**EES Newsletter**
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## New Prescription for Medical Deductions
### Lower threshold on 2018 returns

This may be the last year you claim a medical expense deduction on your personal tax return. It all has to do with several changes in the Tax Cuts and Jobs Act (TCJA).

**Background:** Among other provisions that are generally effective for 2018 through 2025, the TCJA cuts back or eliminates certain itemized deductions, while increasing the standard deduction. Net result: Fewer taxpayers will be itemizing deductions on their 2018 returns. So the medical deduction may become a moot point for some.

For those who still itemize, however, a **temporary tax break** is still available. Before the TCJA, the threshold for deducting medial expenses was set at 10% of adjusted gross income (AGI), which made it difficult for many taxpayers to qualify. The TCJA lowered the 10%-of-AGI threshold to 7.5% of AGI—but only for the 2017 and 2018 tax years.

For example, if you show an AGI of $100,000 for 2018 and had $9,900 of unreimbursed medical expenses, you can deduct $2,400 ($9,900 - $7,500). Previously, your deduction would have been zero.

As a result, you should scour your records for expenses that may help you clear the deduction threshold for 2018 or increase an existing deduction. Here are some common examples of expenses you might have missed.

- Transportation costs: The deductible amount is not limited to the actual cost of the physician's or hospital's services. You may also deduct the cost of getting back and forth from the treatment (even if similar treatment is available nearby). If you travel by car, you can deduct either your actual automobile expenses or a flat rate of **18 cents per mile** in 2018 (increasing to 20 cents a mile in 2019). Although the flat rate method is more convenient, you may come out ahead if you have kept track of your actual expenses.

- Lodging costs: You can also deduct the cost of staying at a hotel or motel while you are receiving medical care away from home. However, the accommodations cannot be “lavish or extravagant.” The deductible amount for lodging is limited to **$50 per day.** If a companion's presence on the trip is required, the cost of the companion's lodging is also deductible (also subject to the $50-per-day limit).

- Nursing care: If a family member needs nursing services in the home, the cost of such services is a deductible medical expense. The medical care does not have to be provided by a registered or trained nurse. In other words, you can pay someone else (e.g., another family member) to provide the care and deduct the expense.

- Capital improvements: You can deduct the cost of a home improvement if the improvement is made for a medical reason. For instance, the cost of installing central air conditioning to alleviate a child's asthma is deductible. The amount eligible for the deduction is the cost above the increase in value of your home. **Side benefit:** The cost of maintaining and operating the improvement also qualifies for the deduction.

**Reminder:** Unlike most other individual TCJA changes that last through 2025, the medical deduction threshold reverts to 10% of AGI for the 2019 tax year.

**How to Improve Your Cash Flow**
**Six ways to spur business growth**

When you own a small business, the numbers matter. This is especially true when it comes to cash flow. If you have more money going out than you have coming in, the business cannot survive for very long.

How can you improve cash flow? There are no absolute guarantees, but these six practical suggestions should help.

**1. Review pricing strategies.** Finding the "best" price to charge to customers or clients is often difficult. However, if you are charging too little, based on what the market will bear, you are effectively hurting your business. If possible, do some testing at various price points to determine where you should be. **Caution:** Going overboard—charging too much—could be disastrous.

**2. Upgrade equipment.** Not only does outmoded equipment take up too much space, it is probably not as efficient as the latest models. For instance, some companies have moved from desktops to laptops that are more versatile for the staff. Put newer technology to work for you. While there will be an initial cost to a changeover, you will likely save more money more over time.

**3. Renegotiate contracts.** Have you signed deals with vendors or suppliers that are no longer favorable? They may be written in black and white, but not necessarily stone. If you plan on keeping such arrangements for the foreseeable future, the other parties may be amenable to a **mutually beneficial restructuring**. Of course, not everyone will agree to this, but it usually does not hurt to ask.

**4. Focus on marketing.** The "old ways" of drumming up business may not be working as well anymore. Taking another look at your marketing program, and making changes when appropriate, can trigger more activity and greater revenue. Try to think outside the box. For instance, if you have traditionally relied on direct mail, you might shift to other forms of advertising. Also, consider a redesign of your website and better use of social media.

**5. Expand the product line.** Are you offering the same exact products you did a decade ago? It may be time to expand into new areas or at least fine-tune your products to reflect new technology or other developments. Similarly, if your company is a service provider, you may start delving into areas on the fringes of your main line of work. The worst thing you can do is become stagnant.

**6. Add incentives.** Cash flow problems often stem from slow-paying (or no-paying) customers or clients. Give them a gentle nudge by offering incentives for **early payment**. Typically, you might discount goods for early payment or offer more attractive deals for larger quantities. On the flip side, you may find that imposing late payment penalties will encourage some to pay up on time.

Of course, you cannot expect to move mountains overnight. If you use one or more of these techniques, it may take some time to see results on the bottom line, but stick to the script. Eventually, your cash flow should improve, along with your company's fortunes.

## Retirement Saving Through the Years
### Guidelines for different life stages

When should you start saving for retirement? Probably the best answer is "yesterday." If you have not started putting aside funds yet, the next best answer is "now."

In other words, it is not too early to begin saving for retirement, nor is it generally too late, although the manner and method of savings will likely vary, depending on your **stage of life**. Keeping that in mind, following is a brief overview of what your situation may look like at different stages of life.

- **The early years:** For most people, the starting salary at your first or second job does not provide much room for savings. But it is still important to develop good savings habits. For instance, if you work at a place that provides matching contributions to a **401(k) plan**, be sure to take advantage of the company match. Otherwise, you are leaving money on the table that can provide valuable income in retirement. Furthermore, you might be surprised to find out the impact that tax-deferred compounding has over a long period of time.

