



Mission Point March Newsletter

Madness in March? Not to the markets.

Mission Point Planning Group

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While we're told to beware the ides of March, around our office we look forward to this time of year.

Our staff has two proud Spartans who fully embrace the 'madness' of this month, while our youngest advisor cheers on his beloved Golden Grizzlies – not exactly a fixture of the Big Dance.

While an estimated \$2.5 billion in productivity by American businesses is lost due to the brackets, the markets themselves love it – with the S&P 500 posting positive gains in 11 of the past 12 years during tournament time. March itself is historically the best month for the S&P, with the index rising by an average of nearly 3% each year since 2007.

The Final Four will actually take place in April – the second-best performing month in the last 10 years.

So fill out a bracket and hopefully Izzo, Beilein or Kampe are cutting down the nets in a few weeks. In between games check out this newsletter – jam packed with information about the other 'madness' at this time of year – filing your taxes.

March 2019

Nine Things a Business Owner Should Know After Tax Reform

Quiz: How Much Have You Thought About Health and Health-Care Costs in Retirement?

What records do I need to file my taxes?

How can I get a tax break for child care?

Due Date Approaches for 2018 Federal Income Tax Returns



Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2017 tax return and gathering W-2s, 1099s, and

deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate

The filing deadline for most individuals is Monday, April 15, 2019. Residents of Maine and Massachusetts have until April 17, 2019, to file their 2018 tax return because April 15, 2019, is Patriots' Day and April 16, 2019, is Emancipation Day.

Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2019) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the

IRS believes that your estimate was not reasonable, it may void your extension.

Note: Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances you are generally allowed an automatic two-month extension (to June 17, 2019) without filing Form 4868, though interest will be owed on any taxes due that are paid after the April filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.

What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible. If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a refund?

The IRS is stepping up efforts to combat identity theft and tax refund fraud. New, more aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is now required to hold refunds on all tax returns claiming the earned income tax credit or the refundable portion of the child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a return. However, delays may be possible due to the government shutdown.





Nine Things a Business Owner Should Know After Tax Reform



A business owner should be aware of some recent federal tax legislation changes. Many of the changes can affect the bottom line for the business and the business owner. A business owner may wish to reconsider some of his or her tax strategies.

Note: The corporate tax provisions have been made permanent, but most other changes affecting individual taxpayers are scheduled to expire after 2025.

As a business owner, you should be aware of some recent federal tax legislation changes. Many of the changes can affect the bottom line for the business as well as you as the business owner — some in a good way and some in a bad way.

1. The taxable income of a C corporation is now taxed at a flat 21% rate. Previously, the tax rates generally ranged from 15% to 35% (but some income was taxed as high as 39%). There is no longer a corporate alternative minimum tax.

2. Individual income tax rates have been reduced to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Net long-term capital gains and qualified dividends continue to be taxed generally at 0%, 15%, and 20%, depending on the amount of your taxable income.

3. A new pass-through income deduction is available to many owners of sole proprietorships, partnerships, and S corporations. This deduction is for up to 20% of qualified business income (QBI) from such business entities. If your taxable income exceeds certain thresholds, the deduction is limited based on factors such as the wages and qualified property of the business. Additionally, individuals with higher taxable incomes may not be able to claim a deduction if the business involves the performance of services in fields that include health, law, accounting, performing arts, consulting, athletics, and financial services, among others.

4. Small businesses have the option of expensing certain purchases under IRC Section 179 rather than depreciating the value of the purchases over time. Up to \$1,020,000 (in 2019) of qualifying Section 179 property can now be expensed. The amount that can be expensed is reduced to the extent that qualifying property exceeds \$2,550,000 (in 2019). These amounts are indexed for inflation and may increase in future years.

5. When a business purchases an asset, the business can generally deduct the cost of the asset over a period of time. For qualified property purchased after September 27, 2017, first-year bonus depreciation of 100% is available if the property is placed in service before 2023 (2024 for certain property). The 100% allowance is phased down by 20% each year after 2022 (or 2023 for certain property). The 100% bonus depreciation essentially allows business property to be expensed, rather than deducting the cost of depreciable property over a number of years.

