WEALTH FACTORY

2018 YEAR-END TAX GUIDE

Everything A Business Owner Needs to Know About the New Tax Laws Before the End of the Year

It’s an exciting time for all of us as business owners. As we move into 2019, we’re about to find out the bottom-line implications of the largest tax overhaul in a generation.

It’s estimated that about 65% of tax filers will save money on taxes this year compared to last. But there are a lot of questions to be answered regarding specific changes, and exactly how they will be applied.

Here at Wealth Factory, we love talking taxes, because **every dollar saved on taxes goes straight to your bottom line.**

Now, it won’t surprise you to hear that most of our clients aren’t tax law experts. Entrepreneurs have other things to focus on, like growing their business.

What a lot of people don’t realize though, is that unless you pay top-dollar for a master tax professional, most accountants are not at the cutting edge of tax law either.

They’ll “play it safe,” sit back, and wait for the IRS to tell them how to handle things.

As a result, our studies have shown that **there’s a 93% chance you’re overpaying on taxes**. With the ambiguity and uncertainty of the new tax law, that percentage is even higher.

So use this guide as a starting point to minimize your tax bill this year. Bring it to your accountant and make sure you’re taking advantage of every deduction you’re entitled to.

Remember, as business owners, we’re all for paying our fair share of taxes. We just don’t think it’s necessary to leave a tip.

- *The Builders at Wealth Factory*

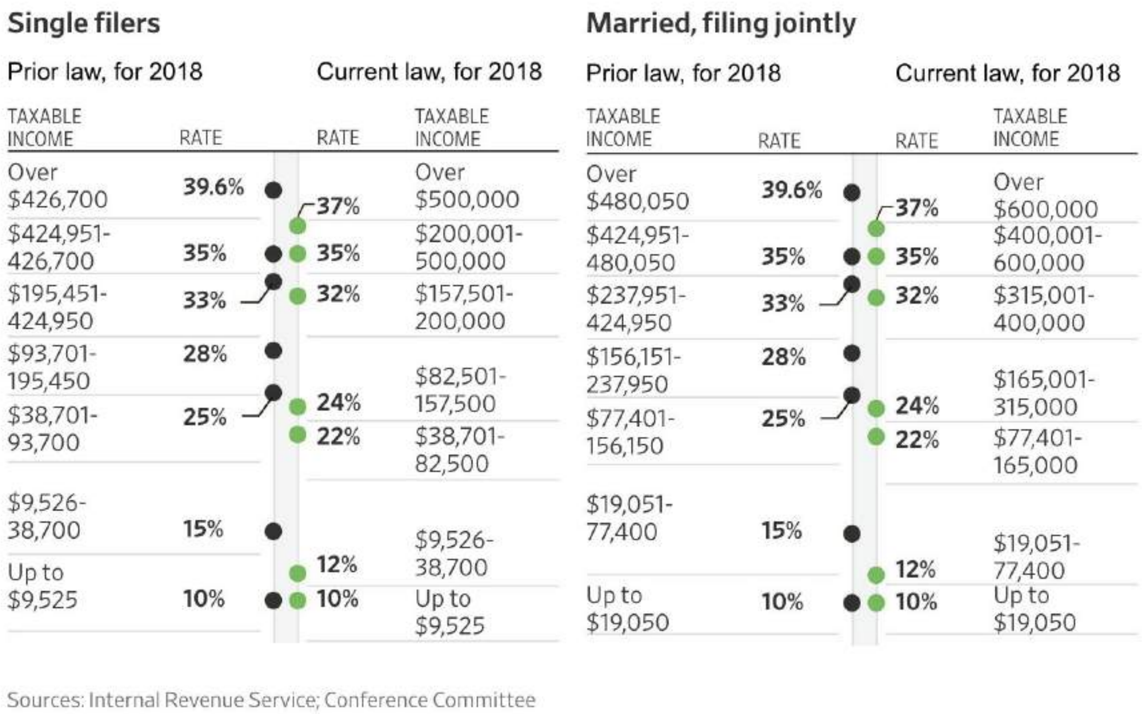
IMPORTANT DISCLAIMER: While this guide uses the education garnered from years of client work and our extensive network of CPAs, lawyers, and advisors, please take it to your accountant or Wealth Factory advisor to implement a solid plan to legitimately lower your tax liabilities. This is not intended to be advice from a CPA or client advice. This guide is meant to arm you with suggestions that many will overlook.

#1: Tax Rate Decreases & Bracket Changes

Perhaps the most simple change made that you'll see impacting your personal taxes this year is a decrease in tax rates across the board.

Check the chart below to see which bracket you'll be for this year.

