Bollenback & Forret, PA Individual Tax Newsletter 2019

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2019 Tax Provisions for Individuals

As we come to the end of the 2019 tax year, this is the perfect time to consider last-minute strategies that may help reduce your 2019 tax liability. While there have been no significant changes to tax legislation in 2019 affecting individual taxes, there is no better time than the present to look at how to approach year-end tax planning. Here's what individuals and families need to know about tax provisions for 2019.

Personal Exemptions

The personal and dependent exemptions remain suspended until 2025 under the Tax Cuts and Jobs Act of 2017 (TCJA).

Standard Deductions

The standard deduction for married couples filing a joint return in 2019 increased to $24,400 from $24,000 in 2018. For singles and married individuals filing separately, it increased to $12,200 ($12,000 in 2018), and for heads of household the deduction increased to $18,350 ($18,000 in 2018).

The additional standard deduction for blind people and senior citizens in 2019 is $1,300 for married individuals and $1,650 for singles and heads of household.

Estate and Gift Taxes

In 2019 there is an exemption of $11.4 million (up from $11.18 million in 2018) per individual for estate, gift and generation-skipping taxes, with the top rate remaining at 40 percent. This exemption increases to $11.58 million in 2020. The annual exclusion for gifts is $15,000 for both 2019 and 2020 which remains unchanged from 2018.

Pease and PEP (Personal Exemption Phaseout)

Pease (limitations on itemized deductions) and PEP (personal exemption phaseout) remain suspended by the TCJA until 2025.

Income Tax Rates

The top tax rate remains unchanged for 2019 at 37 percent and affects individuals whose taxable income exceeds $510,300 ($612,350 for married taxpayers filing a joint return). The remaining statutory individual income tax rates remain unchanged at 10, 12, 22, 24, 32 and 35 percent for 2019 under the TCJA.

Alternative Minimum Tax (AMT)

The AMT exemption amounts have increased to $71,700 for single filers and to $111,700 for married filing joint filers ($55,850 for married filing separately). The income level at which the AMT exemption begins to phase out has increased to $510,300 or $1,020,600 if married filing jointly.

Standard Mileage Rates

The standard mileage rate for business is $.58 per mile for 2019. The rate for medical and moving is $.20 per mile and for charity is $.14 per mile.

Alimony

Alimony and separate maintenance payments are no longer deductible (or includible in income) for any divorce or separation agreement executed after December 31, 2018. There is no change in the tax treatment for pre-2019 divorce agreements. Under a special rule, an existing (pre-2019) divorce or separation decree can be legally modified for the TCJA rules to apply.

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Medical Expenses

For 2019, your medical expenses are only deductible as an itemized deduction to the extent they exceed 10% of your adjusted gross income (AGI) which is an increase over the 7.5% of AGI in 2018. Depending on what your taxable income is expected to be in 2019 and 2020 and whether itemizing deductions would be advantageous for you in either year, you may want to accelerate any optional medical expenses in 2019 or defer them until 2020. The right approach depends on your income for each year, expected medical expenses, as well as your other itemized deductions.

State and Local Taxes

The deduction for state and local sales, income, and property taxes remain in place but are limited to $10,000 ($5,000 for married taxpayers filing separately). Deductions for these taxes in computing a taxpayer's Schedule C, Schedule E or Schedule F are not limited.

Moving Expenses

The deduction for moving expenses has been suspended for 2018-2025. The suspension does not apply to members of the U.S. Armed Forces on active duty who move pursuant to a military order related to a permanent change of station. Any employer reimbursed moving expenses will not be deductible, and are included in income and taxable to the taxpayer.

Home Equity Loans and Home Equity Lines of Credit Interest Deduction

Starting in 2018, the TCJA eliminated the deduction for interest paid on home equity loans and lines of credit for tax years 2018 through 2026 unless those funds were used to purchase, renovate or substantially improve your primary or second home. Deductible interest on eligible home equity proceeds are no longer subject to $100,000 balance cap but included in the overall mortgage cap limits noted below.

Mortgage and Home Equity Debt Deduction Caps

Mortgage debt, ***<u>including</u>*** home equity loans and home equity lines of credit, obtained for home acquisition or improvement costs after December 15, 2017 will be limited to $750,000 ($375,000 for married filing separately). For mortgage debt incurred on or before December 15, 2017, the limitation is $1,000,000 ($500,000 for married filing separately).

