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'IMI A LOA'A

"Discover"

November
December
2018

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Vol. 118

Photo taken by Cara Owada

From the CPA's Pen...

by Tracy Watkins, CPA

Tax Relief in Disaster Situations

Since the State of Hawaii was affected by the Kilauea volcanic eruptions and by several hurricanes/storms which caused major property loss and damage this year, the President signed emergency declarations which will allow affected taxpayers some relief.

Affected taxpayers in a federally declared disaster area have the option of claiming disaster-related casualty losses on their Federal or Hawaii income tax return for either the year in which the event occurred (2018) or the prior year (2017).

Individuals may deduct personal property losses that are not covered by insurance or other reimbursements. For details, see Internal Revenue Service Form 4684, Casualties and Thefts and its Instructions.

If an affected taxpayer receives a late filing or late payment penalty notice from the IRS that has an original or extended filing, payment or deposit due date that falls within the postponement period for the related disaster, the taxpayer should call the telephone number on the notice to have the IRS abate the penalty. The State of Hawaii Department of Taxation will also consider requests for waivers of penalties and interest on a case-by-case basis for net income tax as well as other taxes.

The IRS automatically identifies taxpayers located in the covered disaster area and applies automatic filing and payment relief. But affected taxpayers who reside or have a business located outside the covered disaster area must call the IRS disaster hotline at 866-562-5227 to request this tax relief.

Diane Ackerman, an American poet and nonfiction author, said "Hurricane season brings a humbling reminder that, despite our technologies, most of nature remains unpredictable." While the quote rings true regarding predicting such natural disasters, we certainly have the ability to take advantage of options we have for tax relief if they apply.

With much aloha,

Tracy Watkins

Year End Tax Tips

by Tracy Watkins, CPA

With the end of the year rapidly approaching, now is the time to actively review and implement tax planning steps. While it is possible that Congress will once again have late-year tax law changes tagging along on the heels of last year's Tax Cuts and Jobs Act (TCJA), here are some helpful reminders and updates for 2018.

Take Required Minimum Distributions (RMDs) – RMDs must be taken from retirement plans by December 31 if you are age 70½ or older to avoid the 50% penalty. If you reached age 70½ in 2018, you can choose to postpone your RMD until April 1, 2019. However, you will then have two RMDs in 2019: your postponed 2018 RMD and your 2019 RMD. Consider qualified charitable distributions (QCDs) if you give to charity. Proper planning will prevent the additional income from being taxed at a higher rate.

Make Retirement Plan Contributions – Consider maximizing your 401(k), 403(b) or 457 plan contribution by December 31, 2018. The 2018 limit is $18,500 (or $24,500 for ages 50 and over). IRA contributions for 2018 are due by April 15, 2019 and have a limit of $5,500 (or $6,500 for ages 50 and over). Ensure you understand the difference between tax-deferred (Traditional) and tax-free (Roth) retirement options.

Donate to Charities – Donations made by check must be mailed or delivered by December 31 to be deducted in 2018. Be sure to see if "bundling" charitable contributions in alternating years will be of benefit. Donations by credit card are deductible as of the date the charge is made even if you pay your credit card bill in 2019.

Donating appreciated stock allows you to deduct the fair market value of the stock without paying tax on the capital gain. If you are considering stock donations, contact the charity by early December to obtain its investment account information as this will be needed by your investment advisor.

To check on the deductibility of a donation, search for the organization using the IRS online tool Exempt Organizations Select Check; http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check. Another source of information on many nonprofit organizations is GuideStar (www.guidestar.org), an organization whose goal is to provide information and enable users to make better charitable giving decisions.

The tax law changes increasing the standard deduction have made the provision allowing taxpayers age 70 ½ and older to make tax-free distributions of up to $100,000 from their IRAs to a qualified charity even more valuable. It is important to keep the December 31, 2018 deadline for doing a QCD as well as meeting the deductibility rules for charitable contributions. Be sure to notify your tax preparer when making this type of distribution since the 1099-R that will be issued by the custodian will not have a special code to indicate the QCD.

