

Tax Tidbits



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Taxes and Social Security Benefits

Some of you have to pay federal income taxes on your Social Security benefits. This usually happens only if you have other substantial income in addition to your benefits such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return.



You will pay tax on 85% of your Social Security benefits, based on Internal Revenue Service (IRS) rules if you:

- file a federal tax return as an individual and your combined income is:
 - ~ between \$25,000 and \$34,000, you may have to pay income tax on up to 50% of your benefits.
 - ~ more than \$34,000, up to 85% of your benefits may be taxable.
- file a joint return and you and your spouse have a combined income that is:
 - ~ between \$32,000 and \$44,000, you may have to pay income tax on up to 50% of your benefits.
 - ~ more than \$44,000, up to 85% of your benefits may be taxable.
- are married and file a separate tax return:
 - ~ you might pay taxes on your benefits.

Combined income is defined as adding your adjusted gross income, plus your nontaxable interest, plus half of your Social Security benefits.

Each January, you will receive a Social Security Benefit Statement (Form SSA-1099) showing the amount of benefits you received in the previous year. You can use this statement when you complete your federal income tax return to find out if your benefits are subject to tax or simply give this document to your tax preparer.

If you do have to pay taxes on your Social Security benefits, you can make quarterly estimated tax payments to the IRS or choose to have federal income taxes withheld from your benefits.

If you misplaced or did not receive a Form SSA-1099 or SSA-1042S for the previous tax year, you can get a replacement form by using your online *my* Social Security account. If you do not already have an account, you can create one online or call 800-772-1213 as well as your local Social Security office to request one.

Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services

Getting Ready

There needs to be another review of the changes brought about by the new tax law. In many of my discussions with friends, family, clients and acquaintances, there are different understandings as to what taxpayers are allowed to do on their 2018 tax returns.

The tax items affected by the Tax Cuts and Jobs Act (TCJA) for 2018 that are of greatest interest to most taxpayers include the following dollar amounts:

1. The standard deduction for married filing jointly rises to \$24,000. For single taxpayers and married individuals filing separately it rises to \$12,000 and for heads of households it rises to \$18,000. Taxpayers can still itemize, however, due to the higher standard deduction, many will not need to.
2. The TCJA reduced the personal exemption. The personal exemption for 2018 is \$0. The personal exemption has been around since 1913, so this is a big change to eliminate.
3. TCJA reduced tax rates for many taxpayers. The new tax rates are: 10%, 12%, 22%, 24%, 32%, 35% with a top rate of 37%. For tax year 2018, the highest tax rate will apply to married individuals filing jointly and surviving spouses with taxable incomes over \$600,000, to single taxpayers and heads of households with incomes over \$500,000 and to married taxpayers filing separately with incomes over \$300,000.
4. The TCJA eliminates the limitation for itemized deductions, which was based on level of income.
5. The Alternative Minimum Tax (AMT) exemption amount for 2018 is greatly increased under TCJA. For 2018, the exemption amount for single taxpayers is \$70,300 and begins to phase out at \$500,000, as adjusted for AMT, and the exemption amount for married couples filing jointly is \$109,400 and begins to phase out at \$1 million, as adjusted for AMT.
6. For estates of any decedent passing away in calendar year 2018, the basic exclusion amount is \$11,180,000.

Certain items had minor adjustments for 2018. TCJA requires a different method for adjusting for inflation and they are:

- The foreign earned income exclusion will be \$103,900.
- The maximum earned income credit amount will be \$6,431 for taxpayers with three or more qualifying children.

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Qualified Business Income Deduction

The 2017 Tax Cuts and Jobs Act (TCJA) created the Qualified Business Income (QBI) deduction, also known as section 199A deduction. Eligible taxpayers may be entitled to a deduction of up to



20% of QBI. The Section 199A deduction is available to any taxpayer, other than a corporation. This includes individual owners of sole proprietorships, rental properties and pass-through entities such as S corporations or partnerships to name a few. Employees are not considered a qualified trade or business.

Specified service trade or businesses have special rules for the QBI deduction. These businesses involve the performance of services in the fields of health, law, consulting, athletics, financial services, brokerage services, accounting, performing arts and actuarial services. If you operate a “specified service trade or business” and your taxable income is over \$415,000 for married filing joint (MFJ) or over \$207,500 for all other filers, your 20% tax deduction under the new tax code Section 199A will be zero.

The calculation of the credit can be difficult. The first step in the calculation is determining your Form 1040 taxable income before the 20% deduction. The next step is calculating your QBI. QBI is your net business income after expenses. Certain investment items such as capital gains, dividends, interest income, reasonable compensation or guaranteed payments are not included in QBI.

