JOHN G BRUUN
Tax and Bookkeeping Service
715 Lake St. Ste. 809
Oak Park, IL 60301

TaxTips
Keeping you informed
summer 2019

Health Savings Accounts

A closer look at the benefits

Health savings accounts (HSA) are used in conjunction with a high deductible health plan and offer four tax advantages compared to traditional savings and investment accounts:

- Your own contributions to the HSA are tax-deductible.
- Employer contributions to your HSA are excluded from your taxable income.
- Interest, dividends, and gains earned on your funds inside the HSA are not subject to federal tax.
- Distributions from the HSA are tax-free as long as the funds are spent on eligible medical, dental, and healthcare expenses.

Eligible healthcare expenses include prescription medications, prescription eyeglasses, and fees paid to health care professionals or hospitals, just to name a few. With a few exceptions, HSA distributions *not* spent on eligible medical expenses are taxable.

HSAs can also be used to buy over-the-counter medicines as long as your doctor gives you a prescription for it. Additionally, you can tap into your HSA to buy long-term care insurance or to pay for health insurance premiums when you are unemployed.

Despite their attractive tax advantages, health savings accounts are not for everyone. One drawback is that you'll need to have a high-deductible health insurance plan to be eligible to open and contribute to an HSA. "High deductible" means you'll be responsible for paying all or a significant portion of your medical expenses out of your own pocket.

Using an IRA to make charitable contributions

A tax-free way to help your favorite cause

Normally, money distributed from an Individual Retirement Account (IRA) is taxable. However, if the funds are donated directly to charity, the distribution is completely tax-free. This is a significant tax-planning opportunity for older taxpayers. To qualify for tax-free treatment, a charitable IRA distribution must meet three criteria:

- You must be at least 70½.
- Your IRA administrator must send the distribution directly to a qualified church or charity.
- The funds must be distributed from a traditional IRA or Roth IRA. SEP IRA, SIMPLE IRA, 401(k), and 403(b) plans don't count for this special rule.

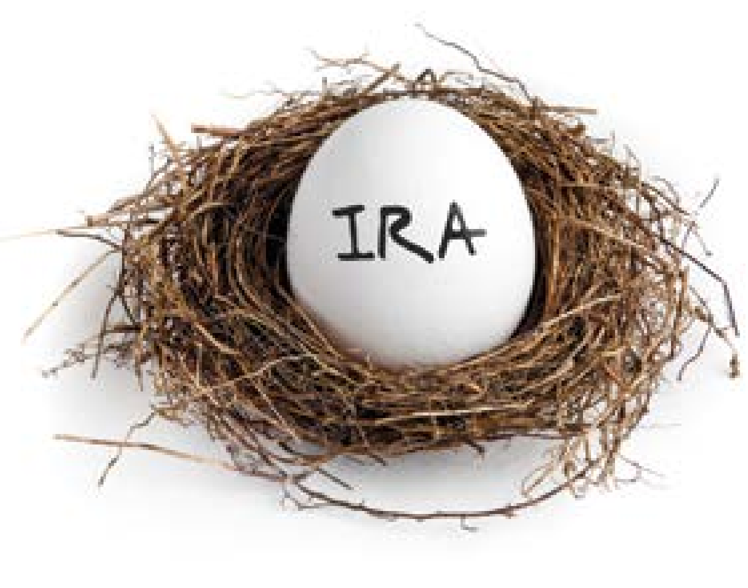
You don't get an itemized deduction for this charitable gift. Instead, the amount of the charitable IRA distribution is not included in your income for the year, but counts as your required minimum distribution. This helps keep your income (and adjusted gross income) lower than if you took the money out yourself and subsequently donated the same amount to charity.

Keeping your income low can help you avoid higher Medicare premiums, because the cost of Medicare insurance increases once your adjusted gross income for the year goes over $85,000 ($170,000 for married couples).

Turning 70½?

Don't forget about your RMD

Older adults who reach age 70½ and are no longer working need to start drawing funds from their retirement savings accounts, making sure they meet their required minimum distribution (RMD) for the year. RMDs apply to funds saved in traditional IRA, SEP IRA, SIMPLE IRA, 401(k), 403(b), 457, and thrift savings plan accounts. The RMD rules do not apply to a Roth IRA, Roth 401(k), or Roth 403(b).



You only need to remember a few rules. First, you have a choice. You can begin taking RMDs in the year you reach age 70½. Alternatively, you can wait and take your first RMD by April 1 of the following year. Keep in mind that if you wait until April 1 of the following year, you are required to take two distributions in that year.

For example, if you turn 70½ on July 4, 2019, you'll take your first RMD either by December 31, 2019, or by April 1, 2020. For all subsequent years, you'll need to take your RMD by the end of the year.

If you turned 70½ on July 4, 2019, and you decide to take your first RMD by April 1, 2020, this will satisfy your first RMD. (This makes the distribution taxable in 2020.) You'll also need to take your second RMD by December 31, 2020. This satisfies your RMD for the year 2020. In this scenario, you have two distributions taxable in 2020. Going forward, for the year 2021, you'll take your RMD by December 31, 2021.

Finally, determine how much RMD you need to take out. Each year, we need to calculate your required minimum distribution. This is the minimum amount you'll need to withdraw from your retirement accounts to meet the requirement.

We can help you calculate your RMDs, so you can rest assured you're meeting the requirement. All we need are the Form 5498 documents that your retirement plan administrators send to you.

