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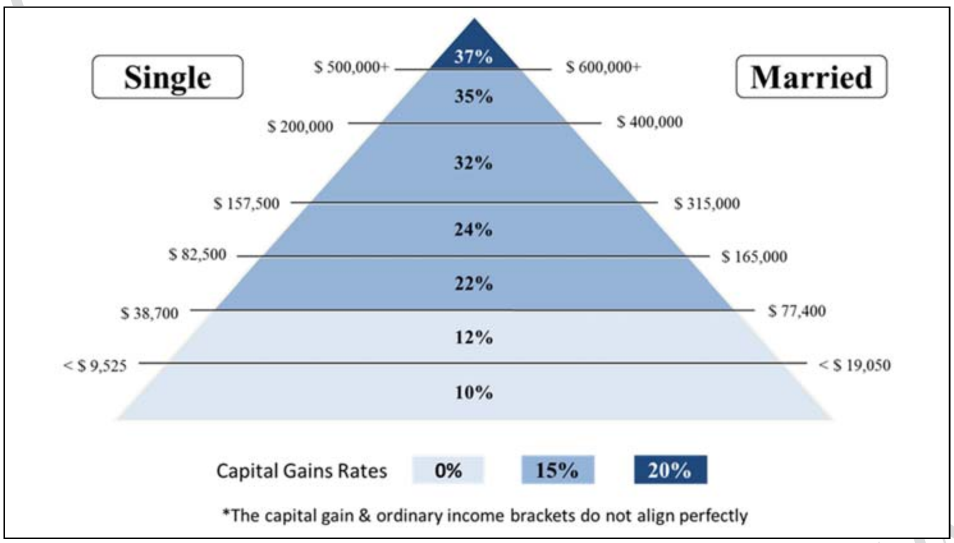
FINANCIAL ASSOCIATES

Fourth Quarter 2018

Guide...Protect...Preserve

A Timely Tax Tactic For Business Owners

Dentists, doctors, and other business owners can slash their tax bill and funnel huge savings into tax-advantaged retirement vehicles with planning. This is a time-sensitive tax tactic that you might optimally want to implement before the end of this year.



To illustrate how it works, consider a dentist in her peak earnings years, with $500,000 of income. She's married and her children are out of the house. She is in the 35% federal tax bracket, biting deep into her income.

A potent antidote is establishing a federally tax advantaged defined benefit in her practice or joining with her partners in one. Money she salts away into qualified retirement plans is subtracted from her taxable income, reducing her tax bill for this year, and it enables her to manage her tax bracket to optimum advantage.

Defined benefit (DB) plans have been qualified under the federal tax code for special treatment for decades, but they are not nearly as popular as defined contribution plans (DC).

Because your contribution is defined — but not your retirement benefit — DC plans pose less financial risk to employers and much more popular with large companies. Guaranteeing a defined benefit on a retirement plan is riskier, so Uncle Sam imposes much higher contributions and more elaborate rules on a DB plan than on a DC plan.

In 2018, the maximum contribution to a DB plan is $220,000 versus $55,000 for a DC plan. If our dentist has a DC plan already but now adds a DB plan, she could reduce her taxable income by as much as $275,000! However, socking away so much would make it impossible to meet her current expenses, so she will need to reduce the

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Another Member Of Music Royalty Dies With No Will

Legendary singer, Aretha Franklin succumbed to pancreatic cancer at the age of 76 on August 16, 2018, and she was accorded funeral rites reserved for music royalty. At once humble and a diva, the Queen of Soul, who famously demanded respect, sadly died without a will.

Her estate is subject to probate, a long-drawn out public legal proceeding to hear claims by her four children and other relatives — an undignified end for music royalty.

While Ms. Franklin was a genius by most measures and her music legacy lives on, she appears to have had a blind spot when it came to money and, perhaps, mortality. A minister's daughter, Ms. Franklin was known to demand payment in cash before performing live and would keep the cash near her onstage.

It's not uncommon for probate proceedings to result in public family infighting and stupid legal fees; music rights heighten the stakes avariciously. Prince, who died in 2016 without a will, reportedly led to bitter family disputes and revocation of a multimillion-dollar music deal.

Instead of leaving a legacy defined on her own terms, Ms. Franklin's family is subject to a public probate proceeding, which can turn ugly.

If you don't have a will, are unsure about what to do, or think you may have a blind spot around dealing with money or planning beyond your life, please call and let us try to help you.

