Small Business
December 2018 – Special Issue
TAX STRATEGIES
Grow your profits—pay less tax
Business Management Daily

TaxNews

Substance over form. Have you received a W-2 or 1099 with an error? Check forms carefully to ensure accuracy. If you discover a mistake, contact the payer promptly to obtain a revised form. Also, a payer may issue a corrected form on its own. Don't ignore the change on the 1040 you file with the IRS. The IRS computers match up W-2s and 1099s and could produce an unexpected tax bill.

Share and share alike. If you use an online platform to provide car rides, rent a spare room or furnish other goods or services, you're involved in the so-called "sharing economy." The IRS has posted valuable information about tax issues for these folks, as well as guidance for tax practitioners representing them, on its website (**www.irs.gov**).

Review plan beneficiaries. Review the beneficiaries (primary and contingent) for your qualified retirement plans and IRAs. Regularly update any designations to reflect major changes in your life or significant events (e.g., birth, death, marriage or divorce). *Note:* These designations supersede a will.

Bump in benefits. Social Security benefits for retirees are increasing. For 2018, the average monthly benefit for all retired workers goes from $1,377 to $1,410, and from $2,687 to $2,788 for those who've reached normal retirement age.

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Special Issue: Year-End Tax Planning

Year-end tax planning is rarely easy, but planning for this year-end is more complicated than usual while also offering some new tax-saving opportunities. The Tax Cuts and Jobs Act (TCJA), which started out as a "tax simplification" measure, creates an additional level of complexity for many individual and business taxpayers in 2018. This Special Issue points out ways to maximize the tax benefits while minimizing the tax pitfalls under the new law.

3 top tax moves for you

In the past, you may have assumed you would be claiming itemized deductions on your personal return. But the TCJA nearly doubles the standard deduction to $12,000 for single filers and $24,000 for joint filers, while eliminating or reducing the tax benefits of certain itemized deductions. The changes are generally effective for 2018 through 2025.

Strategy: Figure out if you'll be claiming the standard deduction or itemizing in 2018. This should help dictate your year-end tax moves.

Keeping that in mind, here are three top tax moves for individuals at the end of this year.

1 Bunch your charitable donations. If you expect to itemize in 2018, step up your charitable donations at year-end to provide the maximum tax benefit. Generally, you can deduct the full amount of your cash gifts and the fair market value

Continued on top of page 2

3 top tax moves for your biz

Unlike most changes for individual taxpayers (*see above*), most provisions in the Tax Cuts and Jobs Act (TCJA) affecting small businesses generally take effect in 2018 or for tax years beginning in 2018 and are permanent.

Strategy: Plan for both this year and the future. In other words, make year-end tax moves that benefit your small business, but don't ignore the long-term outlook, either.

Every situation is different, but the following three year-end tax strategies may lower your 2018 tax bill without any negative consequences.

1 Cash in on Section 179. The TCJA doubles the already-generous Section 179 expensing allowance from $500,000 to $1 million for tax years beginning in 2018 and beyond and provides inflation indexing for future years.

In addition, the threshold for phasing out the allowance is hiked from $2 million to $2.5 million for tax years beginning in 2018 and beyond (with inflation adjustments for post-2018 years), giving plenty of flexibility to most small businesses.

Note that the deduction is only

Continued on bottom of page 2

Tax moves for you *(Cont. from page 1)*

of property—say, artwork or securities—you've owned longer than one year.

Conversely, if you won't be itemizing this year (i.e., you expect to claim the standard deduction), you might as well postpone large gifts to 2019 or another year, when you'll have a shot at an itemized charitable deduction.

Tip: The TCJA increases the annual limit on cash donations to public charities from 50% of adjusted gross income (AGI) to 60% of AGI.

2 Mix in the SALT ingredient. Previously, you could deduct the full amount of the state and local taxes (SALT) you paid or incurred during the year if you itemized deductions. But the TCJA limits the itemized deduction for SALT payments to $10,000. This includes any combination of:

- State and local property taxes and
- State and local income or general sales taxes if you choose to claim them instead of state and local income taxes.