> ***Ex:*** *If you're married filing jointly with $250,000 income, your new highest bracket tax rate is 24% compared to 33% last year.*



Single filers

Prior law, for 2018

TAXABLE INCOME	RATE
Over $426,700	39.6%
$424,951-426,700	35%
$195,451-424,950	33%
$93,701-195,450	28%
$38,701-93,700	25%
$9,526-38,700	15%
Up to $9,525	10%

Current law, for 2018

RATE	TAXABLE INCOME
37%	Over $500,000
35%	$200,001-500,000
32%	$157,501-200,000
24%	$82,501-157,500
22%	$38,701-82,500
12%	$9,526-38,700
10%	Up to $9,525

Married, filing jointly

Prior law, for 2018

TAXABLE INCOME	RATE
Over $480,050	39.6%
$424,951-480,050	35%
$237,951-424,950	33%
$156,151-237,950	28%
$77,401-156,150	25%
$19,051-77,400	15%
Up to $19,050	10%

Current law, for 2018

RATE	TAXABLE INCOME
37%	Over $600,000
35%	$400,001-600,000
32%	$315,001-400,000
24%	$165,001-315,000
22%	$77,401-165,000
12%	$19,051-77,400
10%	Up to $19,050

Sources: Internal Revenue Service; Conference Committee

Source: [Wall Street Journal]

#2: Most Small Businesses Can Now Enjoy a 20% Business Income Deduction

The new tax reform bill gave a big tax cut to C corporations. Most large companies, like those listed on the stock exchanges, are C corporations. And they saw their tax rate drop from 35% to 21%.

But most small businesses don't structure themselves as a C corporation. If you are a small business, you are more likely to be a Sole Proprietor, an S corporation, a Partnership, or a hybrid like an LLC.

Congress didn't want to leave small businesses out in the cold without a tax break, but they couldn't simply lower the tax rate either. That's because Sole Proprietors and S corps and so on are pass-through-entities.

Pass-through-entities don't pay taxes themselves. Instead, as the business owner, you pay your business taxes on your personal tax return at the same individual rates as everyone else.

So to give small businesses a tax cut, Congress had to come up with a new tax deduction: **the 20% Qualified Business Income Deduction.**

If your taxable income is less than $157,500 (filing as an individual) or $315,000 (married and filing jointly), then your deduction is generally 20% of the net income of your business.

So if your business' taxable income was $100,000, then after the 20% deduction, you only have to pay taxes on $80,000.

If your taxable income is higher than these threshold amounts, then you still get a deduction but limitations and exceptions apply based on your occupation and wages. Talk to your accountant for more information specific to your situation.

DOES RENTAL REAL ESTATE INCOME QUALIFY FOR THE 20% DEDUCTION?

This is a question that is yet to be answered. It will likely be determined in the next 2-3 years as accountants push for deductions, and decisions are made in the courts.

As the Wall Street Journal says:

> *The problem for millions of landlords of all sizes is determining whether their rental income is from a business or an investment. If it's investment income, then it doesn't qualify for the 20% break, even if the landlord's income is below the $315,000 / $157,500 threshold.*
>
> *Anthony Nitti, a tax specialist with Withum, says, "A century of case law hasn't clearly defined when a rental rises to the level of a trade or business. Now, landlords across the country will somehow have to make that determination."*

The best thing you can do is get a great accountant who is unafraid of the IRS and willing to do the work to get you the lowest possible tax rate the law will allow.

#3: Your Standard Deduction Doubled

Deductions can either be itemized individually or you can take the Standard Deduction — which is just a specific dollar amount set by Congress.

Whichever method gives you the larger deduction is what goes on your return.

Well, the tax reform bill nearly doubled the Standard Deduction from $12,700 to $24,000 for married couples filing jointly (and from $6,350 to $12,000 for single filers).

For someone in the 37% tax bracket, this could mean a savings of as much as $4,000.

DO I STILL BENEFIT FROM OWNING A HOME AND DEDUCTING THE MORTGAGE INTEREST?

This change means it won't be worth it for many Americans to itemize their deductions — ***even with the mortgage interest deduction*** — because the Standard Deduction will still be higher.

There was one major change to the mortgage interest deduction, however. The deduction is now limited to new mortgages of $750,000 or less — down from $1 million in 2017.

Mortgages originating before 2018 of $1 million or less are grandfathered in and keep their mortgage interest deduction.

IF I NO LONGER DEDUCT MORTGAGE INTEREST, SHOULD I PAY DOWN MY MORTGAGE MORE?

That depends. Try running your mortgage, along with all your other loans through our [Cash Flow Index Calculator here](#).

