LET'S TALK
MONEY®
March/April 2019

One BIG Last-Minute Tax Break

While some of us may worry about getting our tax payments out on time or refunds back, most of us don't use this time to figure out ways to minimize taxes and plan for future financial goals. If you are self-employed or own a business, a Simplified Employee Pension IRA (SEP-IRA) can be one way to accomplish these twin goals. You have until your business' tax filing deadline plus extensions to open and make tax-deferred contributions to SEP-IRAs for tax year 2018.

A SEP-IRA Primer

Whether you have a few employees or work for yourself, a SEP-IRA may be right for you. While virtually any business is eligible to contribute, this particular retirement account is well-suited for smaller businesses. That's because qualified employees must be allowed to participate in the plan, to which employers make contributions.

Any employee who is at least age 21 and was an employee of your business in three of the last five years is eligible to participate in the SEP plan. You don't have to contribute to the plan every year but when you do, everyone who qualifies must receive contributions, which immediately vest to employees.

By the Numbers

In tax year 2018, employer contributions are based on the first $275,000 of compensation. Every eligible employee must receive the same percentage of their compensation up to the smaller of $55,000 or 25% of compensation.

Self-employed individuals must make a separate calculation to figure how much they can contribute. If you are self-employed, your compensation is net earnings less one-half of your self-employment tax, less contributions made to the SEP-IRA.

The Total Package

Compared to most other types of qualified retirement plans, a SEP-IRA is easy to set up and administer, with no tax filing required. It also allows larger contributions than most qualified retirement plans do, which is a big draw for business owners looking to defer more income and minimize taxes.

If, for instance, you own a business and are in the 25% combined tax bracket, contributing $20,000 to a SEP-IRA before your tax filing deadline will reduce your taxes by $5,000. Potential earnings grow tax-deferred until withdrawal, which may trigger a 10% tax penalty if taken before age 59 ½, with some exceptions.

Karen Petrucco
Account Manager

LTM Client Marketing
125 Wolf Road, Suite 407
Albany, NY 12205

Tel: 518-870-1082
Fax: 800-720-0780
kpetrucco@ltmclientmarketing.com
www.ltmclientmarketing.com

I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

Small Business Version

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2018 Tax Changes: Coming and Going

As the filing deadline nears for your 2018 federal tax return, it may be helpful to brush up on changes that can affect how much you pay. Some of the changes cited below are subject to income limits and other qualifications, so check with your tax professional to learn about these and other changes to your 2018 return. Also beware that many individual changes will expire in 2026.

More Tax Breaks

The standard deduction increased significantly to $12,000 for individuals, $24,000 for couples filing jointly and $18,000 for heads of households. Income brackets at which you pay ordinary and capital gains tax also increased significantly, as did the threshold at which taxpayers must pay the Alternative Minimum Tax (AMT). Your children under age 18 may net you a $2,000 child tax credit, if you qualify by income.

The estate tax exemption* more than doubled to $11.18 million for single taxpayers and $22.36 million for couples filing jointly. You can deduct charitable contributions of up to 60% of your adjusted gross income, and inflation indexing boosts the annual gift tax exclusion to $15,000 per taxpayer per recipient. The limit on qualifying income for taking itemized deductions also disappears in 2018.

Fewer Tax Breaks

A combined limit of $10,000 for state and property tax deductions is new to 2018, which taxpayers in highly taxed states will notice. The mortgage cap on the amount of all home loan interest you can deduct is $750,000, down from $1 million. Interest on home equity loans and second mortgages is deductible only for money used for home improvements. Deductions for personal exemptions, moving expenses (service members exempt), unreimbursed job expenses, and casualty and theft losses outside a federal disaster area are also history.

Business: Give and Take

Corporate income taxes decreased, and owners of S corporations and other business entities may see taxes reduced through a special pass-through income tax provision. Section 179 expensing limits doubled to $1 million with a $2.5 million phase-out, and certain equipment and bonuses may be 100% depreciated in the year the expense is incurred.

However, employee transportation benefits are no longer deductible. Neither are entertainment expenses. Larger businesses will also see the end of full interest expensing, which is now limited to any business interest income plus 30% of the business' adjusted taxable income.

Look Ahead

Alimony payments received according to agreements created or modified after 2018 will no longer be taxable.** You may deduct unreimbursed medical expenses exceeding 7.5% of adjusted gross income. If you don't have a qualified health insurance plan, you may owe a tax penalty of $695 per adult or 2.5% of household income, whichever is higher, in 2018. The penalty expires in 2019.

Still Time

Income qualification and contribution limits, which are indexed to inflation, increased for a variety of qualified retirement plans and you still have time to set up and contribute to a traditional IRA before your tax filing deadline. You may also contribute to a Roth IRA until that date. While a Roth IRA doesn't offer tax-deferred contributions, its growth and eventual distributions (when meeting certain terms) are tax-free.***

** https://www.irs.gov/businesses/small-businesses-self-employed/whats-new-estate-and-gift-tax*

*** https://www.irs.gov/taxtopics/tc452*

**** Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59 ½, may be subject to an additional 10% IRS tax penalty.*

Spring-Clean Your Finances

Now is not only a good time to spring-clean your house, but to take care of financial matters you may have put off. Consider the following:

Get Your Act Together – If you have receipts here, statements there and insurance documents who knows where, start your spring cleaning by organizing them and streamlining your recordkeeping. The accompanying article lists how long you should keep certain tax records, but you can also use it as a guide to reduce other financial records, including utility statements and most credit card receipts.

