly traded partnership income.
  - Twenty percent of taxable income computed before the qualified business income deduction minus net capital gains.
- For taxpayers with taxable income computed before the qualified business income deduction that exceeds $315,000 for a married couple filing a joint return, or $157,500 for all other taxpayers, the deduction may be subject to additional limitations or exceptions. These are based on the type of trade or business, the taxpayer's taxable income, the amount of W-2 wages paid by the qualified trade or business, and the unadjusted basis immediately after acquisition of qualified property held by the trade or business.
- Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.
- Taxpayers may rely on the rules in the proposed regulations until final regulations appear in the Federal Register.