A high number (over 100) means the loan is efficient. A low number (under 50) means it is inefficient.

So whichever loan has the lowest CFI number is the one you should pay off first.

It doesn't matter what the interest rate is on the loan. The most important thing is how efficient it is, which is what the Cash Flow Index measures.

IF I TAKE THE STANDARD DEDUCTION, CAN I STILL GET A TAX BREAK FOR CHARITABLE DONATIONS?

If you don't donate more than your standard deduction each year, then the best way to get the highest possible tax benefit is to combine several years of gifts into one larger amount.

For example, if you are planning to make a last-minute charitable donation this year but know you won't have enough other deductions to make it deductible, you could hold off and make this year's gift in the first week of January. Then next December, make your 2019 charitable gift at the end of December.

Since both will be in the same calendar year, it could be enough — combined with other Schedule A write-offs — to surpass the standard deduction and allow you to pay less tax than just taking the standard deduction.

BONUS TIP: This is a strategy you can combine with any other deductible expenses that might typically be made at the end or beginning of the year.

By strategically delaying or accelerating deductible expenses by a single month, it could allow you to use Schedule A one year and then rely on the standard deduction the next year.

#4: Entertainment & Meal Expenses

Congress removed the ability for business owners to write off “entertainment expenses” such as shows and sports games. However, they kept the 50% deduction for business meals.

They also recently clarified that if a meal is part of the entertainment, such as a hot dog and beer at a football game, the meal’s cost can be broken out separately and deducted.

#5: Investment Advisory Fee Deduction Removed

Previously, business owners could classify investment advice as a “miscellaneous” expense on a Schedule A. However, the new tax bill removed this provision.

Interestingly, **you can still deduct the cost of work-related education as a business expense.**

As an entrepreneur, educating yourself about taxes, investing, sales, marketing, and more is an important part of growing your business. The average CEO reads about a book a week, and the most successful people invest thousands in their education a year.

This also means that any **business or financial education courses we offer at Wealth Factory can still be used as tax write-offs**.

So continue investing in yourself. Not only will you increase your skill, knowledge, and value to the world, you can also deduct the cost as a legitimate business expense.

#6: Retroactive Refunds Are Still In Play

One important tax benefit for business owners, especially for new Wealth Factory members, are retroactive tax refunds.

If you paid taxes in 2017, 2016, 2015 — or possibly even 2014 — you can get a 3-year review of your tax returns to look for missed tax savings.

And if you find that you're one of the 93% of business owners who paid too much in taxes, you qualify for a retroactive tax refund.

Fortunately for you, this law was not changed in the tax reform bill. And it could mean a big refund check for you, just like it did for CJ & Michelle Varney:

> *"Wealth Factory helped us get a retroactive tax refund of $37,000 and will help us save $23,500 on our tax bill every year going forward. It's been the greatest investment we have ever made in ourselves. They helped us discover our soul purpose, gain security and peace of mind, and renewed our passion for success. Within the first 8 months*

we saw 130% growth in our business and for every dollar we have invested into Wealth Factory we have had a 900% return."
~ CJ & Michelle Varney

#7: Limited Opportunity to Pass More Wealth Tax-Free to the Next Generation

At Wealth Factory we spend a lot of time and energy focusing on living wealthy and leaving a lasting legacy.

Estate planning is a big piece of the legacy you'll leave. And the estate tax can play a big role in that.

To review, the estate tax applies when a deceased person's estate is transferred to new owners and the estate is worth more than a certain exclusion amount.

That exclusion amount is constantly changing: it was $675,000 in 2000, it was $5.49 million in 2017, and there was no exclusion amount in 2010 when the estate tax briefly expired.

The new tax reform bill doubles the exclusion amount in 2018 to $11.9 million for individuals or $22.36 million for married couples.

This means many more small business owners, whose estate is valued under those exclusion amounts, will be able to pass on their businesses and financial legacy tax-free — at least for a while.

The estate tax exclusion amount is set to return to $5 million in 2026 unless Congress intervenes first.

Under the tax reform bill, the annual Gift Tax exclusion amount also increased to $15,000, allowing you to gift anyone up to that amount once per year without triggering any taxes.

If you are nearing retirement or looking to exit your business in the next 8 years, you may want to talk to a tax specialist about how to strategically pass on a portion of your assets to your heirs tax-free while these generous gifting provisions are in place.

#8: 100% Bonus Depreciation

Depreciation is a common tax deduction which allows you to write off the gradual wear, tear, and obsolescence of certain property. The rules can be quite complicated, with different types of property depreciating on different schedules.

