2018 YEAR-END TAX LETTER

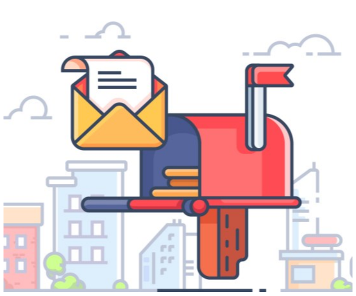
INSIDE THIS ISSUE:

Mileage Deductions	2
Home Office	2
Computers & Phones	2
What's New?	3
Year-end Tips	4
What Income to Report	5
Charitable Substantiation	6
Child's Financial Future	6

IT'S TAX TIME AGAIN...

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.



Time to get organized

The following checklist will help you collect the documents needed to file your tax return. When all of the boxes are checked, you're ready.

□ **Your last 3 years' tax returns** *(new client)*. Maybe we can amend and save money.

□ **Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.

□ **Copy of Driver's License.** For taxpayer & spouse.

□ **W-2 Forms.**

□ **Your last paycheck stub of the year** is full of information.

□ **1099 Forms for interest, dividends, retirement, Social Security, and unemployment** need to be entered correctly to comply with the IRS matching program.

□ **Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).

□ **Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.

□ **Year-end statements from investment accounts** with transaction details for the year.

□ **Assets held outside the USA.** Bring statement(s). Such assets must be disclosed even if they do not generate income.

□ **Purchase and sale information,** including dates, relating to anything sold is needed. Include sales denominated in ANY type of currency (including virtual currencies like Bitcoin).

□ **Child care provider information** (name, address, SS#, amount paid) is needed for the child care credit (*even if you are reimbursed at work*).

□ **Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.

□ **Bankruptcy or divorce papers** (if applicable).

□ **If you paid an individual person $600 or more for services rendered in connection with your business,** please provide their name, address, and tax ID number.

□ **Records showing income and expense for any business or rental property you own** will be needed. Records of business and personal mileage are required for automobile deductions.

□ **If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.

□ **Bring IRA year-end statements.**

□ **Bring all other statements of income,** whether you think they are taxable or not.

□ **Forms 1098-T** amounts paid for post-secondary tuition are sent to the student. If the student is your dependent you must get it from them. Bring receipts.

□ **Forms 1099-Q** for distributions from education savings plans.

□ **Bring your records of estimated taxes paid.**

□ **Student loan interest forms 1098-E.**

□ **Adoption costs** if applicable. Also bring the legal adoption documents.

□ **Form 1098-C** for donations of automobiles or boats.

□ **Details on all noncash donations** greater than $500. Include date, place, fair market value, and original cost.

□ **If you purchased a new electric plug-in vehicle,** bring the year, make and purchase date.

□ **If you purchased solar-electric or solar water heating systems bring receipts.**

□ **Bring a voided check for direct deposit** of any refunds you expect to receive.

□ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

□ **If your mortgage was forgiven due to foreclosure,** bring Form 1099-C or 1099-A.

□ **If you bought a new home or refinanced your existing home** bring the closing papers.

□ **If you received Forms 1099-K for internet or credit card sales** please bring them.

□ **Proof of health insurance is needed.** Bring Form 1095 if you received one.

□ **Health Savings Account** (HSA) **contributions and distributions.** Bring forms 5498-SA and 1099-SA.

□ **Out of pocket medical expenses** may be deductible (if large). Bring details.

__Caution__: the IRS is very attentive to taxpayers who write off local travel costs.

A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.

DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct **14¢** for every mile you drove.

If your medical expenses are substantial, you may want to calculate a mileage deduction. Medical miles for 2018 are calculated at **18¢ per mile.**

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction.

A trip to the bank, post office, or a supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate*** *for qualified business use* for 2018 is **54.5¢ per mile** (up one cent from 2017).

