CRAFT, NOBLE & COMPANY

Welcome to Craft, Noble and Company's e-news update. It's officially fall!

There has been a lot going on in the accounting and tax world in the last few months, here's the most current news for you. If you would prefer to receive a print copy of each quarterly e-newsletter, please call our office to place that request.

Be sure to follow us on social media for regular updates on changes in tax law, accounting concepts, firm news, and some fun. We are on Facebook, Twitter, and LinkedIn so be sure to check us out and stay connected even outside of tax season.

Likewise, if you know a friend or colleague who might be interested in receiving this e-newsletter, just click the "Forward to a Friend" button. Privacy and confidentiality is a hallmark of our business, so you can be assured your name or address will not be shared with anyone.

# Upcoming Tax Deadlines

**October 15th**- Returns that filed extensions on April 15th are due. This includes individual and C Corporation returns. If you still need to file your return give us a call!

**Payroll Tax Deposits**- Employers must make their deposits for the Form 941 payroll taxes (federal income tax withheld and the employee and employers share of the social security taxes). These deposits should be made either monthly or semiweekly depending on your deposit schedule. Exceptions apply if you owe $100,000 or more on any day during the deposit period, if you owe $2,500 or less for the calendar quarter, or if you estimated annual liability is $1,000 or less.

> **Monthly deposits**- These deposits are required to be paid within a calendar month by the fifteenth of the following month.
>
> **Semiweekly deposits**- These deposits are required to be paid on Wednesdays or Fridays, depending on when wages are paid.

For any questions you may have on these deadlines, contact our office.

# Time to Launch Your Tax Strategy

Consider conducting a final tax planning review now to see if you can still take actions to minimize your taxes this year. Here are some ideas to get you started.

- **Assess your income**. Begin by determining how your income this year will compare to last year. Then apply any tax implications this income change may cause. Be sure to account for the lower tax rates and the elimination of exemptions. Remember, if your income is rising, more of your income could be subject to a higher tax rate. Your higher income could also trigger a phase out that will prevent you from taking advantage of a deduction or tax credit formerly available to you.

- **Examine life changes**. Review any key events over the past year that may have potential tax implications. Here are some examples:
    - Purchasing or selling a new home
    - Refinancing or adding a new mortgage
    - Getting married or divorced
    - Incurring large medical expenses
    - Changing jobs
    - Having a baby

- **Identify what tax changes may impact you.** Tax changes for the current year are expected to be more impactful than we've seen in 30 years. Determine which of these changes will affect you. With these changes in mind,

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review your past income tax return to estimate what the impact may be on your upcoming tax bill. Please keep in mind that Congress has a habit of making last-minute changes, so you will want to plan accordingly.

- **Manage your retirement**. One of the best ways to reduce your taxable income is to use tax beneficial retirement programs. Now is a good time to review your retirement account funding. Are you taking full advantage of your employer's retirement plans? Are you saving money to invest in your future through various retirement savings options?

- **Look into credits**. There are a variety of tax credits available to most taxpayers. Spend some time reviewing the most common ones to ensure your tax plan takes advantage of them. Here are some worth reviewing:
  - Child Tax Credit
  - Earned Income Tax Credit
  - Premium Tax Credit
  - Adoption Credit
  - Elderly and Disabled Credit
  - Educational Credits (Lifetime Learning Credit and American Opportunity Tax Credit)

- **Avoid surprises**. Conducting a final tax planning review now allows you time to try to reduce your tax obligation. This is especially true if you are unsure of the specific changes made to the tax code. Remember some tax-saving ideas may require funding on your part. It is best to identify them now so you can save cash to take advantage of them prior to the end of the year.

Give us a call if you want to learn more about your personalized tax strategy.

# Five Tax Breaks for New Parents

New parents have their work cut out for them. Not only are they dealing with lost sleep, they also face the extra cost of raising a child. At least there are a lot of potential tax breaks available to them. Check out this list and share it with any new parents you know.

1. **Child Tax Credit** - Tax law changes this year not only double the size of the Child Tax Credit, they make it available to more parents than ever before. The credit increases to $2,000 from $1,000 (with $1,400 of it being refundable even if no tax is owed). Meanwhile, the eligibility phaseout threshold increases sharply to $400,000 from $110,000 for married joint filers (and to $200,000 for single taxpayers).

