August 2018 Tax Tips

Helping you to earn more, and keep more of what you earn.
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New Federal Tax Law Changes Effect on Wisconsin Taxes

Most of the Federal tax law changes under the new Tax Cuts & Jobs Act (TCJA) began on January 1, 2018. Wisconsin did not adopt all of the changes but did adopt some in new legislation passed April 2018. Listed below are a few of the key items:

Businesses:

*** 20% deduction of Qualified Business Income by pass-through entities and sole proprietorships -** in general, this new tax provision allows for owners of pass-through entities and sole proprietors who are not in specific "service trade or businesses" (e.g., law, accounting, consulting, investment management, etc.) to deduct 20% of "qualified business income." This tax deduction is available for tax years beginning after December 31, 2017 and before December 31, 2025. Wisconsin did not adopt this provision and therefore, any deduction related to this new tax provision will be added back for Wisconsin.

*** 100% expensing of certain types of business assets placed in service after September 7, 2017 through December 31, 2022** - this deduction is better known as "bonus depreciation" and the percentage allowed to be expensed was revised from 50% in the first year the asset is placed in service to 100% with the TCJA. Wisconsin continues to not adopt bonus depreciation as it has not in the past.

*** Sec. 179 immediate expensing increased from $500,000 to $1 million and expansion of eligible property** - beginning January 1, 2018, the new tax law expands the definition of the type of property that can be immediately expensed under Sec. 179 to include non-residential real property improvements to a building's interior (with certain exceptions) as well as increasing the maximum amount of Sec. 179 immediate expensing from $500,000 to $1 million. It should be noted - once a business's current year property additions reach $2.5 million the $1 million maximum expensing amount begins to be phased out. Wisconsin did adopt these changes.

Individuals:

*** Use of College Savings Plans (529 plans) to pay for elementary school expenses** - under the new tax law, tax-free distributions (beginning January 1, 2018) from 529 plans may now be used for tuition only (up to $10,000/student) for public, private, and religious elementary and secondary schools. 529 plan distributions continue to be tax-free when used for qualified higher education expenses paid to post-secondary schools without the $10,000/student limit. Wisconsin did adopt this change.

*** Alimony deduction no longer allowed for those paying alimony** - for alimony payments made pursuant to a divorce or separation agreement executed after December 31, 2018, the taxpayer paying the alimony no longer is able to take a deduction for the amount. Likewise, the recipient of the alimony payment is no longer required to report the alimony in their taxable income. Wisconsin did adopt this change.

For a listing of TCJA provisions Wisconsin adopted and did not adopt, Wisconsin Department of Revenue has provided a chart at the link below:

https://www.revenue.wi.gov/DORFAQ/IRCProvisions2017.pdf

5 IRA goofs that may cause you trouble

Using a traditional individual retirement account (IRA) to build your nest egg is an optimal choice for many taxpayers. Just make sure you don't make any of these common IRA mistakes:

Adding the wrong type of investment to your IRA. Don't put tax-free investments, such as municipal bonds, in an IRA. You may end up paying ordinary income tax on money that wouldn't have been taxed, or you'll sacrifice earnings for a tax benefit you'll never receive.

Going over the yearly contribution limit. You can contribute up to $5,500 in 2018. And if you're 50 or older, you can contribute an extra $1,000 catch-up contribution to your IRA each year.

Not naming an IRA beneficiary. By leaving the beneficiary form blank, your heirs may miss out on valuable growth potential, and speed up income taxes on distributions. The longer the money stays in an IRA, the longer it grows tax-free.

Making early withdrawals. You'll pay regular income tax, as well as a 10 percent penalty on early withdrawals from your IRA unless an exception applies. Early withdrawals are those you take when you're younger than 59½.

Forgetting to take your required minimum distribution (RMD).
You are required to take distributions from your IRA when you reach 70½. You have until April 1 of the year after you turn 70½ to begin withdrawals. The penalty for withdrawing less than the required amount is 50 percent of the shortage.

IRA mistakes can be costly. If you'd like help with your IRA tax issues, give us a call.

Current Office Hours:

Monday - Thursday 8 am - 5 pm

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