If this is going to be a year in which you itemize deductions, you may prepay taxes due on January 1, 2019. Contact the appropriate taxing authority.

Tip: Four states are suing the federal government over the constitutionality of the SALT provision.

3 Pump up a medical deduction. Prior to the TCJA, you could only deduct 2018 medical expenses to the extent they exceeded 10% of your AGI. The TCJA lowers the threshold to 7.5% of AGI retroactive to 2017 and through 2018. It reverts to 10% of AGI in 2019 unless Congress extends the 7.5%-of-AGI deal (quite possible).

When it makes sense, move up elective medical procedures such as physicals, podiatry treatments, dental treatments and vision care into 2018. This may be your last chance at a medical deduction for a while.

On the other hand, if you won't be itemizing in 2018, or you're far below the 7.5%-of-AGI mark, you might as well postpone medical expenses to 2019 in the hopes that you can claim an itemized deduction next year.

Tip: Cosmetic surgery doesn't qualify for the medical deduction.

> **Online Resource** Subscribers have access to upcoming and archived issues containing more personal tax information.

Tax moves for your business *(Cont. from page 1)*

available for assets "placed in service" during the year. So if your business uses the calendar year for tax purposes, you have until December 31 to acquire and start using equipment that will qualify for a 2018 deduction.

Tip: The Section 179 deduction is limited to the amount of the taxpayer's business taxable income for the year.

2 Add on "bonus" depreciation. The TCJA improves another tax provision that often operates in conjunction with Section 179. For qualified property placed in service in calendar years 2018 through 2022, your business can claim a 100% bonus depreciation deduction, up from 50% in 2017. This provision can pick up scraps left over after your Section 179 deduction is used up.

In the future, the bonus depreciation rates are scheduled to phase down as follows:

- 80% in 2023.
- 60% in 2024.
- 40% in 2025.
- 20% in 2026.
- 0% in 2027 and thereafter.

Tip: Significantly, the bonus depreciation deduction is expanded to include used property. Before, it was limited to new property.

3 Don't pass up pass-through deduction. Beginning in 2018, a brand-new deduction for qualified business income (QBI) can potentially be claimed by individual owners of pass-through entities like S corporations, partnerships and limited liability companies (LLCs), as well as sole proprietorships. The deduction can be up to 20% of QBI earned by a qualified taxpayer.

But this new deduction is subject to limitations for higher-income owners. Special rules can reduce or even eliminate the deduction for income from a "specified service trade or business."

Tip: The IRS recently issued guidance on this complex new deduction (*SBTS, Oct. 2018*).

> **Online Resource** Subscribers have access to upcoming and archived issues containing more business tax information.

Get ready to launch a solo 401(k) retirement plan

Most contributions and other limits for retirement plans didn't budge much for 2018. But some small business owners can take matters into their own hands.

Strategy: Set up a "solo 401(k) plan." If you qualify, you can effectively benefit from both "employee" and "employer" contributions to your account. In many cases, this dual tax winner can't be beat because it often allows you to sock away more money than any other type of retirement plan.

Here's the whole story: With the standard defined contribution plan used by small business owners—such as a Simplified Employee Pension (SEP) or garden-variety profit sharing plan—the employer's deductible contribution in 2018 is capped at the lesser of 25% of compensation or $55,000.

The maximum compensation that may be taken into account for these purposes is $275,000. But that's as far as it goes.

In contrast, an employee participating in a traditional 401(k) plan can make an elective deferral contribution to the plan within the annual limits and the employer may match part of the contribution, usually up to a single-digit percentage of your salary.