Make Tax-free Gifts – Gifts are limited to $15,000 per person in 2018. Gifts of tuition paid directly to the school are not considered gifts for the $15,000 limit. You can make a tuition gift and still give up to $15,000 to a recipient without causing a taxable gift. There is a similar exclusion for medical expenses paid directly to a care provider. Gifts exceeding the annual limit that do not qualify for an education or medical exclusion must be reported on a gift tax return. Please contact us if you need

Continued on Page 3

assistance preparing your gift tax return.

Review Your Investment Portfolio – Review your portfolio to determine your capital gain or loss status. The lower long-term capital gains tax rates of 15% for federal taxes and 7.25% for Hawaii taxes are still in place for certain taxpayers in 2018. Selling a losing investment can help offset a capital gain. Deductions for net capital losses are limited to $3,000 per tax return (or $1,500 if you are married filing separately). Taxpayers in the 10% and 12% tax brackets are subject to a federal tax rate of 0% on qualified dividends and long-term capital gains.

Adjust Tax Withholdings or Estimates – If you expect to owe Federal or State tax for 2018, consider increasing your tax withholding or increase your 4th quarter estimated tax payment. To avoid underpayment penalties, you must pay the lesser of 90% of your 2018 tax or 100% (or 110% for higher income taxpayers)of your 2017 tax. Consider paying your 4th quarter state estimated tax payment before the end of the year as you may be able to deduct it this year for either Federal or State income tax purposes rather than next year.

Use Your Flexible Spending Account - The flexible spending account (FSA) annual contribution limit is $2,650 for 2018. Unless your plan allows for the special $500 carry over of unused funds or grace period option, the use-it-or-lose-it rule applies. Review your remaining 2018 account balance and medical expenses to determine how much to set aside for your 2019 FSA.

Threshold for Medical Expense Deduction – In 2018, the Adjusted Gross Income threshold for itemized medical deductions will be 7.5% for all taxpayers regardless of age.

Consider the Effects of Business Tax Changes – The TCJA lowered the maximum tax rate from 35% to 21% and put in place a valuable 20% deduction for pass-through businesses. If you have a sole proprietorship, partnership, or S corporation, it would be advisable to investigate how the new tax laws may affect your income taxes. Taxpayers who have rental income are included in the group of businesses that may be eligible to receive the deduction based on total taxable income.

Don't Wait for 1099s – Begin gathering your data throughout the year, or as early as possible. Collecting updated/current information will help you get a solid estimate of your 2018 tax liability so that you can make estimated tax payments or increase your withholding while there is still time to do so. Have as much information collected by January so that when 1099s arrive, you are ready to file.

Know the Differences Between Federal and Hawaii Tax Law – Hawaii's tax laws were not necessarily changed to follow the Federal changes made in late December 2017 under the Tax Cuts and Jobs Act. It is important to understand the differences in planning for your Hawaii taxes.

For daily tax news updates, please visit our website: http://www.cpasofhawaii.com/.

If you are interested in becoming a client of Sterling & Tucker, Inc. (CPAs), please call Cristell Juan, our Tax Paraprofessional, at (808) 791-9953 to schedule an appointment.

In mid-January 2019, we are mailing the 2018 tax organizers for Sterling & Tucker tax clients and contacting everyone using the online organizers with your online access information. Please help us to be greener and save some trees by considering the online organizer for your 2018 tax information. Contact Cristell Juan by December 31 to request an online organizer.

FREE Trust Review Seminar

Attend one of these FREE Seminars and Receive a Complimentary One-Hour Consultation

Life Changes and Laws Change. Is your trust keeping up with the times?