Mary Jane Callaghan & Mitch Glicksman

10 Things: New Education Tax Breaks For A Child Or Grandchild

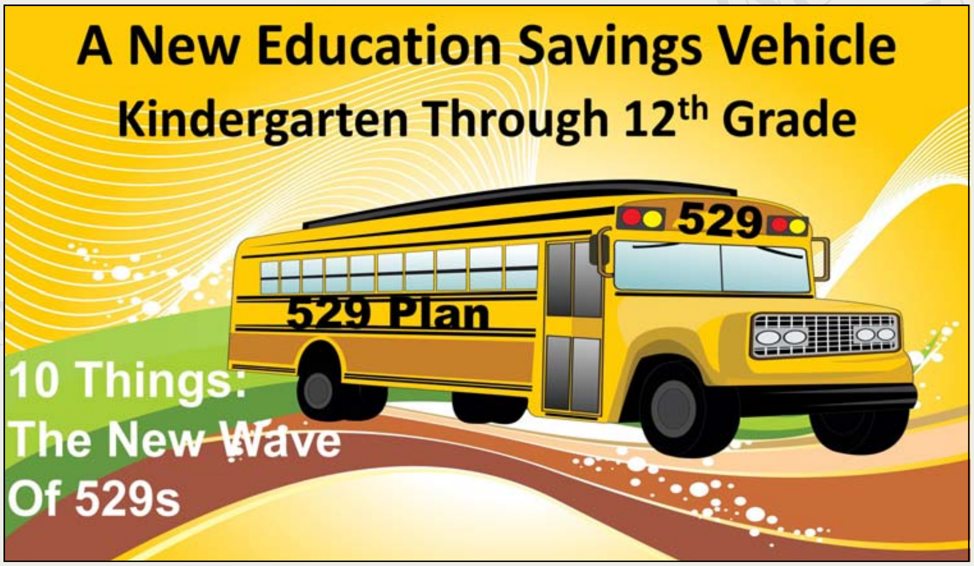
1. If you have a child or grandchild, for the first time ever, you can now pay tuition for kindergarten through 12th grade at private, public or religious schools with money saved in tax-advantaged 529 college savings accounts.

2. Thanks to the Tax Cuts And Jobs Act (TCJA), you now can draw up to $10,000 tax-free per student from a 529 plan, which is a tax-advantaged program sponsored by states, state agencies, and educational institutions.

3. While your contributions to a 529 plan are not deductible, earnings grow free of federal income tax on withdrawals to pay for qualified school expenses.

4. You are not limited to 529 plans sponsored by your state. You can choose from a long list of 529s sponsored by other states and choose the right one for you. Call us if you want help with this.

5. A big relief is that the new law leaves the student loan interest deduction unchanged at $2,500. Some lawmakers wanted to scrap it, but the majority rallied to the tax break's defense. Americans owe some $1.48 trillion in student debt, and it's definitely a thing to watch.



6. When student loans are cancelled due to death or disability, they now become tax-exempt. Till now, the debt would be added to the income of a deceased or disabled individual. This new tax benefit is not retroactive, and only affects loans taken from 2018 through 2025. Congress may choose to extend this tax break.

7. The TCJA axes taxes on alimony payments, so custodial parents should have it easier qualifying for need-based aid. Their income won't be as high as what's reflected in tax records, which is what federal aid officials rely on to determine who to help and by how much.

8. Tax deductions for interest on home equity loans and lines of credit were eliminated. These are major sources of education funding, businesses, and a range of other expenses. It's gone.

9. The new federal levy on colleges with big endowments could result in still-higher tuition costs.

10. Education tax breaks were boosted overall by the TCJA, but you almost must be a financial professional to manage the complexities of funding the education of a child tax-efficiently and with low investment expenses. ●

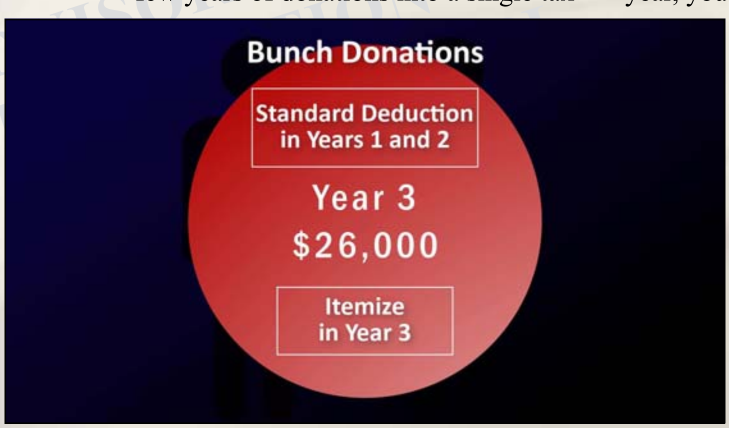
Sidestepping New Limits On Charitable Donations

If you think you're no longer allowed to deduct items like charitable donations on your income tax return, think again.