A solo 401(k) offers even more. You may defer up to $18,500 of compensation to your account, plus an extra catch-up contribution of $6,000 is allowed if you're age 50 or older—the same as with elective deferrals to a traditional 401(k). Of course, the limits on deductible employer contributions still apply, but here's the kicker: Elective deferrals to a solo 401(k) don't count toward the 25% cap. So you can combine an employer contribution with an employee deferral for greater savings.

Example: Big tax winner for small business owner

Let's say you're the sole employee of your company, you're under age 50 and you receive an annual wage of $125,000. The maximum deductible amount you may contribute to a SEP is $31,250 (the lesser of 25% of compensation or $55,000). If you set up a solo 401(k) plan instead, you can defer $18,500 to the account in addition to keeping the maximum $31,250 employer contribution. That gives you a total contribution of $49,750 (below the $55,000 limit). And since you're the only employee of the company, you don't have to worry about making contributions for anybody else.

The contributions to a solo 401(k) grow tax-deferred until you're ready to make withdrawals. For simplicity, suppose you contribute $49,750 to your account each year for the next 20 years until you retire. If you earn 8% a year, you will have accumulated a whopping nest egg worth $2,458,790!

Conversely, if you contribute $31,250 to a SEP for 20 years instead and invest it at the same 8% rate, you will accumulate $1,544,466 before retirement—or $914,324 less.

If the business isn't incorporated, the 25%-of-compensation cap on employer contributions is reduced to 20% because of the way contributions are calculated for self-employed individuals. But that still leaves you with plenty of room to maneuver.

For instance, if your net self-employment income is $125,000, you can stash away up to $43,500 ($18,500 deferral and $25,000 employer contribution) in the account this year. And remember that contributions can be boosted once you reach age 50.

Note that a solo 401(k) may offer other advantages. For instance, the plan can be set up to allow loans and hardship withdrawals. Also, you might roll over funds tax free from another qualified plan if you previously worked somewhere else.

Tip: Contributions are discretionary. Therefore, you can cut back on your annual contribution—or skip it entirely—if your business is having a bad year.

Going solo: Not a 'free ride'

Despite the obvious benefits, there are a couple of drawbacks to solo 401(k) plans.

1. If your business has any other employees, they may have to be covered under the plan.

2. You have to deal with the hassle and cost of running the plan.

Good news: After the tax rules were changed to favor solo 401(k) plans, more "big players" entered the arena. Now that financial outfits like Fidelity and Smith Barney offer solo 401(k)s, administrative costs have plummeted. Typically, a small business owner might be charged a one-time setup fee of $100 and a small annual administrative fee ranging from $50 to $250.

Create tax breaks: Buy parents' home, rent it back to them

Say your aging parents live in a home that has appreciated in value, but they're no longer reaping any of the homeownership tax breaks during their retirement years. Sound familiar?

Good news: With one stroke of the pen, both you and your parents can win: They'd gain instant access to their home equity (without moving) and you'd pick up some generous new tax deductions.

How? Buy your parents' house, and then rent it back to them—at the going rate.

Reasons for the sale/leaseback. Under the current homeownership setup, your combined family unit is overpaying the IRS.

Your parents' mortgage is either paid off or the payments represent mostly principal at this point. Even if they still take interest deductions, your parents' tax bracket might be low in retirement, so those deductions don't provide much tax savings.

Here are two good reasons for your parents to opt into this plan:

1. It puts cash in their pockets without them dipping into a home equity loan.

2. It allows them to put their money into safer investments than the real estate market.

Transferring the house. To avoid gift-tax complications, pay a fair price for the home. Support the buying price with a qualified and independent appraisal. Then, both sides should enter into a lease at a fair rental value.

One benefit: Courts have said that landlords can reduce their fair-market rent by 20% when renting to relatives. That lower rent reflects the savings in maintenance and management costs. (*L.A. Bindseil,* TC Memo 1983-411)

Don't set the rent too low; the IRS might say the rental home is for your personal use. Therefore, your deductions might be limited to mortgage interest and property tax, the same as if you owned a vacation home.