- **The middle years:** When you are in the midst of your working career, other obligations—such as buying a home, raising your children and saving for their college educations—often take precedence. Nevertheless, do not take your eye off the ball. To the extent possible, continue utilizing company retirement plans, IRAs and other savings vehicles. Note that a **Roth IRA** may provide tax-free payouts in retirement for qualified distributions (e.g., those received after age 59½). If you are rewarded with a raise and move to a higher-paying job, try to allocate at least part of the windfall to retirement savings.

- **The later years:** This time of life may provide a greater opportunity for saving if the house is paid off and the kids are out of school. Also, you may benefit from seniority and career advancement, so your earnings could be higher than ever or near their peak. If you have not been as diligent a retirement-saver as you would have liked (see above), it is still possible to build a sizeable nest egg. The basic principles of using **retirement plans and IRAs** for tax-deferred growth remain.

Do not think, however, that saving for retirement ends once you have retired. When you reach this point in time, you must make some serious decisions and assess both your expected income and expenses. One major question is when to take **Social Security benefits** so you are able to maximize the payouts, yet still provide sufficient monthly income. For instance, you might decide to keep working past the age for receiving full Social Security retirement benefits (ranging between 65 and 67, depending on your year of birth), if it makes sense.

Finally, due to longer life expectancies, you may need more retirement income than you initially imagined. There is no time like the present to start meeting your objectives.

## The Tax ABCs of Higher Education
**Tax breaks available on 2018 returns**

Are any of your children currently attending college or preparing to enter school in the fall? The tax law provides several special tax breaks that may benefit parents who help pay qualified expenses. In particular, you may be able to claim one of two tax credits for higher education, subject to certain restrictions. Following is a crash course on the essentials.

**AOTC:** After being extended numerous times, the American Opportunity Tax Credit (AOTC)—previously called the Hope Scholarship credit— is now a permanent part of the tax code. The maximum annual credit is $2,500. **Key point:** The AOTC may be claimed for every student in the family. For example, if you two of your children attended college in 2018, the maximum credit is doubled to $5,000. Furthermore, the credit is now available for four years of college study, having recently been raised from two years.

Unfortunately, however, the AOTC is phased out for some parents. The phaseout for 2018 occurs between $80,000 and $90,000 of modified adjusted gross income (MAGI) for single filers and $160,000 and $180,000 of MAGI for joint filers. Once you exceed the upper threshold, you cannot claim the AOTC.

**LLC:** The Lifetime Learning Credit (LLC) is also a permanent tax law provision. But the maximum credit is $2,000 as opposed to the $2,500 AOTC. Furthermore, unlike the AOTC, the LLC applies to each taxpayer. Thus, if your had two children in school last ear, the maximum credit remains $2,000.

The LLC is subject to phaseout rules at even **lower levels** than the AOTC. The phase-out range for 2018 is between $57,000 and $67,000 of MAGI for single filers and $114,000 and $134,000 for joint filers. Again, no credit is available above the upper thresholds. Although these limits are subject to inflation indexing, recent increases have been minimal or nonexistent.

Generally, you can claim either the AOTC or the LLC, but not both. The AOTC is preferred by most taxpayers.

**Student loan interest deduction**: Under current law, a taxpayer may write off up to $2,500 in qualified student loan interest above-the-line, subject to a phaseout at certain income levels. For 2018 returns, the phaseout occurs between $65,000 and $80,000 of MAGI for single filers and $135,000 and $165,000 of MAGI for joint filers.

To qualify for this deduction, you must be legally obligated to pay interest on the loan and actually pay it. The deduction may be available to your children who are students.

Previously, you could also claim a deduction for **tuition and related fees**, as an alternative to a higher education credit. The available deduction was either $2,000 or $4,000, depending on MAGI. Once MAGI exceeded $80,000 for single filers or $160,000 for joint filers, it disappeared completely. Although this deduction expired after 2017, it could be renewed by Congress, perhaps even retroactively.

Finally, parents may set up **Section 529 accounts** for higher education where the funds grow without any current tax and future distributions for qualified expenses are exempt from tax. Obtain details from your professional advisors.

## IRS Provides Estimated Tax Relief

Generally, you owe an "estimated tax" penalty if you do not pay at least (1) 90% of your current tax liability or 100% of the previous year's tax liability (110% if your adjusted gross income exceeded $150,000) during the year. But the IRS has provided a little more leeway on **2018 returns**.

In a new announcement, the IRS said it will waive estimated tax penalties for taxpayers who paid at least **85%** of their current tax liability in 2018, instead of the usual 90% figure. The concession is being made to accommodate taxpayers in the wake of the new tax legislation.

## Facts and Figures
**Timely points of particular interest**

**Tax Return Reminders**—The IRS recently reminded taxpayers who unexpectedly owe additional tax that they may be able to benefit from payment plans if they cannot pay

their tax bill in full. Generally, the due date for 2018 returns is **April 15** (April 17 in Maine and Massachusetts). If you need extra time to file, you can request an automatic six-month extension—no questions asked—but you still owe the tax by April 15.

**Card Carriers**—Are business cards obsolete? It depends on whom you ask. In the past, business cards were a vital part of **networking**, as well as a way to demonstrate your style. But many business people have replaced cards with digital methods of tracking contacts and displaying their brand. Opinion may be divided, especially among generations, but clearly business cards should not be the only form of prospecting.