If your taxable income is equal to or less than the threshold of \$315,000 for MFJ or \$157,500 for all other filers, the deduction equals 20% of QBI but is limited to 20% of your taxable income. This is for both a qualified trade or business and specified trade or business. The Section 199A deduction is allowed with no limits.

If your taxable income is between the threshold of \$315,000 to \$415,000 for MFJ or \$157,000 to \$207,500 for all other filers, a limit related to wages and/or property acquisitions begins to phase in. A specified trade or business can also qualify for a deduction. However, the Section 199A deduction is reduced according to the percentage of income that exceeds the taxable income threshold amount. For both the qualified trade or business or the specified trade or business, W-2 wages and qualified property are not required, but may increase the deduction.

If your taxable income is greater than the threshold of \$415,000 MFJ or \$207,000 for all other filers, the calculation of the Section 199A deduction will decrease to zero for the specified trade or business. The qualified trade or business may still qualify for the deduction. No deduction is allowed without W-2 wages and/or qualified property. The Section 199A deduction is calculated as the lesser of 20% of taxable income or the greater of 50% of W-2 wages or 25% of W-2 wages plus 2.5% of qualified property.

Qualified property means depreciable tangible property that is held by and available for use in the qualified trade or business at the close of the taxable year. The property is used during the year in the production of qualified business income. Additionally, the depreciable period has not ended before the close of the taxable year. This is the period beginning on the date the property was first placed in service and ending on the later of the date that is 10 years after that date or the last day of the last full year in the applicable recovery period. Property disposed of during the year is not qualified property. This section 199A of the law is very new, with many moving parts and is still open to additional IRS guidance and regulations.

Elizabeth A. Zarnoch, EA
Tax and Business Services Manager

Financial Corner

Financial decision making can appear daunting at times, but if one can frame things in simple terms, ignore complexities and focus on the few factors that really matter then that confusing world becomes a whole lot less so. Some areas that really matter as it relates to investment management results are asset allocation decisions and, of course, taxes.

The markets are seemingly connected to and receive input from our business, political and global environments and the investing landscape can appear very complex. To take one’s savings and turn it over to a manager for investment can help with wading through some of that noise. To frame things in simple terms, an investment manager, after listening to an individual’s wants, needs and goals for future income and wealth, can set out to hold a certain amount of cash, bonds and stocks that are appropriate in order to help achieve those ends.

Of course, there can be a bit more to it than that when it comes to executing investment management services, such as performing individual stock and bond selection, trading and balancing portfolios for concentration risks and understanding risk-reward dynamics under ever changing market conditions. Simply understanding how different asset classes and types of accounts (individual and/or retirement) are treated at tax time is one of those areas where it can truly matter.

Daniel P. Burchill
Security Analyst



Do You Need Rental Car Insurance?

Maybe you've been here before. You've just come off the plane, picked up your baggage and gone to the rental car counter. You're tired from the flight, about to begin an ambitious vacation or a challenging business project. And, this is the point at which you're asked, "Do you want insurance with that?"



Most travelers, facing that question from the rental representative, have the vague notion that they don't really need to buy rental car insurance – which somehow is covered already. With just enough doubt in their minds, and the need to make a quick decision, perhaps they buy it just to be safe.

So, which is it?

Do you need to buy rental car insurance or not?

Truth be told, there isn't a one-size-fits-all answer. However, you can likely reach a conclusion you're comfortable with by considering these three questions.

What Types of Rental Car Insurance Are Available?

Typically, car rental agencies will offer you four types of insurance to purchase:

- **Collision damage waiver** – The rental car company won't charge you for a damaged or stolen vehicle when you buy this.

- **Supplemental liability protection** – Electing this will ensure you're covered for costs to others if you cause an accident in the rental.
- **Personal accident insurance** – This coverage will pay for injuries or death of the driver and passengers of your rental car.
- **Personal effects coverage** – Reimburses you for stolen personal items while renting the car.

What Rental Car Coverage Might I Already Have?

Start with your personal auto insurance. It's likely that your policy will provide the same level of coverage for your rental as it does for your own car. That usually includes liability insurance, and, depending on the policy you purchased, may include collision, comprehensive and medical payments, too. There are exclusions, however. Some insurers won't cover rentals in a foreign country, or rentals that are being used for business. Get in touch with your independent insurance agent to verify your coverages.