Which method is best?
In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

The office space still needs to be **used regularly and exclusively for business**. You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

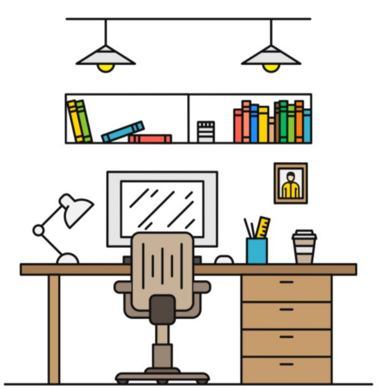
Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

The IRS has provided a simplified home office deduction, if you choose. Instead of calculating all of the above information, $5 per square foot can be deducted (maximum $1,500). The IRS estimates that the new calculation will save taxpayers 1.6 million hours per year.

To avail yourself of tax deductions, you need to be organized and well documented.

Save proof of all tax deductible purchases.



COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide lines to determine what is deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you are a student, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase.

Keep a log of computer usage to support your deduction.

Cell phone deductions are as follows:

Employers providing cell phones do not have to require records of use to provide tax-free cell phones to employees.

Self employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

EMPLOYEE BUSINESS EXPENSE DEDUCTIONS HAVE BEEN ELIMINATED ON THE FEDERAL RETURN

The Tax Cuts & Jobs Act eliminated federal deductions for employee business expenses. As such, the deductions discussed on this page are for business <u>owners</u> only. Ask your employer for reimbursement of any business expenses as they are no longer deductible on your federal tax return.

WHAT'S NEW FOR 2018?

The Tax Cuts and Jobs Act was passed by Congress and signed by the President on 12/22/17. Approximately 85% of taxpayers will pay less in taxes under the new rules. The average tax savings is estimated at $1600 per return. Here is a list of the primary federal tax changes for individuals and business owners, keeping in mind that the IRS has not yet issued final regulations.

Individuals:

Tax brackets/rates shift downward, resulting in lower taxes for most taxpayers.

The **Standard Deduction** increases from $6,500 to $12,000 (single) and $13,000 to $24,000 (married).

Personal and Dependent Exemptions ($4,150 per person) are eliminated.

Deductions for state/local income taxes and property taxes are capped at $10,000 (sum total).

Interest deductions are capped for new mortgages with more than $750,000 in acquisition debt.

Home equity debt is no longer deductible unless used to buy, build, or substantially improve the home that secures the debt.

Miscellaneous Itemized Deductions are eliminated. This includes deductions for unreimbursed employee expenses, tax preparation , investment advisory expenses and certain legal fees (among others).

Casualty & theft loss deductions are eliminated (except in presidentially declared disaster areas).

The **medical deduction** income threshold increases from 7.5% to 10% beginning 1/1/19. You may want to consider paying large medical bills before 12/31/18.

Itemized deductions no longer phase-out. This helps taxpayers with adjusted gross incomes greater than $313,800 (married) and $261,500 (single).

The **moving expense deduction** is eliminated. Ask your employer to reimburse your expenses as they are no longer deductible.

The **Child Tax Credit** increases from $1,000 to $2,000 per child under 17 years of age. The refundable portion of the **Child Tax Credit** increases from $1,000 to $1,400. The income phase-out for the **Child Tax Credit** more than doubles to $200,000 (single) and $400,000 (married).

A new $500 credit is available for dependents age 17+ (such as full time college students).

Alimony will no longer be taxable income for the recipient and deductible for the payer (for divorces finalized after 12/31/18).

The **Estate Tax** exemption is doubled to $11 million ($22 million for married couples).

The **Alternative Minimum Tax (AMT)** thresholds and exemption amounts were increased. Fewer taxpayers will pay AMT.

Re-characterizing (un-doing) a **transfer of funds from a Traditional IRA to a Roth IRA** is no longer allowed.

Distributions from **529 Plans** can now be used for K-12 tuition ($10,000 max per student per year).

The **penalty for not having health insurance** is eliminated starting 1/1/19.

Business Owners:

The TC&JA generally favors business owners. Most importantly, there's a new deduction called the Qualified Business Income Deduction (QBID).

Who gets to take the deduction? Profitable business owners (excluding C-corporations) with taxable income under $315,000 (married) and $157,500 (single) will get the deduction. If you make more than that it gets complicated, so lets focus on folks below these limits first.