The new tax law doubled the standard deduction, slashing the number of Americans eligible to itemize deductions from 37 million to 16 million.

However, if you are among those who will lose your ability to deduct charitable donations, there is a simple strategy for managing the new limits on charitable giving, and it enables you to continue doing good while doing well for yourself by reducing your tax bill.

The strategy is simple: bunch a few years of donations into a single tax year instead of making them annually.



Rather than report charitable donations on your tax return every year, you bunch two or more years of contributions into a single tax year — enough to boost the charitable total above that year's standard deduction.

Say you're married and you give $10,000 in Year 1, $6,000 in Year 2 and $10,000 in Year 3. Your $26,000 total surmounts the $24,000 eligibility. If you deduct the total donations of $26,000 in Year 3, you

Protect Yourself Against Spearphishing

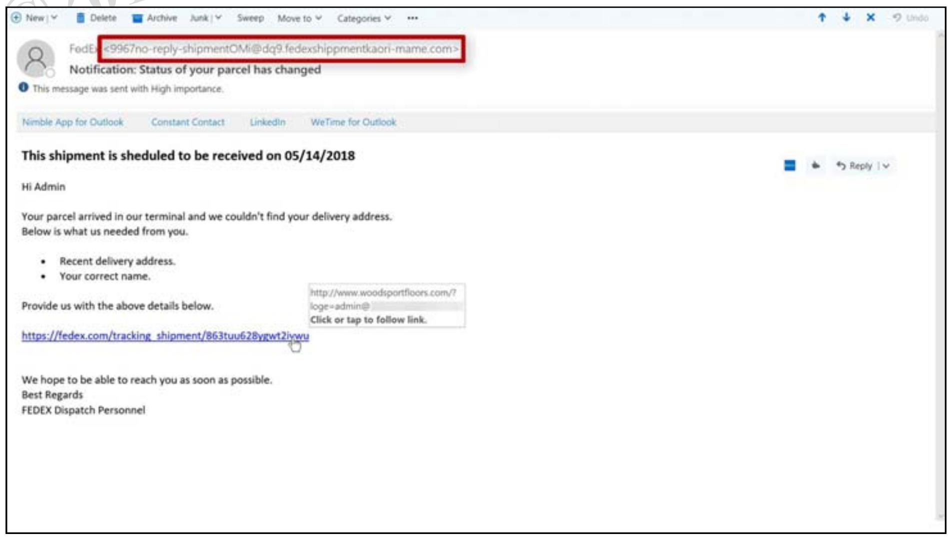
The Russian conspiracy to meddle in the 2016 presidential campaign relied on a common scam called "spearphishing." While the history-making scam may sound sophisticated, this form of digital fraud is running rampant. Anyone using email is likely to be attacked these days. Here are some tips to protect yourself.

In a spearphishing attack, a hacker sends you an email message to trick you into disclosing your username and password to a secure account. The message looks like it's from a legitimate source you trust.

You click on the link and, unbeknownst to you, you install a program that records your next 100 keystrokes. The email from a trusted source was a Trojan Horse, malicious software that sends your password and user ID to the hackers.

New variants of the scam are appearing so fast that anti-virus software can't keep up, which puts you on the front line in defending yourself from attack. Perhaps the most important way to thwart an attack is by looking at links in emails before clicking.

In this popular spearphishing scam, hovering over the link in the email displays a website address that is absolutely, positively not Federal Express. And the email address from which this message was sent is plainly NOT a legitimate Federal Express dot-com account. Often the "From" address will tip you off to a fraud.



Phishing emails, until recently, were easy to spot because they commonly contained misspellings, grammatical errors and company branding mistakes. A scan of hundreds of recent phishing messages indicates fewer of these telltale signs. The scammers are getting smarter.

While the cat versus mouse game has of late been won by the evildoers, software solutions are growing stronger. For example, Microsoft Office 365 online users now have a way of designating a message as "Phishing." This new feature for "blacklisting" a malicious message prevents a scam from hitting you twice and gives Microsoft information about its origin. Of course, updating your anti-virus software is always a must. If you ever have any questions about emails you receive from us, please do not hesitate to call us. ●

without losing the tax benefits.