Next there's your credit card. Most cards offer some degree of coverage, but it varies widely. Coverage is usually secondary, designed to step in and pick up where your auto insurance leaves off, and it tends to be mostly confined to collision, damage and theft. For coverage to apply, most cards require that you decline the rental company's collision damage waiver and pay for the car in full with the card that provides the protection. Again, contact your card company to find out exactly what is covered.

Then, consider your health and life insurance, too. If you're in an accident involving a rental car and you have these policies, you likely have coverage for your own costs. Plus, with your homeowners insurance, you may have personal property coverage to help repair or replace valuable belongings that are lost, damaged or stolen while you're in a rental. Your deductible and policy limits will apply, and the same goes for renters insurance or condo insurance.

What Rental Coverage Might I Be Missing?

In the event something does happen to the rental car, you may be looking at loss of use and diminished value fees, and your regular policy may not cover them. Loss of use is the income that the rental agency loses due to the vehicle being in the shop for repairs, and diminished value is the calculated reduction in a vehicle's resale value as the result of an accident. Credit cards sometimes cover these, but be aware that they may require documentation that rental agencies can be reluctant to provide.

So, before you make that next trip, give us a call and check with your credit card company. That way you'll be ready to make an informed decision when you get to the rental car counter.

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Suzanne M. Valicenti
President/CEO

Employee Corner

A graduate of Elmira College with a Bachelor of Science degree in Business Administration, Jessica Brenzo joined our firm as the temporary receptionist in our Tax and Business Services Department in January 2018. In May 2018, Jessica accepted the position of Business Services Specialist for the department.

Her administrative and communication skills will be assets in her new position.



Ralph H. Roberts, Jr.
Vice President of Client Services



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Check Your Withholding Amounts

The passage of the Tax Cuts and Jobs Act (TCJA), which will affect 2018 tax returns, makes checking withholding amounts even more important. These tax law changes include:

- Increased standard deductions
- Eliminated personal exemptions
- Increased child tax credits
- Certain limited or discontinued deductions
- Changed tax rates and brackets

Individuals with more complex tax profiles, such as two incomes or multiple jobs, may be more vulnerable to being under-withheld or over-withheld following these major tax law changes. The IRS encourages a “paycheck checkup” as early as possible to help taxpayers check if they are having the correct amount withheld for their personal financial situations.

The Withholding Calculator, which can be found at IRS.gov, is the easiest and most accurate way for taxpayers with complicated tax situations to determine their correct withholding amount. The tool allows users to enter income from multiple jobs or from two employed spouses.

If needed, the calculator will recommend how to complete a new Form W-4 for any or all of their employers.



If a couple or a taxpayer is at risk of being under-withheld, the calculator will recommend an additional amount of tax withholding for each job. To use the Withholding Calculator, taxpayers should have available their 2017 tax returns and most recent paystubs.

The calculator does not request personal information such as name, Social Security number, address or bank account numbers. The IRS does not save or record information entered in the calculator. Taxpayers should watch out for tax scams, especially via email or phone and be very alert to cybercriminals impersonating the IRS. The IRS does not send emails related to the calculator or the information entered.

Employees with a change in personal circumstances that reduces the number of withholding allowances must submit a new Form W-4 with corrected withholding allowances to their employer within 10 days of the change.

As a general rule, the fewer withholding allowances an employee enters on Form W-4, the higher their tax withholding. Entering “0” or “1” on line 5 of the W-4 means more tax withheld. Entering a larger number means less tax withholding, resulting in a smaller tax refund or potentially a tax bill or a penalty. Please consult our tax office if you need assistance in this determination.

Jessica M. Brenzo
Business Services Specialist

Getting Ready

(continued from Page 1)

- Participants who have self-only coverage in a Medical Savings Account, the plan must have an annual deductible that is not less than \$2,300, but not more than \$3,450. For self-only coverage, the maximum out-of-pocket expense amount is \$4,550. For participants with family coverage, the lowest for the annual deductible is \$4,550 and cannot be more than \$6,850. For family coverage, the out-of-pocket expense limit is \$8,400.

Items unaffected by the TCJA

The dollar amounts for the following items remain unchanged under the new method for adjusting for inflation required by the TCJA:

- The annual exclusion for gifts is \$15,000.
- The monthly limitation for the qualified transportation fringe benefit is \$260, as is the monthly limitation for qualified parking.
- The adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit is \$114,000.
- The dollar amount used to determine the penalty for not maintaining minimum essential health coverage is \$695.

There are many questions that people have about the tax law changes. Contact our tax office for a tax checkup to make sure that you do not fall short this coming tax season.

Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services

Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.

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