6. Under a new provision, an excess business loss cannot be deducted. An excess business loss is equal to the amount by which your total deductions from all of your trades and businesses exceed your total gross income and gains from all of your trades and businesses plus \$250,000 (\$500,000 in the case of a joint return). As before, losses from a passive trade or business activity may be limited under the passive loss rules. The passive loss rules are applied before this new limitation is determined. Disallowed excess business losses are treated as a net operating loss carryover to future tax years.

7. A net operating loss generally arises when a taxpayer's deductible expenses for a year exceed its gross income. Previously, a net operating loss for the current year could be carried back to prior tax years and forward to future tax years as a deduction against taxable income. The deduction for a net operating loss for a taxpayer other than a C corporation is now limited to 80% (previously 100%) of taxable income computed without regard to this deduction. Even though a net operating loss can no longer be carried back two years, it can still be carried forward for up to 20 years, subject to the deduction limit in the carryover years. Certain farming losses may now be carried back only two years (rather than five years), as well as carried forward for 20 years.

8. A like-kind exchange provision allows property to be exchanged tax-free under certain circumstances. The general like-kind exchange provision now applies only to exchanges of real property held for use in a trade or business or for investment and not to exchanges of personal or intangible property. For example, assume you own your office building without a mortgage. You are interested in moving to a new office building. If you sold your current office building, you would recognize capital gains. If instead you exchanged your current office building for the new office building in a like-kind exchange without receiving any cash or non-like-kind property, you would not recognize any capital gains at the time of the exchange.

9. A deduction is no longer allowed for entertainment expenses. Food and beverages provided during entertainment events are not considered entertainment if purchased separately from the event. Taxpayers may still deduct 50% of the expenses for business meals.



Quiz: How Much Have You Thought About Health and Health-Care Costs in Retirement?



According to the 2018 Senior Report from America's Health Rankings, social isolation is associated with increased mortality, poor health status, and greater use of health-care resources. The risk of social isolation for seniors is highest in Mississippi and Louisiana and lowest in Utah and New Hampshire.

When planning for retirement, it's important to consider a wide variety of factors. One of the most important is health and its associated costs. Thinking about your future health and the rising cost of health care can help you better plan for retirement in terms of both your finances and overall well-being. This quiz can help you assess your current knowledge of health and health-care costs in retirement.

Questions

1. Health-care costs typically rise faster than the rate of inflation.

True.

False.

2. You could need more than \$500,000 just to cover health-care costs in retirement.

True.

False.

3. Medicare covers the costs of long-term care, as well as most other medical costs.

True.

False.

4. The southern, warmer states are generally the healthiest places for seniors to live.

True.

False.

5. If you're concerned about health-care costs in retirement, you can just delay your retirement in order to maintain your employer-sponsored health benefits.

True.

False.

Answers

1. True. The average inflation rate from 2010 to 2017 was less than 2%, while the average spending on prescriptions, doctors, and hospitals grew between 4% and 5%. From 1970 to 2017, annual per-capita out-of-pocket spending on health care grew from about \$600 to approximately \$1,100 (in 2017 dollars).¹

2. True. In 2017, America's Health Rankings projected that a 45-year-old couple retiring in 20 years could need about \$600,000 to cover their health-care costs, excluding the cost of long-term care. The same report projected that about 70% of those age 65 and older will need some form of long-term care services. And according to the Department of Health and Human Services, the average cost of a one-year stay in a nursing home (semi-private room) was \$82,000 in 2016.²

3. False. Original Medicare Parts A and B help cover inpatient hospital care, physicians' visits, preventive care, certain laboratory and rehabilitative services such as physical therapy, and skilled nursing care and home health care that are not long term. Medicare Part D helps cover the cost of prescriptions (within certain guidelines and limits). Medicare does not cover several other costs, including long-term care, dental care, eye exams related to eye glasses, and hearing aids. Seniors may need to purchase additional insurance to cover these and other services not covered by Medicare.³

4. False. Interestingly, America's Health Rankings found that the five healthiest states for seniors were (1) Utah, (2) Hawaii, (3) New Hampshire, (4) Minnesota, and (5) Colorado.⁴