For example, many types of property take 39 years to get the full benefit of depreciation.

Yikes.

This is one reason we've advocated business owners with buildings to use cost segregation to accelerate the depreciation on parts of their building and substantially lower their taxes.

Cost segregation has been around for a long time, so why is it more relevant now than ever? The answer: Bonus Depreciation.

Back in 2002, Congress introduced Bonus Depreciation to speed up the process and get your tax savings faster.

Bonus Depreciation allows you to immediately deduct a large percentage of the depreciation in the first year. Originally you were allowed to deduct 30% of qualifying personal property used for business purposes, like a computer or a car.

In 2015, Congress increased the Bonus Depreciation deduction to 50% in the first year.

Now, **the new tax reform bill bumps the Bonus Depreciation deduction to 100%** — and it will stay that way until 2023 when the rate slowly ramps down each year to 80%, 60%, 40% and so on.

What types of property qualify?

Personal property used for business purposes that remains useful for 20 years or less does qualify.

Examples of items that qualify include automobiles, trucks, computers, software, machinery, equipment, office furniture and much more.

With the new 100% deduction in place for 5 more years, it may be time to strategically plan the upgrading or acquisition of new equipment to maximize your tax savings.

Important Note: Real property which is permanently tied to a location, like real estate, does NOT qualify.

Again, it’s best to talk to your accountant or work with our Accredited Network of financial professionals to find out if the Bonus Depreciation strategy will work for you.

#9: Hire Your Children

The benefits of hiring your children in your business for virtually tax-free payouts is worth serious consideration.

But we have found that with our clients (successful business owners with an average personal income of over $500,000), the hardest part is not the actual hiring. That's easy with a little guidance...

It's finding legitimate jobs and services, that can be paid at standard and comparable rates.

Well, we have compiled a list of 32 different "jobs" here you can have your children perform for your business. The best part is, these services can carry a very high earnings rate.

You don't have to pay "sub wages," or pay tax on helping your child learn valuable work ethics.

Here are just a few ideas:

- Cleaning the office
- Washing company cars
- Updating customer lists in the computer
- Simple to advanced Data-entry
- Transcribing video or audio
- Trips to the post office or general errands
- Helping at the office, passing out handouts and more
- Walking door to door, placing fliers for your business
- Updating your social media accounts (kids are very good at this)

As long as they're doing legitimate work for your business, you can hire your child and pay them up to $12,000 per year tax-free.

If they stay under this limit, they usually don't even have to file a tax return, which means they don't pay any income tax on it. And you get to deduct their wages, which lowers your business' taxable income.

Example: Let's say you have 3 kids, and you hire two to work in your business.

Using this strategy, rather than just "handing over money" or allowance you likely paid personal taxes on, you've moved those taxable dollars from your tax rate to your child's tax rate and bracket, which in most cases, is zero, and you still keep the money in the family.

This is called "Tax Bracket-Shifting."

In the above example, you could have lowered your personal income by up to $24,000, all while teaching your family some well-timed lessons.

The options are virtually limitless, but to avoid IRS scrutiny, make sure it's a job that's age-appropriate and your child can do sufficiently.

Your children can put most of their money in a college savings account, which helps them learn the value of saving.

You could do the same, or even help them start what we call a Wealth Capture account, which is an automatic savings account where money is put aside to invest or start a business one day.

Use this strategy wisely, and you'll give your children a valuable head start in life.

What To Do Next

The 2017 Tax Cuts and Jobs Act is a major piece of legislation, and it'll most likely take years for all the details to get ironed out.

There are even a few mistakes made that will likely need to be fixed — like the "Qualified Improvement Property" deduction that was supposed to move to a new section of the tax code but instead was accidentally deleted. Whoops!

In the meantime, here are 4 things you can do right now to take advantage of the new tax bill.

1. Talk to your CPA to find out if you qualify for the new 20% Business Income or Bonus Depreciation deductions — or if there's anything you can do or change in your business to take advantage of the savings.
2. If you're looking for ways to pass your estate on while you're still alive, take advantage of the increased Gift Tax exclusion that allows you to gift $15,000 per year, per person, without triggering any taxes.
3. If you think your Schedule A deductions are going to be less than the Standard Deduction, talk to a CPA or tax professional about deferring some of your year-end deductions until early January so you can "double up" next year.
4. One final action item — if you haven't received a second opinion review of your tax returns from the past 3 years, be sure to hire a qualified tax individual do it for you before the busy season starts for them in February. It's well worth the small cost. You'll either be assured you have a great

tax team or you may get a retroactive refund from past years which can be a substantial "surprise bonus."

Build the life you love,

The Builders at Wealth Factory