Miscellaneous Itemized Deductions Subject to 2% Floor

These deductions, which include unreimbursed business expenses, tax preparation fees, investment expenses and union dues remain suspended until 2025 under the TCJA.

Charitable Contributions

As a result of the increase in the standard deduction under the TCJA, some taxpayers are no longer getting a benefit from itemizing their deductions, including charitable contributions, as they once were. You can still help charities and get a tax benefit if you contribute enough to get over the standard deduction amount or bunch itemized deductions that would otherwise be spread over multiple years into one year. You can also donate appreciated assets, such as stock, to a charity. Generally, the higher the appreciated value of the asset, the bigger the potential value of the tax benefit. Taxpayers 70 ½ years old or older who own an individual retirement account (IRA) may want to consider making a charitable contribution directly from your IRA to charity. Not only is this counted towards your required minimum distribution, but the amount is not included in income and thus reduces your taxable income and AGI.

Qualified Business Income Deduction

The TCJA added a new deduction for non-corporate taxpayers for qualified business income. The deduction is also referred to as the Sec 199A deduction. This deduction reduces taxable income, rather than adjusted gross income, and is available to taxpayers who take either the standard deduction or itemize their deductions. In general, this deduction cannot exceed 20 percent of the excess of the taxpayer's taxable income over net capital gain.

The deduction is generally 20 percent of a taxpayer's qualified business income (QBI) from a partnership, S Corporation, or sole proprietorship. QBI is defined as the net amount of items of income, gain, deduction, and loss with respect to the trade or business. However, certain types of investment-related items are excluded from QBI, such as capital gains or losses, dividends, and interest income (unless the interest is properly allocable to the business). Employee compensation and guaranteed payments to a partner are also excluded. This deduction is taken for partnerships and S Corporations at the partner or shareholder level.

The calculation of this deduction depends on whether the taxpayer's taxable income is (1) below a lower taxable income threshold of $160,700 or $321,400 if filing a joint return, (2) above a higher taxable income threshold of $210,700 or $421,400 if filing a joint return, or (3) between the lower and higher taxable income thresholds.

If the taxpayer has income below the lower threshold, calculating the Sec 199A deduction is straightforward. If the taxpayer has taxable income above the higher threshold, two issues arise in the calculation of the deduction as follows:

1) A business of the taxpayer will not be treated as a qualified business and the income of the business will not be included in QBI if it meets the definition of a specified service trade or business (SSTB). An SSTB is any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees (or owners). Therefore, if a taxpayer has taxable income over the higher threshold and the business is determined to be a SSTB, the 199A deduction will be denied in full.

2) If a business is a qualified business (not a specified service trade or business), the deductible QBI amount for the business is subject to a W-2 wage and capital limitation. The deductible QBI amount for the business is equal to the *lesser* of (1) 20 percent of the business's QBI or (2) the *greater* of (a) 50 percent of the W-2 wages for the business or (b) 25 percent of the W-2 wages plus 2.5 percent of the business's unadjusted basis in all qualified property.

Taxpayer's with taxable income between the lower and higher thresholds (between $321,400 and $421,400 for married taxpayers filing jointly; between $160,700 and $210,700 for others) are subject to a ratable phase-in of the wage and capital limitation (thereby avoiding the full burden of the wage and capital limitation). For taxpayers owning a specified service trade or business (SSTB) who are between these thresholds, the deduction limitation is also phased in – allowing taxpayers with a SSTB at this taxable income range to be able to qualify for at least part of the Sec 199A deduction.

There are several other factors to consider regarding the Sec 199A deduction. This deduction is a below-the-line deduction, meaning it will not have an impact on various adjusted gross income thresholds. If the total QBI amount for the tax year is less than zero, the Sec 199A deduction is zero for the taxable year. The negative total QBI amount is treated as negative QBI from a separate trade or business in the subsequent tax year for purposes of calculating the taxpayer's Sec 199A deduction for that subsequent year. This carryover rule does not affect the deductibility of the loss for purposes of other provisions of the Internal Revenue Code (i.e. income tax or self-employment tax). In addition, the deduction is only allowed for federal income tax purposes (i.e. not payroll taxes) and will expire in 2026 unless it is extended by Congress.

