Fullerton Tax & Planning

www.fullertontax.com

30S East Avenue, Riverside, IL 60546

Ph: 708-447-5667 / Fax: 708-221-0440

E-Mail: Tfullerton@fullertontax.com

"Real People provide Real Service"

March, 2019

Yes, spring is on its way….

Here are some of the things you can look forward to seeing. Flowers, no snow, warmer temperatures, Brexit finishing (one way or another), China tariffs slowing down the economy (particularly in agriculture), No new progress on North Korea (who does a billion dollar nuclear build up and says, let's give it up.) More tariffs on Europe and the start of a growing season.

As to tax law changes, you should have noticed some dramatic changes to the U S tax system. More schedules as opposed to less, the loss of Schedule A items, like job related expenses and investment advisor fees, the loss of the personal exemption for everyone. Lower refunds on a general trend basis. Nominal tax changes for seniors. Small business owners have a new deduction that is making them smile. What the system took away from the W2 wage earner, it gave to business. Thanks to the loss in deductions for the middle class filers, business is paying substantially less in taxes.

Since we just encountered a couple of these scenarios in the current tax season, this might be something to keep in mind….

4 tax issues to consider when you close an estate

If executors don't take their responsibility seriously, the IRS can come after them personally
By Bill Bischoff

When a loved one dies, somebody must step up to the plate to handle all the resulting tax issues. This person may be identified in the decedent's will as executor of the estate. If there isn't a will, however, the probate court will appoint someone to be the administrator. In either case, it's often the surviving spouse or another family member who takes on this responsibility.

Regardless of which route you take to get there, your duties as executor are essentially the same. The executor's job is to identify the estate's assets, pay off its debts and then distribute whatever is left to the rightful heirs and beneficiaries. He or she is also required to file any necessary tax returns and pay any taxes. Should this not be handled properly, the IRS can come after the executor personally for tax underpayments (plus penalties and interest) — even if he or she has hired a professional to deal with the paperwork. So if you find yourself in this role, you need to take the responsibility seriously.

Here's an overview of four major steps you need to consider:

1. Filing the final 1040

Step No. 1 is to file the decedent's taxes for the year of his or her death. This final 1040 covers the period from Jan. 1 though through the date of death. The return is due on the standard date, meaning, for example, April 15, 2019, for someone who died in 2018. If the decedent was unmarried, the final 1040 is prepared in the usual fashion. When there's a surviving spouse, the final 1040 can be a joint return filed as if the decedent were still alive as of year's end. The final joint return includes the decedent's income and deductions up to the time of death plus the surviving spouse's income and deductions for the entire year.

Be sure to keep a careful eye on medical expenses. If large uninsured medical expenses were accrued but not paid before death, you — as the executor — must make an important choice about how they're treated for tax purposes. Along with any medical expenses paid before death, you can choose to deduct the as-yet-unpaid expenses on the decedent's final 1040 to the extent they exceed 7.5% of adjusted gross income (or 10% of AGI for someone under age 65). Final medical expenses can easily exceed 7.5% or 10% of AGI, especially when death occurs early in the year before much income has been earned. This is an exception to the general rule that expenses must be paid in cash before they can be deducted.

Alternatively, if the estate is subject to the federal estate tax (which is only the case if it's worth more than $11.18 million for someone who died in 2018 or $11.4 million for someone who dies in 2019) you can choose to deduct the accrued medical expenses on the decedent's federal estate-tax return (more on that below), rather than the decedent's income-tax return. Obviously, if no federal estate tax is owed, this isn't an option. But when estate tax is due, deducting accrued medical expenses on the estate-tax return is usually the tax-smart option. Why? Because the estate-tax rate is a whopping 40%, while the decedent's final federal income-tax rate could be as low as 10%. Plus the full amount of the accrued medical expenses can be deducted on the estate-tax return (not just the excess over the percent of AGI threshold).

2. Filing the estate's income tax return

In addition to filing the decedent's final income taxes, you may have to file the estate's income tax return as well. (Understand: This is entirely different from the federal estate tax return, addressed below.) Essentially, what happens here is that once the individual has died, any income generated by his or her holdings after death is now part of the estate. And that income doesn't escape the reach of Uncle Sam.

The estate's first income-tax year begins immediately after death. The tax year-end can be Dec. 31 or the end of any other month that results in an initial tax period of 12 months or less. You must file Form 1041 (U.S. Income Tax Return for Estates and Trusts) by the 15th day of the fourth month after the tax year-end (adjusted for weekends and holidays). So for a person who died in 2018, the deadline is April 15, 2019, when the "standard" Dec. 31 tax year-end is chosen.