Document the Important Stuff – This begins with a will so that your loved ones have direction when you can't give it. Talk to an attorney to draw up a will and, while you're at it, a healthcare proxy and powers of attorney.

Coordinate Your Insurance – Consider putting all of your insurance documents in one place so that loved ones can find the information needed to make a claim. Include policy and contact information not only for individual life, health and property/casualty insurance, but also for any benefits you may buy through work, such as disability income insurance.

While you're at it, talk with your insurance professional to make sure you're covered appropriately and beneficiary designations are current.

Organize Your Investment Information – Leave information about your various investments and retirement accounts in an accessible place for loved ones to find. Use technology to organize these documents. And work with a financial professional to help you stay on track with your investing goals.

Get Organized!

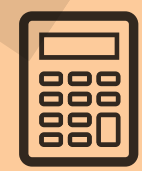
Organizing your financial records can help you find what you need this tax season. Begin by understanding how long you need to keep the following records, courtesy of the IRS:

- Three years for most records if you have reported all your income.
- Four years for employment tax records.
- Six years if you under-report at least 25% of your income.
- Seven years if you filed a claim for worthless securities or bad debt.
- Indefinitely for years when you didn't file a tax return or filed a fraudulent one.

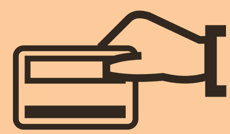
Five Credit(able) Steps to a Higher Credit Score

Your credit score is often the driver when looking for the best deal on a credit card or auto loan. Here are some steps to help increase your credit score:

1. Check your credit scores. Get a free credit report every year from Equifax, Experian and TransUnion. Examine each for errors.



2. Shrink your debt. You may want to start by paying off your credit card with the highest interest. This is one step to a better income-to-debt ratio and a better credit score.



3. Expand your income. You might accomplish this step with a part-time job, overtime or freelancing.

4. Automate your savings. Lower debt and more income means you can save more for big goals, including retirement. Make your IRA and 401(k) plan contributions automatic.

5. Review as needed. Once you create a sparkling credit profile, check regularly to keep it that way.

Reduce Costs and Increase Profits

Every business owner wants a leaner company with increased profits, but finding areas where you can cut costs can be difficult. These ideas may help.

Reduce Your Tax Bill

Opening and contributing to a qualified retirement plan like a SEP-IRA (front cover), profit-sharing or 401(k) can minimize your business' taxes, which may potentially increase profits and help you and your employees prepare financially for retirement.

It's too late to establish a 401(k) plan for 2018 taxes, but you can set one up by December 31, 2019 and have its effective date retroactive to as early as January 1, 2019. You have until the tax filing deadline plus extensions to set up and contribute to other qualified plans.

Market Digitally

In today's digital world, companies communicate with customers via social media. Post regularly and make your business relevant and useful to your customers. Acknowledge your best customers with rewards. Thank them online. Satisfied customers can help contribute to increase sales.

Save with Tech

You and your salespeople can travel the globe without leaving your office through teleconferencing and other meeting tools. Consider cloud-based software solutions and online backups, which may save you considerable money. And, while you're at it, consider filing estimated quarterly taxes online, too.

Work via Tech

Consider allowing employees to work remotely, satisfying your employees and opening yourself up to more qualified job candidates throughout the U.S. and, for that matter, the world. Use online tools to reduce redundant paperwork and the wasted hours used to produce it. You may even consider moving to a smaller brick-and-mortar office space, thanks to your new telecommuting policy.

Tech and Finance

Bank and invest online. Deposit checks via your smartphone, thanks to newer technology. You can even find personal assistants, bookkeepers and other financial types who work exclusively online.

Take Precautions

While you count your tech-enabled cost savings and the additional profits generated by content marketing, don't forget to take precautions by maintaining current virus-scanning and malware software to guard against a digital hack. For banking, investing and other online financial transactions, use a password manager that changes your password every time you log in. Or use two-factor verification, which includes a code texted to your cell phone, each time you use your password.

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We Value Your Input...

Your feedback is very important to us. If you have any questions about any of the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

FINRA
Financial Industry Regulatory Authority

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

November 8, 2018

Reference: **FR2018-1010-0146/E**

Org Id: 8408

1. 2019 LTM Mar-Apr Business
   Rule: FIN 2210
   5 Pages

The communication submitted appears consistent with applicable standards.

Reviewed by,

Wayne L. Louviere
Manager

aec

NOTE: *We assume that your filed communication doesn't omit or misstate any fact, nor does it offer an opinion without reasonable basis. While you may say that the communication was "reviewed by FINRA" or "FINRA reviewed," you may not say that we approved it.*

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Advertising Regulation
9509 Key West Avenue
Rockville, MD
20850

t 240 386 4500
f 240 386 4568