Individuals - Tax Credits & Education Expenses

Child and Dependent Care Credit
The child and dependent care tax credit was permanently extended for taxable years starting in 2013 and remains unchanged under the TCJA. If you pay someone to take care of your dependent (defined as being under the age of 13 at the end of the tax year or incapable of self-care) in order to work or look for work, you may qualify for a credit of up to $1,050 or 35 percent of $3,000 of eligible expenses.

For two or more qualifying dependents, you can claim up to 35 percent of $6,000 (or $2,100) of eligible expenses. For higher income earners the credit percentage is reduced, but not below 20 percent, regardless of the amount of adjusted gross income.

Child Tax Credit
For tax year 2019, the child tax credit offers up to $2,000 per qualifying dependent child 16 or younger at the end of the calendar year**.** A portion of the credit may be refundable, which means that you can claim the amount you are owed, even if you have no tax liability for the year. The maximum refundable amount for 2019 is $1,400. The $500 nonrefundable credit for qualifying dependents other than children introduced by the TCJA remains in effect for 2019. The total of both credits is subject to a single phase out when adjusted gross income exceeds $200,000 (single) or $400,000 (married filing jointly).

Adoption Credit
For adoptions finalized in 2019, a nonrefundable (i.e. only those with a tax liability will benefit) credit of up to $14,080 is available for qualified adoption expenses for each eligible child.

Earned Income Tax Credit (EITC)
For tax year 2019, the maximum earned income tax credit (EITC) for low and moderate income workers and working families increased to $6,557 (up from $6,431 in 2018). The maximum income limit for the EITC increased to $55,952 (up from $54,884 in 2018) for married filing jointly. The credit varies by family size, filing status, and other factors, with the maximum credit going to joint filers with three or more qualifying children.

Coverdell Education Savings Acct.
You can contribute up to $2,000 a year per beneficiary to Coverdell savings accounts in 2019. These accounts can be used to offset the cost of elementary and secondary education, as well as post-secondary education. Single filers can contribute to a Coverdell account if their modified adjusted gross income is less than $110,000 ($220,000 for married filing jointly taxpayers).

Employer-Provided Educational Assistance
In 2019, as an employee, you can exclude up to $5,250 of qualifying post-secondary and graduate education expense that are reimbursed by your employer.

American Opportunity Tax Credit
For 2019, the maximum American Opportunity Tax Credit is $2,500 per student for qualifying higher education expenses for the first four years of college, although it is phased out beginning at $160,000 adjusted gross income for joint filers and $80,000 for other filers.

Lifetime Learning Credit
A credit of up to $2,000 is available for an unlimited number of years for certain costs of post-secondary or graduate courses or courses to acquire or improve your job skills. For 2019, the modified adjusted gross income threshold at which the lifetime learning credit begins to phase out is $116,000 for joint filers and $58,000 for singles and head of household.

Student Loan Interest
In 2019 you can deduct up to $2,500 in student-loan interest as long as your modified adjusted gross income is less than $85,000 (single) or $170,000 (married filing jointly). The deduction is phased out at higher income levels. In addition, the deduction is claimed as an adjustment to income so you do not need to itemize your deductions.

529 Plan Distributions
A 529 Plan distribution is tax-free if it is used to pay qualified higher education expenses of the beneficiary (student). The TCJA provides that qualified higher education expenses now include expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school. However, there is a limit to how much of a distribution can be taken from a 529 plan for these expenses. The amount of cash distributions from all 529 plans per single beneficiary during any tax year can't, when combined, include more than $10,000 for elementary school and secondary school tuition incurred during the tax year.

Individuals - Retirement

Contribution Limits

For 2019, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $19,000. This increases to $19,500 in 2020. For persons age 50 or older in 2019, the limit is $25,000 ($6,000 catch-up contribution). In 2020, it increases to $26,000. Contribution limits for SIMPLE plans remain at $13,000 for persons under age 50 and $16,000 for anyone age 50 or older in 2019. In 2020, the amounts increase to $13,500 for persons under age 50 and $16,500 for anyone age 50 or older. The maximum compensation used to determine contributions is $280,000 (increased to $285,000 in 2020).