Taking deductions. Once you own your parents' house, you're entitled to reap the tax benefits of owning rental property.

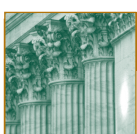
That includes taking write-offs for operating expenses, such as utilities, maintenance, insurance, repairs and supplies.

You also can claim depreciation deductions for the home, but you can't depreciate the cost of the property apportioned to land.

So obtain an appraisal allocating the price paid between the depreciable structure and the nondepreciable land. You can use these deductions to offset the rental income received from your parents. You can take any suspended losses when you sell the house.

Bonus benefit: Once you own the house, you may be able to write off occasional travel expenses you incur when visiting the house (your rental investment).

Endgame: Eventually, your parents won't be able to live in the house. Then, you can sell it, rent it to another tenant or move in. If you move in and make it your principal residence for at least two years, you can sell it and shelter another $250,000 or $500,000 worth of capital gains: a true tax bonanza!



Lessons from the Tax Court: Is tax professional guilty of fraud?

To add insult to injury, wayward taxpayers can also be assessed fraud penalties in addition to forfeiting unsubstantiated deductions. However, for fraud penalties to stick, the IRS must provide "clear and convincing evidence" that the taxpayer underpaid tax, due at least partially to fraud.

Having some expertise in tax return preparation isn't enough, by itself, to warrant fraud penalties when the IRS disallows deductions.

New case: The taxpayer operated a tax-related business for over 30 years, preparing tax returns for the past 20 years. When he was starting out, he attended college courses on tax concepts and seminars on tax preparation. Furthermore, the taxpayer initially had a second job helping a CPA prepare tax returns, plus another job as an accountant for two other businesses.

In the course of his business activities, the taxpayer prepared hundreds of income tax returns between 2006 and 2008. He also prepared the joint tax returns filed for himself and his spouse.

The taxpayer claimed numerous business expense deductions for the tax years in question. Upon audit, the IRS determined that the taxpayer had failed to report $4,905 and $5,552 in business income in 2006 and 2008, respectively. It assessed both fraud and accuracy-related penalties.

Tax outcome: The Tax Court found that the taxpayer's overall education and experience didn't justify the fraud penalty. It said that the IRS didn't offer convincing proof of his sophistication and expertise. In addition, the court determined that the taxpayer was misguided in his understanding of several areas of tax law.

The Court concluded that the taxpayer failed to maintain adequate business records and documentation to support claims for business deductions. But the failure wasn't part of a concerted plan to conceal, mislead or otherwise prevent the collection of tax. Therefore, it disallowed the deductions but negated the fraud penalty. (*Ericson,* TC Memo 2016-107, 6/1/16)

Skirt NII surtax on family business interests

If you sell your business, you might owe a hefty income tax on the appreciated interest. Saving grace: At least you may be able to avoid the 3.8% Medicare surtax on net investment income (NII), depending on the exact circumstances. But what about your kids and other family members who are shareholders? They could get walloped by the surtax.

Strategy: Hire family members who are co-owners (if they don't already work for the company). Keep them on the payroll until you sell the business.

As a result, when the deal finally closes, the relatives with business interests should be able to squeeze through the same tax loophole as you, the business owner.

Here's the whole story: The 3.8% surtax applies to the lesser of NII or the excess above modified adjusted gross income (MAGI) of $200,000 for single filers and $250,000 for joint filers. For this purpose, NII interest, dividends, royalties, rents, gains from dispositions of property and income from passive activities is taxed, but not tax-free interest or distributions from qualified retirement plans and IRAs.

Another exclusion from the definition of NII is critical to many family-owned businesses. It specifically doesn't include gains from the sale of property owned in an active trade or business that is not a C corporation.

That lets many owners who operate their businesses as sole proprietorships, LLCs, partnerships and S corporations off the hook. However, owners of these businesses who sit on the sideline will have to face the surtax if the business is sold.