How big is the deduction? Taxpayers below these income thresholds will generally get to deduct the lesser of; 1) 20% of Qualified Business Income (QBI), or 2) 20% of taxable income minus capital gains.

What is QBI? QBI is closely related to profits. If your business is profitable you likely will have QBI. There are some exceptions. For example, business owners with an extremely high mileage deduction might be profitable but not have QBI. Similarly, profitable landlords might not have QBI because of high depreciation deductions.

Example: Paul is a single consultant with $75,000 in QBI and no capital gains. His taxable income (after deductions) is $57,701. His deduction is 20% of $57,701, or $11,540. This saves him $2,539 in tax.

In the above example, Paul could have gotten a bigger deduction if his taxable income was higher. For example, he could have taken a side job or married a spouse with adequate wages to increase his taxable income, and thus get a larger QBID. However, Paul would not want his taxable income to get too high. That's because the rules are less favorable if your taxable income is above $157,500/$315,000 (single/married). Above these levels it matters what type of business it is. For example, service business (e.g. health, law, accounting, performers, consulting, athletes, financial services, plus others) see their deduction phase-out above those income thresholds. Those folks may want to contribute more to their retirement accounts (if possible), or buy expensive business equipment to reduce their taxable income and qualify for the deduction.

Business that are NOT services (e.g. manufacturing, retail, plus others) can have taxable income above these levels and still get the deduction. However, their deduction is limited by other factors such as total wages paid to employees and the value of certain business assets.

Amazingly, this only scratches the surface of the new deduction. For example, dividends from certain real estate investment trusts (REIT) and income from certain publically traded partnerships (PTP) also counts for the deduction.

In summary, the QBID rules are favorable but complex, so work with a professional to optimize your tax savings.

There are also some new rules that are NOT favorable for some businesses. For example, deductions for certain types of entertainment (e.g. sports tickets) is eliminated. Furthermore, the Domestic Production Deduction for businesses with employees that make products in the USA is eliminated.

Congress & the President made 2018 a year of major tax changes. Every taxpayer is affected, so spend a little time familiarizing yourself with the new rules.

These are only the highlights of the new laws affecting your 2018 tax situation. A good tax professional can help you use these new rules to their fullest.

Turn the page for some great year-end tax tips

YEAR-END TAX TIPS

Don't wait until the 11th hour to plan your year-end tax moves.

Check your withholding:

The Government Accountability Office predicts that more employees will owe the IRS this year due to reductions in federal withholding from employee paychecks. Folks without withholding (primarily business owners) may owe too, especially if they had a more profitable year.

There is no simple formula for estimating if you will owe. Your tax advisor will require your most recent paystubs plus estimates for all other income and capital gains.

Avoid penalties:

The IRS will charge a penalty if your tax for 2018 is less than 90% prepaid, unless your payments are at least equal to last year's tax (110% of last year's tax if your income exceeds $150,000).

Itemized deductions:

Some of the last-minute deduction tricks you might have used in the past may not work this year due to tax law changes. For example, state, local, & property taxes (combined) are now capped at $10,000. In addition to that, the standard deduction almost doubled. Bottom line, check first before you assume that increasing your itemized deductions will save tax dollars.

If you ARE itemizing, try to do as much as possible. For example, you should consider giving more to charity. That's because the new rules have made it more difficult to itemize… so in years when you know you are over the standard deduction it is wise to take advantage of that by giving more.

Similarly, paying large medical bills before the end of the year may be wise if you are close to itemizing. This is especially true if paying your medical bills pushes you over the standard deduction (and thus allows you to deduct more of your charitable contributions). The threshold for being able to deduct medical expenses in 2018 is 7.5% of adjusted gross income.

Are you over age $70^{1/2}$?

Make sure that you take Required Minimum Distributions (RMDs) from retirement accounts on time. Technically, you can wait one year AFTER you turn $70^{1/2}$, but if you do that you must take two years worth of RMDs in one year.

The good news for taxpayers older than $70^{1/2}$, however, is that you can get a deduction for charitable contributions even if you don't itemize. In order to get this special treatment you must give to the charity directly from an IRA. This is called a Qualified Charitable Distribution (QCD). QCDs also count toward your RMDs.

