

September 2018

## Citation and resource guide

### A grain of SALT in new IRS notice

IRS Notice 2018-54, "Guidance on Certain Payments Made in Exchange for State and Local Tax Credits," is at [www.irs.gov/pub/irs-drop/n-18-54.pdf](http://www.irs.gov/pub/irs-drop/n-18-54.pdf).

### Life insurance as the ultimate hedge

The IRS explains when life insurance proceeds avoid income tax in Publication 525, "Taxable and Nontaxable Income," page 21, at [www.irs.gov/pub/irs-pdf/p525.pdf](http://www.irs.gov/pub/irs-pdf/p525.pdf).

### Funding your buy-sell with life insurance

The IRS explains which insurance premiums are deductible for small business owners and which are not in Publication 334, "Tax Guide for Small Business," on page 34, at [www.irs.gov/pub/irs-pdf/p334.pdf](http://www.irs.gov/pub/irs-pdf/p334.pdf).

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## Practice development tip

### Plan for penalty-free IRA payouts

As summer vacations end and the third quarter of 2018 winds up, it's time to think about year-end tax planning meetings. Advance scheduling can help you line up a full slate of appointments. The tax law passed at the end of 2017 left little time for fourth quarter planning, so many clients may be eager for your advice in late 2018.

One approach would be to target clients between the ages of 59½ and 70½. This is the "No Penalty" zone in which taxpayers no longer are subject to the 10% early withdrawal penalty and are not yet subject to the 50% penalty for insufficient required minimum distributions. They can take as much or as little as they wish from traditional IRAs and other tax-deferred accounts without owing these penalties. (Income tax will be triggered.)

In addition, by this time of year, clients probably will have a good idea of their taxable income for 2018. Therefore, you can suggest that age-appropriate clients take penalty-free

distributions that will keep them within the relatively low-income-tax brackets that are in effect this year.

These clients might spend the after-tax dollars or use the money to pay down expensive credit card debt. As explained in this issue of the CPA Client Bulletin, the net amount also could be used to buy life insurance and lock in a significant tax-free payout to a selected beneficiary or beneficiaries.

Yet another possibility is to move money from a traditional IRA to a Roth IRA, generating potentially tax-free income for the client and beneficiaries. The new tax law has ended the opportunity for recharacterizing (reversing) Roth IRA conversions, so year-end can be a good time to fine tune a Roth conversion that stays within a client's tax bracket. Also, a conversion at any time during the year counts as a conversion executed on the previous January 1 for meeting the 5-year test for untaxed Roth IRA distributions after age 59½.

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