

# TAX NEWS YOU NEED TO KNOW



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## September 2018

It's time to ring in the fall with festivals! Oktoberfest, KAABOO, the San Diego Festival of Beer, and our favorite, the Julian Apple Days Festival!

But before the fall fun and holiday planning begins, keep in mind the tax filing due dates mentioned below. Look for more information coming on the earlier Form 1099 filing deadline for 2018 Form 1099s. These are now due to the government by January 31, 2019.

This is also a good time to review and recommit to your 2018 financial goals. We're here to help you get your planning underway now so you have a course set for the rest of the year.

If you have additional questions about the information in this newsletter, [contact us](#). We appreciate you forwarding this newsletter to associates and friends who would benefit from the monthly news we provide and are looking for tax preparation and planning resources from a CPA firm.

Regards,  
 Rebecca Luers, CPA and Jan Dyer, CPA

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# Tax Filing Reminders

## September 15

- **Third quarter installment** of 2018 individual and corporation estimated income tax is due.

- **S corporations:** 2017 tax returns for S corporations are due if you filed a six-month extension.
- **Partnerships:** 2017 tax returns for partnerships are due if you filed a six-month extension.
- **Electing large partnerships:** 2017 tax returns for electing large partnerships are due if you filed a six-month extension.

### October 1

- Final deadline to file your 2017 calendar-year estate/trust tax return if you filed an extension.

### October 15

- 2017 individual federal tax returns are due if you filed a six-month extension.
- Last day the IRS will accept an electronically filed tax return for the year 2017.

### January 31

- Deadline to file Form 1099s.



## Is a Tax Surprise Waiting for You?

Often lost in the excitement of large-scale tax change is how they can negatively impact some individual situations. Check out the questions below to see if you might be in for a tax surprise this year.

- **Will you pay more than \$10,000 in state and local taxes?**  
Previously, you could take a full deduction for all state income, sales and property taxes as an itemized deduction. That deduction is now capped at \$10,000 per year. Take a look at your 2017 itemized deductions to see if your state and local taxes were greater than the new cap. If so, you will now lose any excess amount over \$10,000 as a deduction.
- **Do you pay for work expenses?**  
Before this year, employees were able to deduct work expenses (business mileage, uniforms, continuing education and other non-reimbursed expenses) as an itemized deduction. These deductions are now gone. If you typically pay for job-related expenses, you might be on the hook for more taxes. Employees who deduct business use of their homes may be impacted even more.

- **Do you own a small business?**

There are many business tax changes for 2018. Bonus depreciation and Section 179 expensing are expanded, the domestic production activities deduction (DPAD) is eliminated, and there is a new qualified business income deduction for pass-through entities. It is a near certainty that one or more of these changes will affect your business taxes.

- **Did you adjust your withholding allowances?**

When the tax cuts were finalized, the IRS adjusted the withholding tables as best they could to fit with your current allowances. As a result, your take-home pay likely increased earlier this year. However, based on a recent report by the U.S. Government Accountability Office (GAO), as many as 21 percent of taxpayers will unknowingly underwithhold their taxes throughout the year. If you are one of these people, you will have a tax bill and maybe some penalties to pay next April. It would be time well spent to double-check your withholding for 2018.

- **Do you have children?**

Some good news! The Child Tax Credit is now double to \$2,000 per child versus \$1,000 last year. The income limits for the credit are also raised significantly to \$200,000 Adjusted Gross Income (AGI) for single status and \$400,000 AGI for married couples. In many cases, the additional credit will actually offset the loss of the personal exemption that you could take for yourself, your spouse and children in the past.

Now is a great time to do an assessment of your situation in light of the new tax changes.

[Contact us](#) for more information.



## 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.

[Contact us](#) for more information.



## Give your Credit Score a Boost

Your credit score is one of the most important aspects of your financial health. It is used by potential lenders, landlords and even employers to analyze your financial situation in one way or another. Here are some tips that might help you improve your score:

- **Review your credit report and, if necessary, fix errors.** You are entitled to one free credit report from each credit reporting company per year at Annual Credit Report. It is important to check for reporting errors that could be negatively affecting your score. If you find an error, contact the company reporting the information and the credit reporting company to challenge the report. Common errors include closed accounts showing as open, incorrect balances or limits and accounts opened by someone else due to identity fraud.
- **Pay off your credit card each month.** By making purchases on a credit card and paying the entire balance each period, you are developing a positive credit history and displaying sound financial management skills. This will increase your credit score. To meet this goal you will need to keep your spending under control. If you are unable to pay off the card, you will start to accumulate revolving debt that will hurt your credit score.
- **Make your payments on time.** Late payments, even by one day, can be one of the most damaging hits to your score. If possible, set up automatic payments for as many bills as possible to lower the risk of forgetting to make a payment. The longer your history of paying on time, the more your score will improve.
- **Pay down your debt.** Another large chunk of your credit score is calculated based on the amount of debt outstanding. Mortgage lenders specifically use a debt-to-income ratio to determine loan eligibility. In addition to the amount of debt you have, you also need to pay attention to the debt limits you have on your accounts. The closer your debt is to the limit, the worse your score will be.
- **Don't allow an account to go to collection.** Collections will stay on your credit report for seven years! Avoid having any of your accounts go to collections if at all possible. Medical bills and other one-time expenses are often the types of accounts that find themselves in collections. If you are unable to pay a bill in full by the due date, call the company and see if they have payment plans or other programs to get the bill paid without going to a collection company.

Regardless of where you are on the credit score spectrum, you should actively monitor your credit. Implementing these ideas will improve your credit score as well as your long-term financial well-being.

[Contact us](#) to get help with an amendment or if you have other tax questions.

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