

HSA Or FSA: Which Is Better For Medical Savings?

Health insurance deductibles and co-payments, plus uncovered items like your child's braces, can put a dent on your bank account.

That's why flexible spending and health savings accounts, where you put money away tax-free to pay for out-of-pocket health-care expenses, generally are good ideas. What's better, the saved money from an FSA and an HSA lowers your reported taxable income, just like contributing to a retirement account. Which is the best for you, though, an FSA or an HSA?

And if you take a new job, you can sign up within 30 days.

Most employers don't offer both an FSA and an HSA and, usually if they do, you can't get into both. If you have a choice, knowing the differences is important. Among other things, you can put more money into an HSA and roll it over into a new year. But an FSA lets you take money out even before you have contributed it.

Flexible spending accounts. For 2018, the maximum contribution you can make is \$2,650 and this rises to \$2,700 in 2019. That's not a lot, but if

"Better Late Than Never"

This was great advice from my mentor, Gary Kinder. Gary has been a source of inspiration to me and many others for the past 30 years. I thought that now would be a good time to share some of his other thoughts.

He believes that our attitude will determine our altitude. How are we progress will be based on the stories and ideas we tell ourselves. So here goes:

- It can be done! Make this your motto.
- Use perpetual optimism as a force multiplier.
- Be careful what you choose; you may get it.
- Don't let adverse facts stand in the way of a good decision.
- Check out the small things.
- Don't take counsel of your fears. Remain calm.
- Share credit.
- Avoid having your ego so close to your position that when your position falls, your ego goes with it.
- Sometimes being responsible means people will be mad at you.
- It isn't as bad as you think. It will look better in the morning. And here are a couple of mine:
- Live for today, plan for tomorrow.
- Life is simple. It takes human ingenuity to make it complicated.



First let's look at how they are constructed. You can get into these health accounts during your employer's open enrollment period, which usually runs through December. You also can enroll if you have a "qualifying life event," such as a change in marital status, a new child, or the death of a spouse or dependent.

your spouse has health coverage, he or she can take out another FSA.

A big downside is the use-it-or-lose-it rule. Should you fail to spend all the money in your fund by year-end, you lose it. As a result, you have to estimate how much you'll need to

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Sidestepping New Limits On Charitable Donations

If you think you're no longer allowed to deduct items like charitable donations on your income tax return, think again.

The new tax law doubled the standard deduction, slashing the number of Americans eligible to itemize deductions from 37 million to 16 million.

However, if you are among those who will lose your ability to deduct charitable donations, there is a simple strategy for managing the new limits on charitable giving, and it enables you to continue doing good while doing well for yourself by reducing your tax bill.

The strategy is simple: bunch a few years of donations into a single tax year instead of making them annually.

Rather than report charitable donations on your tax return every year, you bunch two or more years of contributions into a single tax year — enough to boost the charitable total



above that year's standard deduction.

Say you're married and you give \$10,000 in Year 1, \$6,000 in Year 2 and \$10,000 in Year 3. Your \$26,000 total

limits without losing the tax benefits.

And if you can plan to make the larger donations in a year when you expect higher income, bunching

charitable donations can be even more effective in lowering your tax bill.

We'll be speaking with clients about this in the months ahead because this tactic does take some planning in advance.

If you have any questions about your personal situation, please do not hesitate to give us a call. ●



10 Things: New Education Tax Breaks For A Child Or Grandchild

1. If you have a child or grandchild, for the first time ever, you can now pay tuition for kindergarten through 12th grade at private, public or religious schools with money saved in tax-advantaged 529 college savings accounts.

2. Thanks to the Tax Cuts And Jobs Act (TCJA), you now can draw up to \$10,000 tax-free per student from a 529 plan, which is a tax-advantaged program sponsored by states, state agencies, and educational institutions.

3. While your contributions to a 529 plan are not deductible, earnings grow free of federal income tax on withdrawals to pay for qualified

school expenses.