IRA Contribution Limits

For 2019, your total contributions to all of your traditional and Roth IRA's cannot be more than $6,000 ($7,000 if you're age 50 or older) or your taxable compensation for the year, if your compensation was less than this dollar limit. The limits remain the same for 2020. Effective January 1, 2018, pursuant to the Tax Cuts and Jobs Act, a conversion from a traditional IRA, SEP or SIMPLE to a Roth IRA cannot be recharacterized. The new law also prohibits recharacterizing amounts rolled over to a Roth IRA from other retirement plans, such as 401(k) or 403(b) plans.

Saver's Credit

In 2019, the adjusted gross income limit for the saver's credit (also known as the retirement savings contributions credit) for low and moderate income workers is $64,000 for married couples filing jointly, $48,000 for heads of household, and $32,000 for married individuals filing separately and for singles. Beginning in 2018, this credit can be taken for your contributions to an Achieving a Better Life Experience (ABLE) account if you're the designated beneficiary.

Achieving a Better Life Experience (ABLE) Accounts

ABLE accounts allow the families of disabled young people to set aside money for their care in a way that earns special tax benefits. Contributions to an ABLE account are not tax-deductible, but all investment earnings remain tax-free as long as money taken from the account is used for "qualified disability expenses". These expenses include medical treatment, education, tutoring and job training, special-needs transportation, assistive technology, housing and legal and administrative fees. As with education 529 plans, taxes apply if money is withdrawn from an ABLE account for something other than qualifying expenses. A disabled individual can be named as the beneficiary of only one ABLE account. The person must have been blind or disabled before age 26 to qualify. A key feature of ABLE accounts is that the first $100,000 in an account is not treated as personal assets of the account's beneficiary. This is important because Federal law generally bars individuals from receiving assistance such as Medicaid, housing aid and Supplemental Security Income if they have more than $2,000 worth of financial assets.

The maximum contribution limit to an ABLE account is equal to the annual gift tax exclusion. For 2019, this amount is $15,000. The Tax Cuts and Jobs Act expanded the ability to make greater contributions to ABLE plans starting in 2018. This additional contribution cannot exceed the lesser of 100% of the beneficiary's earned income (if they do not participate in an employer retirement plan) or the prior year's poverty line amount of a one-person household. For 2019, this additional contribution amount cannot exceed $12,140.

As always, please call us to discuss any of this information in greater detail.

MARK YOUR CALENDARS

- December 9-20, 2019 - Contact us for your 2019 tax projection
- January 15, 2020- **2019 4TH** Quarter Estimates are due
- **March 16, 2020** - *Please provide your complete tax information to prepare your 2019 return or extension no later than today*
- April 15, 2020 - 2019 Individual Income Tax Return/Extension and Foreign Financial Accounts, FinCEN returns DUE DATE
- April 15, 2020 - 2020 1st Quarter Estimates are due
- June 15, 2020 - 2020 2nd Quarter Estimates are due
- September 15, 2020 - 2020 3rd Quarter Estimates are due
- **September 14, 2020** - *Please provide your complete tax information to prepare your 2019 extended return no later than today*
- October 15, 2020 - All extended 2019 Personal returns are due
- January 15, 2021 - 2020 4th Quarter Estimates are due

Firm News - New in 2020

We have some exciting news! In the New Year we are transitioning to sending out important tax news, updates and our annual questionnaires electronically. We will soon be sending you an email asking you to verify whether or not you'd like to receive these emails from us. This new system will also be used to send out office announcements such as our Habitat project earlier this year. Please click **Subscribe!**

Visit our on-line Tax Guide for updates - http://bollenback.com/reports.php

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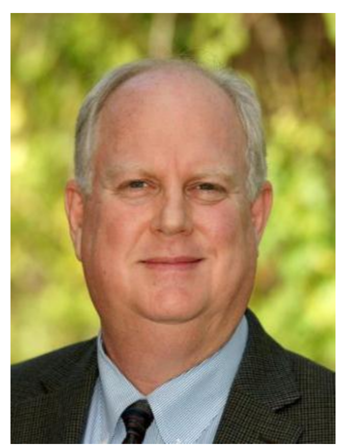

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