5. Maybe true, maybe false. Many people believe they will work well into their traditional retirement years, both to accumulate as large a nest egg as possible and to take advantage of employer-sponsored health benefits (if offered beyond Medicare age). While this is an admirable goal, you may not be able to control when you actually retire. In a 2018 retirement survey, nearly 70% of workers said they planned to work beyond age 65; 31% said they would retire at age 70 or older. But the reality is that nearly 70% of current retirees retired before age 65. Many of those individuals retired earlier than planned due to a health problem, disability, or other unforeseen hardship.⁵

The bottom line is that while it's hard, if not impossible, to predict your future health needs and health-care costs, it's important to work these considerations into your overall retirement planning strategies. Take steps now to keep yourself healthy — eat right, exercise, get enough sleep, and manage stress. And be sure to account for health-care expenses in your savings and investment strategies.

¹ Consumer Price Index, Bureau of Labor Statistics, 2018, and Peterson-Kaiser Health System Tracker, 2018

² Preparing for Health Care Costs in Retirement, America's Health Rankings, 2017, and LongTermCare.gov, 2018

³ Medicare.gov

⁴ Senior Report, America's Health Rankings, 2018

⁵ 2018 Retirement Confidence Survey, Employee Benefit Research Institute

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What records do I need to file my taxes?

Tax season is a good time to get your financial records in order. And whether you are doing it on your own or hiring a tax preparer to assist you, you'll want to make sure that you have all of your information organized to make the process of filing your taxes easier.

Sometime in January you should have received your W-2 form from your employer. Your W-2 form lists your gross income, taxable income, and the amount of state and federal taxes withheld from your pay. It also will show any 401(k), health insurance, and flexible spending account contributions you have made.

Around the same time that you got your W-2, you should also have received 1099 forms from financial institutions for any dividend and interest income. And if you have a mortgage, your mortgage servicer sent you a 1098 form, which contains information on interest paid along with other mortgage-related expenses.

In addition to the above-referenced forms, you'll need to provide your personal information, including your date of birth and Social Security or tax ID number. If you are married and/or have children, you will need their information as

well. You should also have documents that list any additional sources of income, such as self-employment, rental, retirement, or unemployment income.

Depending on whether you qualify for any tax deductions or credits, you may also need the following information:

- Records of cash and noncash charitable donations
- Amounts paid toward medical, dental, and vision expenses
- Federal, state, and local taxes paid (including quarterly estimated tax payments)
- Dependent-care provider information
- Receipts for education-related expenses

Make sure that you keep all your financial records in a safe and easy-to-find place. Being organized is not just a good idea during tax time, but is also helpful at other times of the year (e.g., when you apply for a loan or financial aid for college).



How can I get a tax break for child care?

More than 60% of children under age six in the United States have two parents in the workforce.¹ Many of these working parents must spend a

burdensome share of their earnings on child care, especially if they don't have relatives who are willing and able to help out.

The following tax benefits may help you offset some of the costs paid for a nanny, babysitter, day care, preschool, or day camp, but only if the services are used so you can work.

Child-care tax credit

Families with one qualifying child (typically age 12 or younger) can claim up to \$3,000 per year in child-care expenses; those with two or more qualifying children have a \$6,000 annual limit. The credit is worth 20% to 35% of eligible child-care expenses, depending on income. As income rises, the credit amount drops until it hits a minimum of 20% for households with \$43,000 or more in adjusted gross income.

For example, families with one qualifying child can receive a credit of \$600 to \$1,050; those with two or more children can receive a credit of \$1,200 to \$2,100. A tax credit lowers a family's tax liability dollar for dollar.

Dependent-care flexible spending account (FSA)

Higher-income families may realize a bigger tax benefit from an FSA if it is offered by an employer. Up to \$5,000 a year can be set aside to cover eligible child-care costs for qualifying children, and this money is free of federal income tax and Social Security and Medicare taxes. You are not allowed to use pre-tax money from an FSA and take a credit for the same expenses. However, after spending \$5,000 from an FSA, you may take a tax credit for up to \$1,000 in additional child-care expenses if you have more than one child.

¹ Child Care Aware® of America, 2017