Example: Your small business is operated as an S corp and is currently valued at $12 million with an adjusted basis of $2 million. You and your spouse own 80% of the business and the remaining 20% is split evenly between your two adult children, a son and a daughter. So each child currently owns shares worth $1.2 million with a basis of $200,000.

Your son already works for the company, but your daughter doesn't. Assuming you sell the business for $12 million, each child will recognize a taxable gain of $1 million ($1.2 million–$200,000).

According to the regulations, the gain from the sale won't count as NII for your son because he is a material participant in the business. But your daughter will probably owe the 3.8% surtax on at least $1 million of NII (not even counting investment income from other sources). That comes to $38,000 on top of the regular income tax!

This harsh result can easily be avoided if you hire your daughter to work for the business. Your daughter will owe taxes on wages, but will be eligible for tax-free fringe benefits.

Tip: The job must be legitimate. The surtax can't be avoided simply by putting a child on the books.

Business

Go back to school on business education

Are you planning to take a refresher course at a local school?

Strategy: Study the tax rules and then determine how much you will be able to write off on your return.

Generally, an employer or self-employed individual can deduct education costs as a business expense by passing one of two tests:

1. The education is required by your employer or by law to keep your current job.

2. The education maintains or improves skills needed in your present work.

You can't deduct any of your expenses—even if you qualify under either test—if the education is needed to meet the minimum educational requirements of your current job, profession or business, or it qualifies you for a new job, profession or business. However, if you're taking courses just to brush up on new developments in your field, you should be OK.

What can you deduct? Expenses like tuition, books, laboratory fees, equipment and transportation between work and school. If you go to class directly after work, the cost is deductible. But you can't deduct the travel costs if you stop at home for a bite to eat. And the IRS will not allow you to deduct the cost of an undergraduate degree, because that is presumed to qualify you for a new profession or business.

Tip: Note that unreimbursed business education expenses can no longer be deducted as miscellaneous expenses on your personal return.

5 ways to juice charity write-offs

The new Tax Cuts and Jobs Act (TCJA) casts a long shadow over charitable gift-giving in 2018.

Alert: Due to several changes in the TCJA, there is less tax incentive to give to charity. Because many taxpayers are no longer itemizing deductions, they will get zero tax benefit from their contributions. As a result, take steps to maximize charitable deductions, when possible.

Here's the whole story: When you file your personal tax return, you choose between itemizing and the standard deduction. Prior to the TCJA, moderate-to-high income taxpayers often itemized, since their total itemizable deductions exceeded the standard deduction amount.

But the new law almost doubles the standard deduction amounts to $12,000 for single filers and $24,000 for joint filers. At the same time, it reduces or eliminates several itemized deductions other than the one for charitable deductions. These changes are effective for 2018 through 2025.

Now that the tax dynamic has shifted, here are five tax strategies to boost your tax fortunes.

1. Bunch your gifts. It's simple: Bunch two years' worth of gifts into years in which you expect to itemize deductions. For other years when you think you'll claim the standard deduction, cut back on gifts or skip them altogether.

Check where you stand at midyear. This can influence your charitable giving program for the rest of 2018.

Tip: This strategy is similar to the traditional one for bunching expenses for elective medical and dental procedures and vision care.

2. Set up a donor-advised fund. With a donor-advised fund (DAF), you generally transfer a significant lump sum to an organization that manages the fund. In return, you can claim a current charitable deduction for the lump sum amount and designate which charities will receive the money.

Significantly, you're entitled to a charitable write-off for the year in which you transfer funds to a DAF, even if money is paid out in later years.

Tip: This works like bunching in that deductions are available for the years when you transfer significant amounts to the DAF.

3. Give away appreciated property. When you donate property that would have produced long-term capital gain if you had sold it (i.e., property owned longer than one year), you can generally deduct the property's current fair market value, instead of its cost. This can provide a sizeable deduction. This technique is often used for works of art and valuable collectibles. *Important:* You avoid any tax on the donated property's appreciation in value—forever.