Increase retirement contributions:

Another way to decrease your taxable income is to bump-up your pre-tax retirement account (e.g. 401(k), 403(b), etc.). You only have until 12/31/18 to do this. Besides current tax savings, money grows tax deferred on these investments.

Self employed?

Shelter up to 20% of your income in a SEP IRA. You have until April 15th (longer if you file an extension) to make contributions to a SEP.

The self employed can also pay bills already received before the end of the year to decrease taxable income. If you need new equipment, save tax dollars now by purchasing before the end of the year. You can even pay by credit card and take the deduction in the current year.

Selling investments?

If your taxable income is likely to fall below $38,600 (single) or $77,200 (married) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds.

Conversely, it might be wise to check your portfolio for losses to reduce your income. You can offset up to $3,000 of other income with investment losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

Buying investments?

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

Roth conversions:

The deadline to convert funds from a traditional IRA to a Roth IRA is 12/31/18. Remember that you pay tax on the amount converted. Also remember that you can no longer un-do Roth Conversions at a later date (due to the new tax law).

Health insurance:

When you consider your health insurance options, remember that you no longer have to pay a penalty for not having insurance beginning 1/1/19.

If you choose a health plan that is compatible with Health Savings Accounts (HSA) you should start funding your HSA right away. That's because medical expenses do not count as a "qualified" for tax free distributions from HSAs if they occur before the HSA account was funded.

Employee fringe benefits:

Look into pre-tax spending options that your employer offers, such as; insurance, daycare, commuting, parking, medical, education, etc.

Year-end gifting:

You can gift up to $15,000 (for each recipient) without having to file a gift tax return. Remember, however, that even if you do give more than that you will not owe any federal tax when you file the gift tax return (unless you give millions of dollars).

Some deadlines don't expire on 12/31:

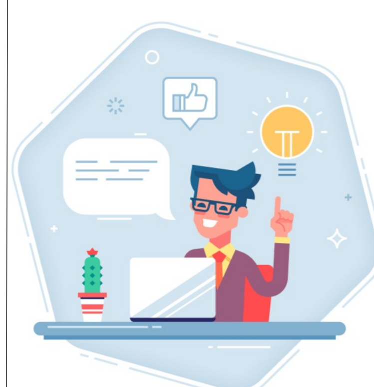
A few of the most popular tax saving moves are NOT due by 12/31/18.

- **Roth and Traditional IRAs** give you until 4/15/19 to make your 2018 contributions. **Health Savings Accounts (HSA)** also give you until 4/15.19 to make a 'top-up' contribution if you under-contributed during 2018.
- **SEP IRAs** (for the self employed) give you until 10/15/19 if you file an extension(4/15/19 otherwise).

The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

If you think that you need year-end tax planning, get in touch with a professional who knows the rules to help answer your questions.



What Income is to be Reported on My Tax Return?

There are many sources of income that must be included on your individual income tax return such as wages, interest, dividends, self-employment, rental income, pensions, IRA's, etc. Some of the non-traditional income sources that the IRS is targeting includes income from: Lyft or Uber drivers, home rentals through Airbnb or VRBO, GoFundMe or Kickstarter campaigns, and virtual currency (or cryptocurrency) such as Bitcoin.

Independent Driver

As a driver for Uber or Lyft you are considered an independent contractor and all income derived is reported on Schedule C, *Profit or Loss From Business (Sole Proprietorship)*.

Drivers are described as self-employed "partners" and are subject to the Form 1099 tax rules. This includes a combination of the Form 1099-K, *Payment Card and Third Party Network Transactions* for payments processed through credit cards and Form 1099-MISC, *Miscellaneous Income*, for other payments received such as referral fees, bonuses, etc.

As an independent contractor you are considered self-employed responsible for your own taxes with no benefits such as health insurance or vacations. You pay your own Social Security and Medicare Taxes (aka FICA taxes) on the net profit earned from your ridesharing business.

If your net earnings (gross income less associated business expenses) are greater than $400 you are required to file a tax return and report your self-employment activities.