If you're dealing with an estate with annual gross income below $600, you don't need to worry about Form 1041. So tiny estates are off the hook, as are those that can be wrapped up very quickly, before $600 worth of income accumulates. There's also no need to file Form 1041 when all the decedent's income-producing assets bypass probate and go straight to the surviving spouse or other heirs by contract or operation of law. This is what happens, for example, with real estate owned jointly with right of survivorship, with retirement accounts and IRAs that have designated account beneficiaries and with life-insurance proceeds paid directly to designated policy beneficiaries.

If the estate you're in charge of is required to file Form 1041, I recommend hiring a tax professional with plenty of experience in this arcane area of the tax law.

3. Filing the estate's estate tax return

The federal estate tax return is filed on Form 706 (United States Estate Tax Return). Assuming the decedent didn't make any sizable gifts before dying, no estate tax is due, and no Form 706 is required, unless the estate is worth over $11.18 million for a person who died in 2018 or $11.4 million for someone who dies in 2019. Sizable gifts are those in excess of $15,000 to a single gift recipient in a single year for gifts in 2019, $14,000 for gifts in 2013-2018; $13,000 for gifts in 2009-2012; $12,000 for gifts in 2006-2008; $11,000 for gifts in 2002-2005; $10,000 for gifts during 2001 and earlier). If sizable gifts were made, the excess over the applicable threshold for the year of the gift is added back to the estate to see if the estate tax exemption ($11.18 million for 2018; $11.4 million for 2019) is surpassed. If it is, there will be a 40% federal estate tax on the excess.

Form 706 is due nine months after death, but the deadline can be extended up to six months. Remember: While life-insurance proceeds are generally free of any income tax, they are usually included in the decedent's estate for estate-tax purposes — even though the money may go directly to policy beneficiaries. In fact, life-insurance proceeds are the most

common cause of unexpected estate-tax bills. An exception to this rule though is if the beneficiary is the surviving spouse: Assets inherited by a surviving spouse (including life-insurance payouts) aren't included in the decedent's estate, as long as the surviving spouse is a U.S. citizen. This is the so-called unlimited marital-deduction privilege, and it's the most common reason why many large estates don't owe any federal estate tax.
If you're the executor of a substantial estate, you probably should hire a tax pro even if you're fairly certain no estate tax is actually due. If you're correct, the cost to confirm your conclusion will be minimal. If you're wrong, filing Form 706 isn't for amateurs. Also, a good estate-tax pro may be able to find some perfectly legal ways to substantially reduce the tax bite or maybe even make it disappear completely.

4. The miscellaneous details
If you'll be filing Form 1041 and/or Form 706, you need to get the estate a federal employer identification number (EIN). This is analogous to an individual's Social Security number. Apply for the EIN by filling out Form SS-4 (Application for Employer Identification Number). It can be downloaded from the IRS website at www.irs.gov.
Next, you should file Form 56 (Notice Concerning Fiduciary Relationship), which notifies the IRS that you'll be acting on behalf of the estate regarding tax matters. This form can also be downloaded from the IRS website (but wait until you have the EIN in hand). It ensures you'll receive any notices shipped out by the IRS (lucky you).

Then it's time to open a checking account in the name of the estate with some funds transferred from the decedent's accounts. You might want keep these accounts open long after all paperwork is final. We had a client who had opened the account and closed it after assuming all monies were collected only to receive funds in the name of the deceased five years later.

As the executor, you have the legal power to do this. But make sure you have the estate's EIN, because the bank will ask for it. Use the new account to accept deposits from income earned by the estate and to pay expenses — such as outstanding bills, funeral and medical expenses and of course those darned taxes.

Unfortunately, once you've done all this, your work might not be finished. You may also have to file state income-tax returns and perhaps a state death tax return as well. Sorry. However, being nice enough to take care of all this stuff should greatly improve your standing in the hereafter.

Fond of indicators?

Business confidence

One indicator that tends to run well in advance of recessions: The National Federation of Independent Business measure of members' own subjective well-being, known as the small business optimism index. It peaked in the third quarter of 2004, while the American economy was growing faster than it is now, and then started falling until it bottomed out in early 2009.

More recently, the index spiked after President Donald Trump was elected, reached its highest reading ever in August — and has been sagging since.

Just the facts?

As a new year begins, there is a gulf in this country between what some people want to believe and what the truth really is. At some point, perhaps this year, these two things—truth and untruth—will be reconciled, but I doubt it. But this I do know: In the end, truth always wins.

Last year, we were told by the president that the economy is great. In fact, he boasted, it has never been so great. And yet the 4.2% growth rate of the second quarter faded almost immediately. The Federal Reserve predicts 2.3% growth this year and slightly under 2.0% in 2020.

We were told that Americans have never had it so good. And yet 40% of us don't have even $400 to deal with an unexpected expense.

We were told that most Americans saw their living standards improve last year. And yet 62% of Americans say they didn't get a raise in 2018. That's even worse than 2017, when only 52% said they didn't get one.