2. **Child and Dependent Care Credit** - If you pay a nanny, babysitter, daycare or a relative to take care of your child while you and your spouse are at work, you can claim the Child and Dependent Care Credit. It's up to $1,050 on $3,000 in expenses for one child and twice that for two or more children. The key is that you and your spouse (if you are married) must both be working, and you can't claim expenses for overnight care.

3. **Below the kiddie tax threshold** - If you have property that produces income, such as bonds, stocks, mutual funds, interest or realized capital gains, you can lower your tax by transferring a certain amount of that income to your children. Why? Your child has a lower tax rate than you do on unearned income. This works up to a certain dollar limit before "kiddie tax" rules come into play.

4. **Adoption Credit** - About 135,000 children are adopted in the U.S. each year. If you are welcoming an adopted child into your family, the Adoption Credit can be claimed on up to $13,840 in expenses, such as fees, legal counsel and court costs.

5. **Educational benefits of a 529 plan** - There are many provisions in the tax code to help cover the high cost of education. Consider establishing 529 college savings programs for your new addition. While contributions are made with after-tax dollars, any investment gains are tax-free as long as they're used to pay qualified education expenses. The tax reform passed last year now also allows you to use these funds to pay private elementary and secondary school tuition as well as college.

If you are having a child, let us know so we can help you plan for the changes on your taxes.

# New Form 1040 in the Works

To go along with the federal tax reform that went into law on January 1, 2018, the IRS is planning on revising the Form 1040, 1040A, and 1040-Ez. These forms, which are used to file personal tax returns will be shorter for 2018 but will have additional schedules which will require completion depending on the taxpayer's situation. Here is the news from the Journal of Accountancy on the new draft 1040 forms.

The IRS is working on a draft version of the 2018 Form 1040, U.S. Individual Income Tax Return, that reduces the size of the form to two half-pages in length and eliminates more than 50 lines, compared to the 2017 version of the form. The draft form moves many items that in the past have appeared on the face of the 1040 to various new schedules.

The 2018 draft form, which has not yet been officially posted on the IRS website, uses the first page to gather information about the taxpayer and any dependents and for the taxpayer's signature and jurat. The second page gathers information on the taxpayer's income, deductions (including a new line for the Sec. 199A qualified business income deduction), credits, and taxes paid. Many of the items reported on the 1040 will be calculated on various new schedules, which have also not yet been officially posted. These schedules include:

- **Schedule 1, Additional Income and Adjustments to Income**, includes items from lines 10 through 37 of the 2017 Form 1040, such as business income, alimony received, capital gains or losses, and adjustments including educator expenses and student loan interest expense.
- **Schedule 2, Tax,** includes items from lines 44 through 47 of the 2017 Form 1040, such as the tax on a child's unearned income (commonly called the kiddie tax), the alternative minimum tax, and any excess premium tax credit that must be refunded.
- **Schedule 3, Nonrefundable Credits,** includes items from lines 48 through 55 of the 2017 Form 1040, such as the foreign tax credit, the credit for child and dependent child care, the education credit, and the residential energy credit.
- **Schedule 4, Other Taxes,** includes items from 57 through 63 of the 2017 Form 1040, such as household employment taxes, the health care individual responsibility payment (the individual mandate), the net investment income tax, and the additional Medicare tax. It also includes a new line for reporting the Sec. 965 net tax liability installment from Form 965-A — a form that does not yet exist.
- **Schedule 5, Other Payments and Refundable Credits** includes items from lines 65 through 74 of the 2017 Form 1040, such as estimated tax payments, the net premium tax credit, and amounts paid with an extension request.
- **Schedule 6, Foreign Address and Third-Party Designee** provides taxpayers who have a foreign address a place to list their country, province, and postal code (formerly these appeared on page 1 of the 1040) and provides all taxpayers with a place to list information for a third-party designee who can discuss the return with the IRS.