Tip: Conversely, you might hold onto short-term capital gain property.

4. Make it a matter of trust. Another popular technique is to set up a charitable remainder trust (CRT) and transfer assets to it. The CRT pays out an annual income to a designated beneficiary and the charity is entitled to the remainder after the term expires. Your deduction is based on the value of the remainder interest at the time of the transfer.

Tip: The CRT is irrevocable. Once you transfer assets, you can't get them back.

5. Donate from an IRA. If you're age 70½ or over, you can make a cash donation, called a qualified charitable contribution (QCD), of up to $100,000 per year to one or more IRS-approved charities. You can't deduct QCDs but they are not taxable.

Tip: The QCDs count toward your required minimum distribution (RMD) obligation for the year. You must take annual RMDs from traditional IRAs after age 70½.

Charitable deductions for all?

There's some hope for taxpayers who won't itemize deductions this year.

Update: New proposed legislation allows non-itemizers to take charitable deductions. Under the "Charitable Giving Deduction Act," a bipartisan measure, an above-the-line deduction would be available to charitable givers.

As the bill is currently written, there's no dollar cap on contributions. We will keep a close watch on its progress in Congress.

S T A F F

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Thinking about a real estate swap? Use a go-between

Under the new Tax Cuts and Jobs Act (TCJA), like-kind exchanges of commercial or investment real estate properties remain exempt from tax. However, things usually aren't so cut-and-dried in the real world. For one thing, it's unlikely the potential buyer of your property will own any real estate you desire.

Strategy: Use a "qualified intermediary" to facilitate deals. The intermediary can be inserted in the middle of a multiple-party exchange. In the end, you wind up with a property you want.

Like-kind exchanges involving multiple parties are often called "Starker exchanges" after the landmark case approving their use. *(Starker,* 602 F2d 1341, 9th Cir., 1979*)* As long as you meet the tax law rules and deadlines for a Starker exchange, you can swap property tax free.

Here's the whole story: The tax law definition of like-kind real estate property is a relatively liberal one. It refers to the nature of the property, not its quality or grade. For example, you can swap a warehouse tax free for an apartment building or even raw land. You owe tax only to the extent you receive any "boot" as part of the deal (e.g., cash or reduced mortgage liability or property that is not like-kind).

But there are two key time restrictions:

1. The property that you will receive in the exchange must be identified within 45 days of transferring the property.

2. The property must be received within the earlier of 180 days after the transfer or the due date of the tax return for that year (including any extensions of the due date).

Fortunately, a qualified intermediary can help you overcome these timing hurdles.

Example: You use a qualified intermediary for a Starker exchange involving four parties. Technically, you (the first party) sell the property you're relinquishing to a cash buyer (the second party). But the cash buyer pays the intermediary (the third party) instead of you. The intermediary holds the proceeds until you identify a suitable replacement property.

At that point, the intermediary uses the sales proceeds to buy the replacement property from its owner (the fourth party). Finally, the intermediary transfers this property to you to complete the like-kind exchange.

The tax law definition of like-kind real estate property is a relatively liberal one. It refers to the nature of the property, not its quality or grade.

For tax purposes, you're considered to have swapped properties tax free with the intermediary. That's because no cash actually exchanges hands (except to the extent cash boot is involved). The intermediary handles the funds on your behalf.

To qualify for tax-free treatment, you and the qualified intermediary must sign a "Qualified Exchange Accommodation Agreement." The agreement should state that the intermediary is holding the property to facilitate a tax-free exchange. The intermediary must also agree to meet all the technical reporting requirements spelled out by the IRS.

Tip: Qualified intermediaries generally charge fees based on the value of the properties. Factor this into your decisions.