W-4 mid-year checkup

Reviewing your estimates

Making an adjustment to how much tax is withheld from your income or increasing your estimated tax payments can help you avoid an unwelcome tax bill and potential penalties at the end of the year.

With all the tax changes that went into effect in 2018, it's important to review your tax withholding at least once a year.

Opting to not review your withholding for the year and leaving it the way it is could be a mistake. We had several clients not review their withholding and estimated tax payments for any necessary changes.

Even though their income was about the same as the previous year, they ended up owing the IRS instead of getting their usual refund.

The culprit was two-fold. Not only did clients lose some deductions resulting from the tax reform changes, but also their withholding went down (even though they didn't change anything) because the IRS changed the withholding tables and the way it's calculated.

We can prevent problems like this by adjusting how much federal and state tax is withheld from your wages, pensions, unemployment benefits, and Social Security benefits. The goal is to pay enough tax that you avoid a balance due and still get a refund when we file your taxes for next year.

The same thought process holds true for self-employed freelancers. Self-employed persons should adjust their estimated tax payments, especially if their business income is increasing.

Signs you may need to adjust your withholding:

- You owed tax this year
- You receive income where no tax is withheld, such as investments, stock gains, or rental income
- You have multiple jobs
- You are recently married or divorced
- You bought a house
- You have dependents
- You itemize your deductions
- You're getting a raise

Getting married or divorced?

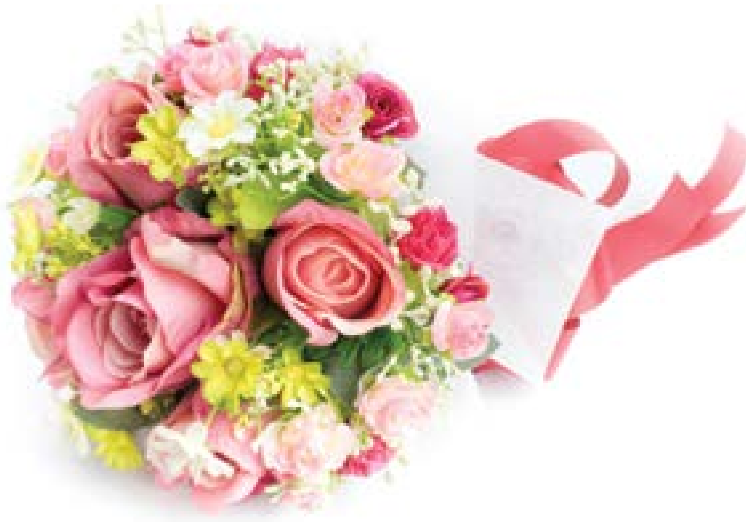
Things you need to know when changing your name or address

People change their names for any number of reasons. You might be taking your spouse's surname after getting married, or you might be going back to your maiden name after getting divorced.

If you change your name, you must notify the Social Security Administration (SSA) and get a new Social Security card.

Do this before filing your next tax return with the IRS. Their computers check your name and Social Security number against SSA's records. If your name doesn't match exactly, that could cause e-file rejections or delays in processing your tax return.

Reporting your name change to SSA cannot be done online. Instead, you'll need to fill out Form SS-5 to



change information on your Social Security record. You'll also need documents proving your legal name change, such as a court order, marriage document, or divorce decree. You can either mail in your name change request or visit a local SSA office.

After receiving your new Social Security card, use your new name on your tax returns. Be sure to tell us, too, so we can update our records with your new name.

And let us know if you are moving. By filing Form 8822, *Change of Address*, we can notify the IRS of your new address so any important letters or notices will reach you without getting lost in the mail.

Making home improvements?

Rules for deducting interest on home equity debt

Homeowners can deduct interest paid on home equity loans or home equity lines of credit if they use the loan proceeds for making home improvements. However, if the home equity loan is used to pay for anything else, like college tuition or a new car, the interest on that loan won't be tax deductible.

Homeowners need to be careful when taking out a loan secured by their house. Not all home equity loans qualify for the mortgage interest tax deduction. We need to look at how you spent the loan proceeds when figuring out if your loan interest is deductible.

For tax years 2018 through 2025, homeowners can deduct interest paid on mortgages and home equity debt as long as they spend the loan proceeds to buy, to build, or to substantially improve their main home or a second home.

Here's how to make sure your home equity loan or line of credit will be tax deductible:

- The loan must be secured by your main home or a second home.
- The new home loan, plus any existing mortgages, must have a combined loan balance of $750,000 or less ($375,000 for married couples who file separately). Interest on balances over this limit is not tax deductible.
- The proceeds of the home equity debt must be used to substantially improve your home.

From the IRS's perspective, home improvements are "substantial" if the improvement adds value to your home, extends the useful life of your property, or adapts your home to new uses.

Examples of substantial home improvements:

- Adding a bedroom or bathroom to your house
- Adding a deck, porch, patio or garage
- Building a swimming pool
- Building or replacing a fireplace
- Installing a security system
- Installing built-in appliances
- Installing heating or central air conditioning systems
- Installing new windows, siding or a satellite dish
- Laying new carpet or flooring
- Modernizing the kitchen
- Building a new fence or retaining wall
- Installing new insulation in the attic, walls, floors, or around pipes
- Installing new water heaters and filtration systems
- Paving the driveway
- Replacing the roof
- Replacing the septic system
- Re-wiring the house

Examples of what's not a substantial improvement:

- Repainting your house
- Making ordinary repairs that maintain your home in good condition

Let us know about any new or refinanced home loans. We can help you determine if the interest will be tax-deductible and can help you keep proper documentation for tax purposes.