4. You are not limited to 529 plans sponsored by your state. You can choose from a long list of 529s sponsored by other states and choose the right one for you. Call us if you want help with this.

5. A big relief is that the new law leaves the student loan interest deduction unchanged at \$2,500. Some lawmakers wanted to scrap it, but the majority rallied to the tax break's defense. Americans owe some \$1.48 trillion in student debt, and it's definitely a thing to watch.

6. When student loans are cancelled due to death or disability,

they now become tax-exempt. Till now, the debt would be added to the income of a deceased or disabled individual. This new tax benefit is not retroactive, and only affects loans taken from 2018 through 2025. Congress may choose to extend this tax break.

7. The TCJA axes taxes on alimony payments, so custodial parents should have it easier qualifying for need-based aid. Their income won't be as high as what's reflected in tax records, which is what federal aid officials rely on to determine who to help and by how much.

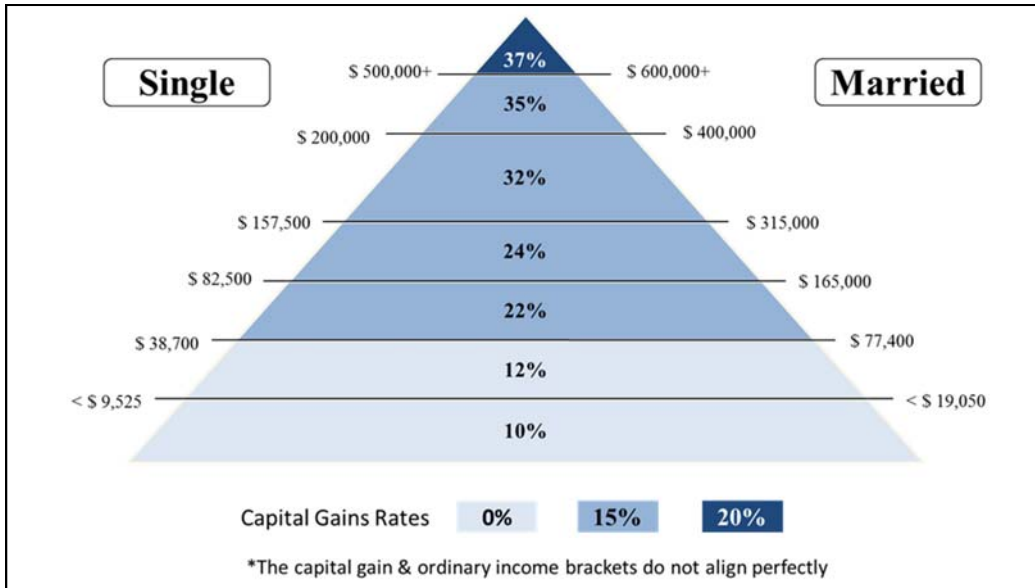
8. Tax deductions for interest on home equity loans and lines of credit

A Timely Tax Tactic For Business Owners

Dentists, doctors, and other business owners can slash their tax bill and funnel huge savings into tax-advantaged retirement vehicles with planning. This is a time-sensitive tax tactic that you might optimally want to implement before the end of this year.

federally tax advantaged defined benefit in her practice or joining with her partners in one. Money she salts away into qualified retirement plans is subtracted from her taxable income, reducing her tax bill for this year, and it enables her to manage her tax bracket to optimum advantage.

benefit — DC plans pose less financial risk to employers and are much more popular with large companies. Guaranteeing a defined benefit on a retirement plan is riskier, so Uncle Sam imposes much higher contributions and more elaborate rules on a DB plan than on a DC plan.



To illustrate how it works, consider a dentist in her peak earnings years, with \$500,000 of income. She's married and her children are out of the house. She is in the 35% federal tax bracket, biting deep into her income.

A potent antidote is establishing a

Defined benefit (DB) plans have been qualified under the federal tax code for special treatment for decades, but they are not nearly as popular as defined contribution (DC) plans.