The draft Form 1040 and the new schedules also refer to various existing schedules, which presumably will continue to exist in updated form. These include Schedule A, Itemized Deductions, Schedule C, Profit or Loss From Business, Schedule D, Capital Gains and Losses, Schedule E, Supplemental Income and Loss, Schedule F, Profit or Loss From Farming, Schedule H, Household Employment Taxes, Schedule SE, Self-Employment Tax, and Schedule 8812, Child Tax Credit.

On the other hand, Schedule B, Interest and Ordinary Dividends, Schedule J, Income Averaging for Farmers and Fishermen, and Schedule R, Credit for the Elderly or the Disabled, are not mentioned on the new form and schedules. A line exists for reporting the earned income tax credit, although Schedule EIC itself is not mentioned.

# Education: Tax Changes You Need to Know

As students gear up to head back to school, there are some changes to education deductions that could save or cost you more in taxes and even raise college tuition costs. Here is what you need to know to get up to speed:

- **What is gone.**
    - Continuing Education as an itemized deduction: In previous years, you could deduct expenses paid for job-related continuing education as a miscellaneous itemized deduction. This deduction has been eliminated. However, if your employer will pay for the education, they can cover up to $5,250 tax-free.
    - Home equity line of credit (HELOC) interest for education expenses: A popular method of generating cash to pay for school expenses is taking out a HELOC. Beginning in 2018, you can only deduct HELOC interest if you use the loan proceeds to buy, build or substantially improve your home. This means that if you plan to obtain HELOC for purposes of paying for education expenses, the interest will not be deductible.
- **What's new**
    - 529 plans cover K-12 tuition: Funds from Section 529 savings plans can now be used tax-free to pay for up to $10,000 in K-12 private school tuition per year. Books, supplies or other K-12 expenses are not included in this change, but they are still eligible as legitimate college expenses. Be careful - not all states have adopted the K-12 inclusion, so they might still be taxable at the state level.
    - Endowment tax of 1.4 percent on certain private colleges: Congress added an investment income tax on private colleges that have large endowments. The tax is expected to impact roughly 30 schools, including Stanford, Harvard and Notre Dame. The effects of the new tax are yet to be determined. However, tuition may increase or reduced financial aid award amounts may be implemented to offset the cost.
- **What stays the same**
    - Student loan interest deduction: You may deduct up to $2,500 in student loan interest in 2018 as an adjustment to income. To qualify, your adjusted gross income must be below $80,000 ($165,000 for married couples). Phaseouts start to apply at $65,000 ($135,000 for married couples).
    - American Opportunity Tax Credit and Lifetime Learning Credit: All three of these educational tax benefits are available once again. Here's a chart with basic information on these options:

| | American Opportunity Tax Credit (AOPC) | Lifetime Learning Credit(LLC) |
|---|---|---|
| Max Amount | $2,500 credit | $2,000 credit |
| Refundable? | Yes - $1,000 | No |
| Max Years | 4 | Unlimited |
| Eligible Education | Undergraduate | Undergraduate & graduate |

As a reminder, when you make payments for any education expenses, make sure to keep your receipts and retain any Forms 1098T sent to you from qualifying schools.

# Halloween!

Halloween retail spending will be $9 billion in 2018. It's a little less than 2017's record of $9.1 billion. Slightly fewer, 175 million, will celebrate. They will spend a record $86.79 per person, according to the National Retail Federation's annual survey. One reason is that Halloween is a very affordable holiday. It doesn't cost as much as Christmas or Thanksgiving and is still lots of fun. Part of this is a permanent shift to thrift that occurred during the Great Recession. Shoppers are willing to spend money on something if it provides a lot of value. Halloween does that. Another reason is that consumer confidence is at its highest level in 10 years. People aren't letting the uncertain state of the global economy scare them away.

| Year | Americans Celebrating | Average Spending Per Buyer | Total Spending |
|---|---|---|---|
| 2012 | 170 million | $79.82 | $8.0 billion |
| 2013 | 158 million | $75.03 | $6.9 billion |
| 2014 | 162 million | $77.52 | $7.4 billion |
| 2015 | 157 million | $74.34 | $6.9 billion |
| 2016 | 171 million | $82.93 | $8.4 billion |
| 2017 | 179 million (Record) | $86.13 | $9.1 billion (Record) |
| 2018 | 175 million | $86.79 (Record) | |