We were told that the tax cuts signed into law a year ago would provide a huge boost. Yet the middle fifth of earners got about $950—nice but hardly huge—while the bottom fifth got about $60. When big stuff like housing and health care are soaring, an extra $60—$1.15 a week—is meaningless. Perhaps a small cup of coffee once a week at McDonald's. Nothing more.

We were told that the tax cut would mean a huge boost for investment and growth in the U.S. economy—things like plants and equipment. And yet U.S. corporations spent far more buying back their own stock than anything else. In the second quarter of last year alone—right after the law was signed—$437 billion was spent on buybacks, says research firm TrimTabs.

This doesn't mean that nothing was spent. Westwood Capital, the New York investment bank, notes that 28% of business investment has gone to "structures and industrial equipment" this year. Just twenty years ago, at the end of another U.S. expansion, nearly half—48.3%—did.

No raises for most. Cup-of-coffee sized tax cuts for millions. A downward trend in spending on plant and equipment. How can this be? After all, we were told, the tax cut signed a year ago was the biggest ever. The problem: It wasn't the biggest tax cut ever. It wasn't even close. As a percentage of U.S. economy, it was only the seventh-biggest. Tax cuts signed by Ronald Reagan (1981), Harry Truman (1945 and 1948), Barack Obama (2010 and 2013) and Lyndon Johnson (1964) were all bigger.

We were told that a surging stock market was proof of Trump's genius. The S&P 500 SPX, -0.29% entered a bear market in December. We were told that Mexico would pay for the wall. It isn't. The president now wants you, the taxpayer, to, and he's so determined to make this happen that he shut down the government.

We were told that farmers are doing great. They are not. We were told that U.S. Steel X, +0.38% is building six new steel mills. It is not.

We were told that the debt—not the deficit mind you, but the entire national debt—would be paid off in eight years. Instead it has jumped to nearly $22 trillion, and is projected to soar to $33 trillion by fiscal year 2028, now eight years and nine months away.

We were told that Social Security was safe. In fact, the administration quietly warns that it's on track to be slashed 21% by 2034—closer than it sounds—unless something is done. The current budget proposal includes $1 trillion cuts to Social Security and Medicare.

We will be told more things in 2019. Stay tuned.

Along those same lines….

Results of a private survey on China's manufacturing for the month of December showed factory activity contracted for the first time in 19 months amid a trade dispute with the U.S.

The Caixin/Markit Manufacturing Purchasing Managers' index (PMI), a private survey, fell to 49.7 in December from 50.2 in November. Analysts' in a Reuter's poll predicted the PMI to come in at 50.1 in December.

A reading above 50 indicates expansion, while a reading below that level signals contraction.

In December, two separate measures for new orders and new export orders showed contraction, the Caixin survey showed.

"That showed external demand remained subdued due to the trade frictions between China and the U.S., while domestic demand weakened more notably," wrote Zhengsheng Zhong, director of macroeconomic analysis at CEBM Group, a subsidiary of Caixin.

"It is looking increasingly likely that the Chinese economy may come under greater downward pressure," Zhong added in the press release.

Economic data from the world's second-largest economy is being closely watched for signs of damage inflicted by the

ongoing trade war between Washington and Beijing.

Official manufacturing PMI released on Monday showed a slowdown in activity for the month of December as the sector contracted for the first time in more than two years, dropping below the critical 50 level.

The private survey focuses on small and medium-sized enterprises, while the official PMI gauge focuses on large companies and state-owned enterprises.

The slide in China's PMI is "worrying" as there will be broader fallout on Asian exporters, said Vishnu Varathan, head of economics and strategy at Mizuho Bank.

Even though China's manufacturing PMI typically slows ahead of Chinese New Year holidays — starting on February 5 in 2019 — this particular downturn in the sector "could be even sharper than headlines suggest," Varathan wrote in a note on Wednesday.

Indeed, the situation on the ground in China may look worse than any numbers suggest, another analyst told CNBC.

"I do believe, of course, the economy in China is decelerating. I do believe the numbers are worse than reported, of course, in that type of political environment where there's strong censorship, where media is essentially prevented from reporting," said Alex Capri, a visiting senior fellow at NUS Business School.

At the beginning of December, U.S. President Donald Trump and Chinese President Xi Jinping agreed to a 90-day ceasefire that delayed the planned U.S. increase of tariffs on $200 billion worth of Chinese goods that were initially due to take effect on Jan. 1, while the two sides negotiated a trade deal. That ceasefire has been extended.

Yet beyond the tariffs battle, China's economy has been facing its own domestic headwinds. Even before the escalation in trade tensions with the U.S. this year, Beijing was already trying to manage a slowdown in its economy after three decades of breakneck growth.