Eligible expenses may include the following:

- car expenses (either mileage or actual expenses),
- cell phone,
- water, candies, gum or other items provided for your passengers,
- extra insurance required for your business,
- fees and commissions paid,
- parking and tolls,
- Paypal and/or other credit card transaction fees, and
- home office if have an area used exclusively and regularly for your business activities.

Home Rental Income

If you rent out your home for short-term rentals (less than 14 days per year) the income is not taxable regardless of how much you earn. Your rental income is tax free if you rent out your home for 14 days or less, and the home is used personally for more than 14 days, or more than 10% of the total days it is rented out to others at a fair market rental price.

If you rent out your home for more than 14 days then you are subject to tax on income that exceeds your expenses. The rental income and expenses are report on Schedule E, *Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)* for each property that you list on the rental sites.

You can deduct 100% of any direct rental expenses, and a portion of the general or shared expenses. These are allocated based on the amount of time the property serves as a rental, compared to the total time it is used during the year for both personal and rental use.

> ***Non-traditional income the IRS is targeting include Lyft, Uber, Airbnb, VRBO, GoFundMe, Kickstarter & Bitcoin.***

EXAMPLE: Timothy lives in his Coronado condo for 300 days during the year and rents it out for 65 days. The property was used as a rental 18% of the time (65/365 = 18%). Paul can therefore deduct 18% of his general expenses up to the amount of the rental income earned during the year.

In some cases, renting out all or part of your house or apartment can be classified as the equivalent of running a bed and breakfast for tax purposes. If you dedicate a room or rooms for the use of paying customers and provide substantial services such as regular cleaning, changing linen or daily maid service. In this situation your rental activity would be considered a business for tax purposes and reported on *Schedule C, Profit or Loss from Business*.

Crowdfunding

The treatment of funds that are received through sources such as GoFundMe or Kickstarter are determined on a case-by-case basis.

Generally, funds received through a GoFundMe account are considered a gift and as such not a tax deduction for the person making the payment and not income for the person receiving it. Those payments are generally defined as made out of a detached generosity with no expectation of 'quid pro quo."

Funds received through a Kickstarter campaign are generally includable in income unless they are classified as a loan that must be repaid or a capital contribution to an entity in exchange for an equity interest.

Virtual Currency

Virtual currency, the most popularly known is Bitcoin, are either ordinary income or a capital asset depending on the facts and circumstances.

EXAMPLE: Elaine's business accepts payment in Bitcoin for consulting services. When Bitcoin has a value of $100, she charges $500 for her services and receives 5 Bitcoin. Several months later she purchases a $3,000 computer system from Dell for her business when Bitcoin has a value of $1,000 each. She uses 3 of her Bitcoins for the computer and has a short-term capital gain of $2,700 ($3,000 disposition price less $300 basis). She then uses the remaining 2 Bitcoin for a vacation rental and has a short-term gain of $1,800 ($2,000 disposition price less $200 basis). The Dell computer is a business asset which she can capitalize and depreciate, the vacation home is a personal expense. With this simple example Elaine has ordinary income to her business of $500; $4,500 of short-term capital gain; a business asset worth $3,000 and personal expense of $2,000.

It is important that you accurately record your virtual currency transactions. For tax purposes we need to know when the virtual currencies were purchased, the value on the date of purchase, when the currencies were traded or used, and the value on the date of disposition. In addition, if you are involved in the global market and are trading in foreign currencies we will also need to determine the value of your transactions in U.S. dollars.

Contact our office if you have any questions regarding funds received and the potential tax liability.

Substantiation Required for Charitable Donations

As a reminder following are the IRS rules for substantiating charitable donations. We encourage you to maintain the records necessary to support your claim for these donations in the event of an audit. Many taxpayers may not be able to deduct their charitable donations due to the increased standard deductions ($12,000 for singles/ $24,000 for joint returns). However, if your itemized donations do exceed the standard deductions be prepared to provide adequate documentation.

Cash contributions: No charitable contribution deduction is allowed for any monetary gift unless the donor maintains, as a record of the gift, a bank record or a written communication from the donee, showing the donee's name, the date of the contribution, and the amount of the contribution. The regulations require a contemporaneous written acknowledgment of contributions of $250 of more from the organization. For gifts under $250, a canceled check or other records by the taxpayer is sufficient.