Because your contribution is defined — but not your retirement

In 2018, the maximum contribution to a DB plan is \$220,000 versus \$55,000 for a DC plan. If our dentist has a DC plan already but now adds a DB plan, she could reduce her taxable income by as much as \$275,000! However, socking away so much would make it impossible to meet her current expenses, so she will need to reduce the amount she contributes while optimizing it for maximum income tax savings.

Our dentist could put \$185,000 into the retirement accounts, for instance, just enough to reduce her taxable income to \$315,000 and putting her in the 24% tax bracket instead of the 35%.

And because the dentist is a partner in the business, she also qualifies for a 20% deduction under the Sec. 199 (A) of the new tax code for owners of small business that are S corps, LLCs, sole proprietorships, or other pass-through entities. To get this extra tax break, her taxable income must not exceed \$315,000 for a married couple (\$157,500 for a single).

Twenty percent of \$315,000 works out to a deduction of \$63,000, placing her taxable income at \$252,000, firmly in the middle of the 24% bracket. The taxes are a lot lighter than if she hadn't taken steps to whittle down that half a million in income, and she has socked away a large defined benefit for retirement.

Setting up a defined benefit plan requires expert help and careful planning but is a great tactic to consider this year, especially because of 20% tax deduction. ●

A New Education Savings Vehicle Kindergarten Through 12th Grade

10 Things:
The New Wave
Of 529s

were eliminated. These are major sources of education funding, businesses, and a range of other expenses. It's gone.

almost must be a financial professional to manage the complexities of funding the education of a child tax-efficiently and with low investment expenses. ●

9. The new federal levy on colleges with big endowments could result in still-higher tuition costs.

10. Education tax breaks were boosted overall by the TCJA, but you

Is Amazon Keeping The Inflation Rate Low?

Amazon's 2017 annual 10(K) federal financial filing reported \$4.1 billion in net operating income. But the profit was entirely attributable to Amazon's tech infrastructure line of business, Amazon Web Services (AWS). Amazon's retail sales business reported a loss.

Unless you're a professional securities analyst or MBA, it may not be easy to discern that Amazon lost money on its main business from the company's required 10(K) annual public disclosure filing with the U.S. Securities and Exchange Commission. But it's disclosed in this table on page 69 of Amazon's 10(K) for 2017. AWS earned a \$4.3 billion profit on \$17.5 in net sales revenue, while total profits were \$4.1 billion on well over \$100 billion of sales.

Amazon could afford to take a loss on its retail business. It's a long-term investment in gaining market share. Losses taken on dominating internet retailing were offset by AWS, Amazon's business of building the infrastructure of the web, which has been very profitable.

With its strategy to expand

retail market share based on razor-thin profit margins, Amazon transformed retail sales and consumer behavior over the last decade. Before buying at a traditional retail store, consumers now routinely check their phones for a lower price online. The increased efficiency of internet sales enables consumers to buy goods at insanely low prices. While Amazon became the Crazy Eddie of the internet era, it has caused disinflation.

Inflation has always been a somewhat mysterious factor in the economy. It's hard to understand its causes, and harder to control. Officials at the U.S. Federal Reserve Board have

conceded in recent years their surprise at the persistently low inflation rate. Amazon is likely a factor in why prices are not rising fast in the economic boom.

This is not a recommendation to buy or sell Amazon securities but an observation about the internet retailer's impact on the U.S. rate of inflation and its implications for economic growth. In the second quarter of 2018, the government reported a 2.9% surge in productivity because real wages *after* inflation declined, lowering the cost of an employee to companies by nearly 1%, according to the Bureau of Labor Statistics quarterly report through June 2018.