IRS carves out safe-harbor rule

The IRS has approved a "safe-harbor rule" for participants in a Starker exchange when a qualified intermediary defaults due to bankruptcy. *(IRS Revenue Procedure 2010-14)*

The upshot: If you satisfy the requirements, you won't be taxed on any of the proceeds until the intermediary emerges from bankruptcy. The safe-harbor rule applies if you:

- Transferred relinquished property to the intermediary in accordance with the regs
- Properly identified replacement property within the identification period (unless the default occurs during that period)
- Failed to complete the like-kind exchange solely because of the default involving a bankruptcy or a receivership
- Did not have actual or constructive receipt of proceeds from any property of the intermediary prior to the bankruptcy or receivership.

Tip: Any gain will then be realized under a gross profit ratio method. See your tax professional.

Mail Call

Meal and entertainment expenses

Q I received an invitation for a free meal at an investment seminar. Is this taxable, if I go? *B.R., Tinton Falls, N.J.*

A No. The event is governed by the general tax rules for meal expenses. Therefore, as the recipient of the meal, you don't owe any income tax on this benefit. But it's not completely "free": Undoubtedly, you'll have to listen to a sales pitch from a financial planner, plus you may have to endure follow-up contacts.

Tip: If you pay to attend an investment seminar or convention, you can't deduct the cost, either.

Home office deductions: Stand on firm ground

Q In a previous issue, you stated that you could deduct home office expenses based on the number of rooms in the home. Do you have any authority for this statement? *J.R.M., Largo, Fla.*

A Yes. Typically, home office deductions are based on the percentage of business use (square footage of the business portion of the home divided by the total square footage). But the IRS says in Publication 587, *Business Use of Your Home*, a taxpayer *can* base the percentage on the number of rooms if the rooms are about the same size. Say you use one room of an eight-room house for business. The room is 300 square feet out of a total of 3,000 square feet. In this case, the "rooms method" (12.5%) yields a bigger deduction than the square-footage method (10%).

Tip: Access Publication 587 at **www.irs.gov/pub/irs-pdf/p587.pdf**.

Tap unique tax break on company stock

Q When my friend retired several years ago, she didn't roll over her company stock into an IRA. (She had bought some of the stock and her employer gave her some.) If she sells the stock, will it be taxed as capital gain? *F.G., King of Prussia, Pa.*

A Partially. Assuming your friend holds the company stock in a qualified retirement plan, she's eligible for a unique tax break: If a retirement plan distribution is paid in company stock, the retiree is taxed at ordinary income rates on the stock's original cost. Any appreciation is untaxed. When she sells it, the difference between the sales price and the original cost is taxed as capital gain.

Dividing the spoils of a spousal IRA

Q I retired in 2016, but my wife is still working. I'm now 68, and my wife is 62. We both have IRAs and we file a joint tax return. Can we both still contribute to our IRAs this year? *A.K., Margate, N.J.*

A Yes. Since you qualify for a "spousal IRA" and you're both over age 50, you have until April 15, 2019, to jointly contribute up to $13,000 to your IRAs for 2018 (assuming either of you earned at least that much in compensation during the year). That maximum $13,000 contribution can be divided among your IRAs in any manner in which you see fit as long as no more than $6,500 is allocated to either account. You have until your tax return due date to make the annual contribution.

Tip: To delay mandatory distributions from the IRA, allocate more of the contribution to the younger spouse.

Submit Mail Call questions to:
SBTSeditor@BusinessManagementDaily.com.

The Tax Ticker

Beware of phony email from 'IRS.' We've said it before; we'll say it again: Never send personal financial data in response to unsolicited email. The IRS says scam artists are sending emails to random people, telling them they're due a refund or under investigation. The message directs people to a fake IRS website that asks for personal data. In reality, the IRS won't contact you via email.

Differentiate between gifts and compensation. If you give a favorite employee a big check at Christmas, you might consider it a gift, but the IRS will likely consider it income. That could be true even if the employee and owner are family members. For example, in one case, the IRS said payments to an owner's daughter (who was also an employee) were strictly related to past services, not gifts. Consult with your tax professional if you face a similar dilemma.

SBTS-SIS-061