Donations of property: Additional substantiation requirements apply when donations involve property. For property under $250, the donor must obtain a receipt from the donee or keep reliable records. A donor who claims a noncash contribution of at least $250 but not more than $500 is required to obtain a contemporaneous written acknowledgment. For a donation of more than $500 but not more than $5,000, the donor must obtain a contemporaneous written acknowledgment and file a completed Form 8283 (Section A), *Noncash Charitable Contributions*.

For claimed noncash contributions of $5,000 or more, in addition to a contemporaneous written acknowledgment, the donor must obtain and file a qualified appraisal with the filing of the tax return.

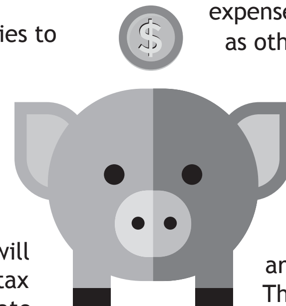
If you are uncertain if your documentation is adequate, contact our office for guidance on what is needed to include the donations on your 2018 tax return.

Planning For Your Child's Financial Future

One of the future goals for your children is their financial security and assistance with education goals. It is important to demonstrate the value of saving money and taking advantage of tax breaks. The Tax Cuts and Jobs Act (TCJA) includes provisions that affect tax planning for children and their education.

"Kiddie Tax"

The "kiddie tax" generally applies to unearned income of children under the age of 19 or under age 24 for a full-time student. Before 2018, unearned income was generally taxed at the parents' tax rate



Under the TCJA the kiddie tax will now be taxed according to the tax brackets which are used for estate and trusts. The tax return of your children will no longer be dependent on the parents return or the returns of siblings who are also subject to the kiddie tax.

IRAs for Teens

IRAs can be perfect for teenagers because they likely will have many years to let their accounts grown tax-deferred or tax-free.

Choosing a Roth IRA typically provides a better tax advantage for your teenager. Now that the standard deduction is $12,000 for single taxpayers (even if they are dependents on their parents return) it is most likely that the traditional IRA would not provide a pre-tax benefit. Your child can have income up to $12,000 without a tax filing requirement but they now have income to fund a Roth IRA (which is post-tax) which grows tax-deferred and can be distributed tax-free.

529 Plans

Section 529 plans provide valuable tax-advantage savings opportunities for your students. Although the contributions are not tax deductible for federal purposes, any growth is tax-deferred. If used for qualified education expenses the funds are distributed tax free. Under the TCJA, 529 plans can now be used for K-12 tuition and fees up to $10,000 per year.

A special tax advantage for the 529 plans is to allow you to front-load five years' worth of annual gift tax exclusions and make up to a $75,000 contribution.

Coverdell Education Savings Accounts

Like the 529 plans the contributions are not tax deductible for federal purposes, but plan assets grow tax-deferred and distributions used to pay qualified education expenses are tax free.

Coverdell's can be used for K-12 expenses for tuition and fees as well as other qualified expenses such as uniforms, transportation, program fees, computers and internet costs.

Unlike the 529 plans, however, the ability to contribute to a Coverdell plan are subject to income limitations. The phase-out for single taxpayers starts at $95,000 and $190,000 for joint returns.

ABLE Accounts

Achieving a Better Life Experience (ABLE) accounts offer a tax-advantaged way to fund qualified disability expenses for a beneficiary who became disabled or blind before age 26. Under the TCJA 529 education plan funds can be rolled over to an ABLE account without penalty. The ABLE account must be owned by the beneficiary of the 529 plan or by a member of their family. The rolled-over amounts count toward the overall ABLE account annual contribution limit which is $15,000 for 2018.

American Opportunity Credit

The maximum credit, per student, is $2,500 per year for the first four years of postsecondary education. Both the AOTC and a distribution from either a 529 plan or Coverdell can be taken in the same year as long as the expenses are not the same.

The AOTC does have income threshold limitations; the phase-out range for single taxpayers is $80,000 to $90,000 and the phase-out range for joint files is $160,000 to $180,000.

Contact our office if you have any questions regarding these tax-deferred or tax free programs to help your student with meeting their higher education goals.