In This Seminar Learn How To:

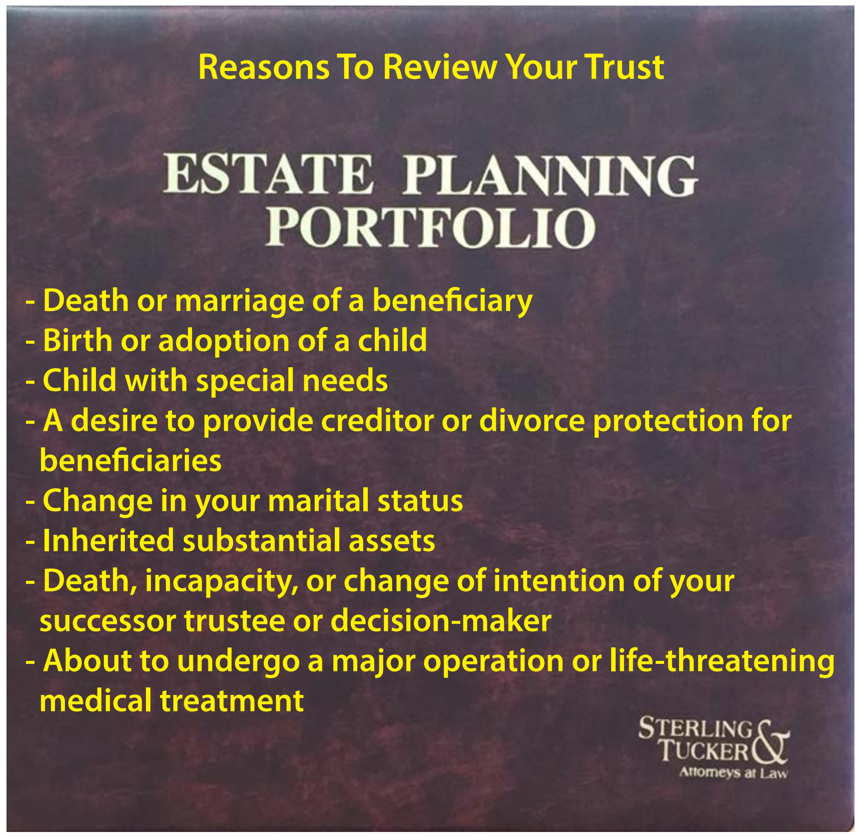
- Protect your assets from nursing home costs.
- Protect your assets for your loved ones from creditors, or in the event of a divorce or lawsuit.
- Have the flexibility you need with changing tax laws.
- Avoid the frustration and unnecessary expenses that come with probate.

HONOLULU
TRUST REVIEW
Tuesday, October 30
Saturday, November 3
10:00 AM
Ala Moana Hotel
Carnation Room
410 Atkinson Drive

MILILANI
TRUST REVIEW
Thursday, November 8
10:00 AM
7:00 PM
Wayland Baptist University
Mililani Mauka
95-1091 Ainamakua Drive

Free Parking and
Light Refreshments
at all seminar locations

Reasons To Review Your Trust



- Death or marriage of a beneficiary
- Birth or adoption of a child
- Child with special needs
- A desire to provide creditor or divorce protection for beneficiaries
- Change in your marital status
- Inherited substantial assets
- Death, incapacity, or change of intention of your successor trustee or decision-maker
- About to undergo a major operation or life-threatening medical treatment

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Protect Your Assets For Your Loved Ones By Preparing For Long-Term Care With Medicaid Planning

Attend either one of these FREE Seminars and Receive a Complimentary One-Hour Consultation

At this FREE MEDICAID Planning seminar, learn:

- How you can be impoverished by nursing home costs.
- How proper planning can protect your hard-earned assets for your loved ones.
- What documents you need to plan for the future.
- Why "traditional" estate planning won't help with nursing home costs.

HONOLULU	KANEOHE
MEDICAID PLANNING	MEDICAID PLANNING
Wednesday, December 5	Thursday, December 6
10:00-11:30 AM	10:00-11:30 AM
Ala Moana Hotel	Koolau Ballrooms
Ilima Room	Makai Room
410 Atkinson Drive	45-550 Kionaole Road

What To Do When A Loved One Passes...

A Seminar for Trustees, Executors and Personal Representatives

If you are a Successor Trustee of a trust for a decedent or anticipate filling these shoes in the very near future, this upcoming seminar is for you. Rich or poor, when someone dies they leave behind an estate.