Stop celebrating your tax refund — it’s a 0% loan to the government

By Brett Arends Columnist

It’s time to stop browsing travel websites for late-winter getaways and pay attention to your Form W-4 If you’re getting a big refund this year, the chances are you overpaid last year’s taxes. Stop browsing the travel sites for late-winter getaways. Stop eyeing up new 72-inch televisions or the lease on a new car.

If you’re one of the tens of millions in line for a big tax refund check this season, there’s one other step you should think about taking before you spend a dime: Review Form W-4 filed with payroll at work.

People getting refunds effectively gave the government an interest-free loan for use of the money.

That form tells your employer how much tax to deduct from every paycheck. If you’re getting a big refund, the chances are you overpaid last year’s taxes. And if that happens every year, you might want to cut the amount of taxes withheld from every paycheck.

“If you’re getting a big refund, and you would like some more take home pay, you need to sit down with the W-4 worksheets,” says Jackie Perlman, principal tax research analyst at H&R Block’s HRB, -0.85% Tax Institute. In other words, you may want to reduce your withholdings, the amount of money that’s held back to pay your taxes every year.

People getting refunds “effectively gave the government an interest-free loan for use of the money,” says Melissa Labant, director tax policy and advocacy at the American Institute of CPAs. Of course, many workers are already aware of that. “Some people prefer and actually rely on receiving a refund each year,” she said. “It is an indirect way of saving.”

Someone getting a small tax refund probably isn’t going to care. Ditto someone who is flush with cash or who likes having a refund to treat themselves to that vacation after the holidays or, indeed, someone who doesn’t want to spend a lot of time on Form W-4 calculations.

A majority of U.S. households lack access to ready cash and collectively owe $1 trillion in credit-card debt.

On the other hand, a majority of U.S. households lack access to ready cash. About 60% have less than $1,000 in savings, according to two recent surveys. Many more people are carrying credit-card debt from month to month, often at interest rates of 16% or more. Americans collectively owe more than $1 trillion in credit-card debt and $1.5 trillion in student debt. For them, lending money to Uncle Sam makes no sense – let alone at 0% interest.

The sums involved are not trivial. The average tax refund was $2,900 last year. Nearly three quarters of U.S. taxpayers got a refund check last year, the IRS says. The total amount sent out: $325 billion. But not all of that is overpayment, warns Caroline Bruckner, managing director at the American

Many low-income workers get refunds in excess of any tax paid due to the Earned-Income Tax Credit and Child Tax Credit. University's Kogod Tax Institute. Many low-income workers get refunds way in excess of any tax they actually paid. That's because of the Earned-Income Tax Credit and the Child Tax Credit. Both credits are "refundable," meaning you can get back more than you owe in tax.

The calculations can be complex. If you end up withholding too little, and underpay your tax, you'll owe interest at an annual rate of 5%. The IRS calls that a "penalty," but it's actually a much cheaper loan than many other sources of emergency funds.

If U.S. workers are lending money to Uncle Sam at 0% interest, and then forced to borrow money from a financial institution at anywhere from 10% to 32% interest — according to calculations by personal-finance site Value Penguin depending on their credit score — they're two-time losers.

Marketwatch dividend stocks for March include QCOM, OXY, VIG,VYM,SDY. Look the dates and rates up before you move.

The Monthly Index Report for February, 2019

Index	February	QTD	YTD	Description
S&P 500 Index	0.47	16.51	12.26	Large Cap Stocks
Dow Jones Industrial Average	-1.83	14.30	9.97	Large Cap Stocks
NASDAQ Composite	1.53	14.30	9.97	Large Cap Tech Stocks
Russell 2000 Growth	-5.16	16.98	11.99	Small Cap Growth Stocks
MSCI EAFE	1.05	11.05	10.05	Europe, Australia Emerging Stocks
Barclays Capital U S Aggregate	1.39	3.08	2.61	U S Government Bonds
ICE BOFAML High Yield Bds	1.00	7.20	6.95	High Yield Corporate Bonds
3 Month U S Treasury Bills	0.21	0.62	0.41	U S Government Short Term Bonds

Returns as published or estimated through February 28, 2019. Returns reflect reinvestment of distribution.

April is your next deadline. If you see snags in your information gathering, file an extension. See you next month.

Timothy T Fullerton, Sr.

Note: The securities listed are subject to market change. The above information is compiled with information from Research Departments of Investors Business Daily, Standard & Poor's, Zacks.com, The Motley Fool, Marketwatch and Bankrate.com. It is not reflective of Fullerton Tax & Planning or FTP Services as a solicitation to buy or sell a specific security. The report is for information purposes only. For further details on any specific listed securities, visit the websites of the research companies listed. Securities offered through Fidelity, UBS, Wayne Hummer, Scottrade, Schwab and ETrade.