Declining unit labor costs amid real wages is a positive for economic growth, and internet retailing is an influence in the economy to keep an eye on. Among the swirl of forces that affect inflation, ranging from international oil politics to the Federal Reserve, your Amazon shopping cart is playing a role. ●

Amazon's 2017 Financials; A Cause Of Disinflation

Information on reportable segments and reconciliation to consolidated net income (loss) is as follows (in millions):

| | Year Ended December 31, | | |
|---|-------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| North America | | | |
| Net sales | \$ 63,708 | \$ 79,785 | \$ 106,110 |
| Operating expenses | 62,283 | 77,424 | 103,273 |
| Operating income | <u>\$ 1,425</u> | <u>\$ 2,361</u> | <u>\$ 2,837</u> |
| International | | | |
| Net sales | \$ 35,418 | \$ 43,983 | \$ 54,297 |
| Operating expenses | 36,117 | 45,266 | 57,359 |
| Operating income (loss) | <u>\$ (699)</u> | <u>\$ (1,283)</u> | <u>\$ (3,062)</u> |
| AWS | | | |
| Net sales | \$ 7,880 | \$ 12,219 | \$ 17,459 |
| Operating expenses | 6,373 | 9,111 | 13,126 |
| Operating income | <u>\$ 1,507</u> | <u>\$ 3,108</u> | <u>\$ 4,333</u> |
| Consolidated | | | |
| Net sales | \$ 107,006 | \$ 135,987 | \$ 177,866 |
| Operating expenses | 104,773 | 131,801 | 173,760 |
| Operating income | <u>2,233</u> | <u>4,186</u> | <u>4,106</u> |
| Total non-operating income (expense) | (665) | (294) | (300) |
| Provision for income taxes | (950) | (1,425) | (769) |
| Equity-method investment activity, net of tax | (22) | (96) | (4) |
| Net income | <u>\$ 596</u> | <u>\$ 2,371</u> | <u>\$ 3,033</u> |

Net sales by groups of similar products and services is as follows (in millions):

Source: Amazon's 2017 10-K report, page 69.

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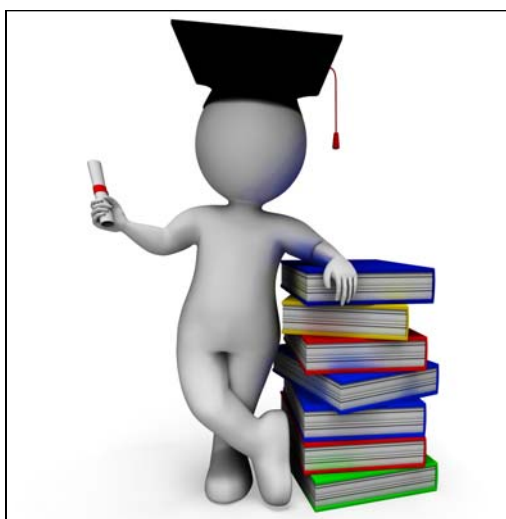
pay yourself in the coming year.

At least companies have the option of giving employees until March 15 to spend leftover money or even keep up to \$500 for the next year. Many don't do that, though.

The good thing is that you can start spending the whole sum you designated for the year ahead on Jan. 1, even though your contributions are spread over the coming 12 months. Leave the job and you can't take the money with you, as you would with a retirement account—or an HSA.

Health savings accounts. The advantage here, of being able to sock away more money and not

forfeiting the unused amount on Dec. 31, is considerable.



In 2018, a single person can save \$3,450 in an HSA and in 2019,

\$3,500. A family: \$6,900 and \$7,000. Further, if you're 55 and older, you can put in an extra \$1,000 as a catch-up. In addition, self-employed people can create an HSA for themselves, but not an FSA.

But HSAs have their weaknesses. To set one up in both 2018 and 2019, your health plan needs to have a yearly deductible of \$1,350 for an individual and \$2,700 for a family. That's a bit steep.

Regardless, either plan can be a boon tax-wise. Utilizing FSAs and HSAs are best considered within a strategic tax plan, which is technical and depends on your personal circumstances. We're here to help with any questions. ●

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