In This Seminar Learn:

- How to make sure different types of property pass to heirs completely.
- When and how estate taxes need to be paid.
- If you can sell the residence and how soon. Must you go through Probate?
- Who is in charge - who has the authority to cash checks, pay bills, make decisions and transfer assets.
- Your responsibility as Trustee or Personal Representative in someone else's Living Trust or Will.

KANEOHE	HONOLULU
TRUST ADMINISTRATION	TRUST ADMINISTRATION
PROBATE	PROBATE
Thursday, December 6	Saturday, December 8
7:00-8:30 PM	9:00-10:30 AM
Koolau Ballrooms	Ala Moana Hotel
Makai Room	Carnation Room
45-550 Kionaole Road	410 Atkinson Drive

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Roth IRA Conversions

Compliments of:
Michelle H. Tucker
CFP®, JD, CPA/PFS
3D Wealth Advisors, Inc.
201 Merchant Street Suite 909
Honolulu, HI 96813
(808) 791-1444

With the lure of tax-free distributions, Roth IRAs have become popular retirement savings vehicles. According to the 2017 Investment Company Fact Book, about 17.4% of U.S. households owned Roth IRAs in 2016. One way to fund a Roth IRA is to convert some or all of your IRA or retirement plan money to a Roth IRA.

Roth IRAs — Background

There are three ways to fund a Roth IRA — you can contribute directly, you can convert all or part of a traditional IRA to a Roth IRA, or you can roll funds over from an eligible employer retirement plan.

In general, you can contribute up to $5,500 to an IRA (traditional, Roth, or a combination of both) in 2018 ($6,500 if you'll be age 50 or older by December 31). However, your ability to make annual contributions may be limited (or eliminated) depending on your income level ("modified adjusted gross income" or MAGI), as shown in the chart below:

If your federal filing status is:	Your 2018 Roth IRA contribution is reduced if your MAGI is:	You can't contribute to a Roth IRA for 2018 if your MAGI is:
Single or head of household	More than $120,000 but less than $135,000	$135,000 or more
Married filing jointly or qualifying widow(er)	More than $189,000 but less than $199,000	$199,000 or more
Married filing separately	More than $0 but less than $10,000	$10,000 or more

Unlike a traditional IRA, you can contribute to a Roth IRA even if you're 70½ or older. However, your contributions generally can't exceed your earned income for the year (special rules apply to spousal Roth IRAs).

Important Changes Since 2010

Prior to 2010, you couldn't convert a traditional IRA to a Roth IRA (or roll over non-Roth funds from an employer plan to a Roth IRA) if your MAGI exceeded $100,000 or you were married and filed separate federal income tax returns.

The Tax Increase Prevention and Reconciliation Act (TIPRA), however, repealed the $100,000 income limit and marital status restriction beginning in 2010. Since then, regardless of your filing status or how much you earn, you can convert a traditional IRA to a Roth IRA. (There's one exception — you generally can't convert an inherited IRA to a Roth. Special rules apply to spouse beneficiaries.)

SEP IRAs and SIMPLE IRAs can also be converted to Roth IRAs (for SIMPLE IRAs, you'll need to participate in the plan for two years before you convert). You'll need to set up a new SEP/SIMPLE IRA to receive any additional plan contributions after you convert.

How Do You Convert a Traditional IRA to a Roth?

Start by notifying your existing traditional IRA trustee or custodian that you want to convert all or part of your traditional IRA to a Roth IRA; the custodian/trustee will provide you with the necessary paperwork. You can also open a new Roth IRA at a different financial institution and then have the funds in your traditional IRA transferred directly to your new Roth IRA. The trustee/custodian of your new Roth IRA can give you the required paperwork. If you prefer, you can instead contact the trustee/custodian of your traditional IRA, have the funds in your traditional IRA distributed to you, and then roll those funds over to your new Roth IRA within 60 days of the distribution. The income tax consequences are the same regardless of the method you choose.

Calculating the Conversion Tax

When you convert a traditional IRA to a Roth IRA, you're taxed as if you received a distribution but with one important difference — the 10% early distribution tax doesn't apply, even if you're under age 59½. However, the IRS may recapture this penalty tax if you make a non-qualified withdrawal from your Roth IRA within five years of your conversion.