And if you can plan to make the larger donations in a year when you expect higher income, bunching charitable donations can be even more effective in lowering your tax bill.

We'll be speaking with clients about this in the months ahead because this tactic does take some planning in advance.

If you have any questions about your personal situation, please do not hesitate to give us a call. ●

can take the standard deduction in Years 1 and 2 and itemize in Year 3.

Instead of giving in dribs and drabs, you will need to plan your giving strategy, but this will allow you to give as much as you used to before the limits

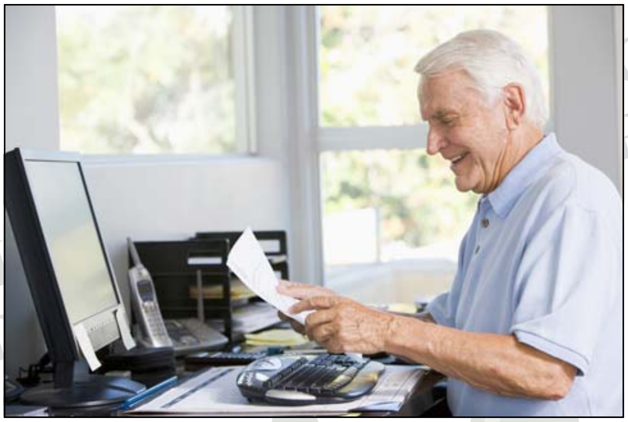
Key Facts On Deducting Medical Expenses

Medical expenses can run up your expenses a lot. For that reason, the new tax law gives people a break by sweetening the long-time tax deduction for health care, at least for a couple of years.

Before the Tax Cuts and Jobs Act (TCJA), you could deduct medical expenses that exceeded 10% of your adjusted gross income (AGI). For the tax years of 2017 and 2018, the TCJA lowered the threshold to 7.5%. AGI is taxable income minus all deductions, IRA contributions and student loan interest. Of course, the medical tax break is available only to people who itemize.

The trouble is the more generous deduction expires after 2018, when the threshold rises back to 10%. Groups like AARP are lobbying in Washington to get the 7.5% level extended or made permanent, and that could factor into your timing and decisions about medical expenses in the months ahead.

Say your AGI is $45,000 and you rack up $5,475 in medical costs. You multiply $45,000 by 0.075 (7.5 percent) to get your deduction threshold of $3,375. Only medical expenses above $3,375 would be deductible. Result: your medical expense deduction is $2,100 ($5,475 minus $3,375).



Some big-ticket items are deductible medical expenses, like long-term care insurance premiums, nursing home payments and Medicare costs — including Medicare Part B, Medigap policies, Medicare Advantage programs and Part D Prescription plans.

In addition, any health insurance you pay out of pocket can be deducted. But that can't include coverage you pay for with before-tax dollars, which is often the case with employer-sponsored medical plans.

Another big deductible item is co-payments for prescription drugs — and also out-of-pocket fees for doctors, dentists, physical therapists and other health-care professionals not covered by Medicare or any other health insurance. Add in prescription eyeglasses, hearings aids and wheelchairs, and transportation costs to and from medical appointments, as well as alcohol and drug treatment programs.

Medical expenses are deductible only if they alleviate or prevent a physical or mental defect or illness, including dental and vision. So, you cannot deduct a gym membership if it is to promote your general wellness. However, if a doctor diagnoses you with a specific medical condition, such as obesity or hypertension, then the expense of the prescribed treatment may indeed be tax-deductible, including a gym membership. ●

A Timely Tax Tactic

(Continued from page 1)

amount she contributes while optimizing it for maximum income tax savings.

Our dentist could put $185,000 into the retirement accounts, for instance, just enough to reduce her taxable income to $315,000 and putting her in the 24% tax bracket instead of the 35%.

And because the dentist is a partner in business, she also qualifies for a 20% deduction under the Sec. 199 (A) of the new tax code for owners of small business that are S corps, LLCs, sole proprietorships, or other pass-through entities. To get this extra tax break, her taxable income must not exceed $315,000 for a married couple ($157,500 for a single).

Twenty percent of $315,000 works out to a deduction of $63,000, placing her taxable income at $252,000, firmly in the middle of the 24% bracket. The taxes are a lot lighter than if she hadn't taken steps to whittle down that half a million in income, and she has socked away a large defined benefit for retirement.

Setting up a defined benefit plan requires expert help and careful planning but is a great tactic to consider this year, especially because of 20% tax deduction. ●

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