If you've made only nondeductible (after-tax) contributions to your traditional IRA, then only the earnings and not your own contributions will be subject to tax at the time you convert the IRA to a Roth. But if you've made both deductible and nondeductible IRA contributions to your traditional IRA and you don't plan on converting the entire amount, things can get complicated. Under IRS rules, the amount you convert is deemed to consist of a pro rata portion of the taxable and nontaxable dollars in the IRA.

For example, assume that your traditional IRA contains $350,000 of taxable (deductible) contributions, $50,000 of nontaxable (nondeductible) contributions, and $100,000 of taxable earnings. You can't convert only the $50,000 nondeductible (nontaxable) contributions to a Roth and have a tax-free conversion. Instead, you'll need to prorate the taxable and nontaxable portions of the account. So in the example above, 90% ($450,000/$500,000) of each distribution from the IRA (including any conversion) will be taxable and 10% will be nontaxable.

You can't escape this result by using separate IRAs. Under IRS rules, you must aggregate all of your traditional IRAs (including SEPs and SIMPLEs) when you calculate the taxable income resulting from a distribution from (or conversion of) any of the IRAs.

Some experts suggest that you can avoid the pro rata rule and make a tax-free conversion if you take a total distribution from all of your traditional IRAs, transfer the taxable dollars to an employer plan like a 401(k) (assuming the plan accepts rollovers), and then roll over (convert) the remaining balance (i.e., the nontaxable dollars) to a Roth IRA. The IRS has not yet officially ruled on this technique, so be sure to get professional advice before considering this.

Using Conversions to Make "Annual Contributions"

Unfortunately, TIPRA didn't repeal the income limits that may prevent you from making annual contributions to your Roth IRA. But if your income exceeds these limits and you want to make annual Roth contributions, there's an easy workaround: you can make nondeductible contributions to a traditional IRA as long as you haven't yet reached age 70½. You simply make your annual contribution first to a traditional IRA, and then convert that traditional IRA to a Roth. There are no limits to the number of Roth conversions you can make. (But again, you'll need to aggregate all of your traditional IRAs — including SEPs and SIMPLEs — when you calculate the taxable portion of the conversion.) This is sometimes called a "back door" Roth IRA.

Employer Retirement Plans

You can also roll over non-Roth funds from an employer plan, such as a 401(k) to a Roth IRA. Like traditional IRA conversions, the amount you convert will be subject to income tax in the year of conversion (except for any after-tax contributions you've made).

Is a Roth Conversion Right for You?

The answer to this question depends on many factors including your current and projected future income tax rates, the length of time you can leave the funds in the Roth IRA without taking withdrawals, your state's tax laws, and how you'll pay the income taxes due at the time of the conversion.

And don't forget — if you made a Roth conversion in 2017 and it turns out to be disadvantageous (for example, the value of your investments declined substantially), IRS rules allow you to "undo" the conversion for 2017 only. You generally have until your tax return due date (including extensions) to undo, or "recharacterize" your conversion. For most taxpayers, this means you have until October 15, 2018 to undo a 2017 Roth conversion. (The Tax Cuts and Jobs Act passed in December 2017 eliminated the ability to recharacterize a Roth conversion for tax years 2018 and beyond.)

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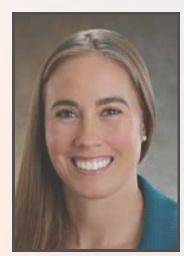
Neighbor Island FREE Seminars

LIVING TRUST SEMINAR

KAHULUI

Wednesday, Nov 14
10:00 AM - 11:30 AM

Maui Arts & Cultural Center
Haynes Meeting Room
One Cameron Way



Lauren Sheppard, JD

TRUST REVIEW SEMINAR

Life Changes and Laws Change.
Is your trust keeping up with the times?

Kanani Makaimoku, JD

HILO

Wednesday, Nov 7
10:00 AM - 11:30 AM

Sangha Hall
Conference Room
87 Banyan Drive

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