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What's new that affects you?

A snapshot of the tax laws that affect your return

Tax law changes likely affected your returns last year. The changes to many individual provisions are still scheduled to be temporary and are set to expire in 2025. With one year of the changes behind us, it is a good time to work with your CPA to minimize your tax liability and enhance your financial position.

Did you know?

- With the increase in the standard deduction and changes to itemized deductions, it could be beneficial to "bunch" deductions.
- The IRS recently sent letters to taxpayers with virtual currency transactions (bitcoin, Ethereum, etc.) and is boosting compliance efforts in this area.
- The IRS initiates most contacts through regular mail. However, scammers may try to deceive taxpayers by calling and demanding payment. Be on alert for tax scams.
- For 2019, the penalty for not having health insurance is reduced to zero. However, technically, individuals are still required to have insurance.

Talk to your CPA about these and other important issues.

- More people will be able to take advantage of the child tax credit due to the increase in income phase-out limits.
- Home equity interest may still be deductible. Deductibility depends on several factors, including how you spent the funds acquired from the debt.
- There is a $10,000 ($5,000 for married taxpayers filing separately) limitation on the deduction of state and local taxes.
- Changes to the treatment of alimony could affect taxpayers whose divorces were finalized in 2019.
- There are expanded Sec. 529 plan savings opportunities — $10,000 per year may be distributed to pay for private elementary and secondary tuition.

Tax brackets for 2019

Rate	Single	Married filing jointly (and surviving spouses)	Heads of household	Married filing separately
10%	Up to $9,700	Up to $19,400	Up to $13,850	Up to $9,700
12%	$9,701–$39,475	$19,401–$78,950	$13,851–$52,850	$9,701–$39,475
22%	$39,476–$84,200	$78,951–$168,400	$52,851–$84,200	$39,476–$84,200
24%	$84,201–$160,725	$168,401–$321,450	$84,201–$160,700	$84,201–$160,725
32%	$160,726–$204,100	$321,451–$408,200	$160,701–$204,100	$160,726–$204,100
35%	$204,101–$510,300	$408,201–$612,350	$204,101–$510,300	$204,101–$306,175
37%	Over $510,300	Over $612,350	Over $510,300	Over $306,175

Alternative minimum tax (AMT)

When the AMT is triggered, a taxpayer must add back certain items and recalculate their tax at an established flat rate. They will pay the higher of the two amounts. If you paid AMT last year but do not owe it now, you may be eligible for a credit. Note that exemption amounts are $71,700 for single filers, $111,700 for married couples filing jointly and $55,850 for married couples filing separately.

Standard deduction

For 2019, those filing individually or as married filing separately will see a standard deduction of $12,200 while those filing jointly will see a deduction of $24,400. The standard deduction is $18,350 for taxpayers filing as head of household.

Tax laws affecting higher-income taxpayers

- Tax law changes suspended the overall limit for itemized deductions for tax years 2018–2025.
- Net investment income tax (NIIT)
  - NIIT is a 3.8% tax on a broad range of income sources such as interest, dividends, capital gains, rental and royalty income, non-qualified annuities and passive business revenue. It affects individuals, estates and trusts above certain income levels.
  - Taxpayers are subject to NIIT if their modified adjusted income exceeds $250,000 for married couples filing jointly, $200,000 for single or head of household filers and $125,000 for married couples filing separately.
- Taxpayers are subject to an additional 0.9% Medicare surtax on wages and self-employment income in excess of $250,000 for married couples filing jointly, $200,000 for single or head of household filers and $125,000 for married couples filing separately.
- For the 0.9% additional Medicare surtax, withholding is required only on wages above $200,000. If a couple's combined income exceeds $250,000, it's possible no Medicare surtax was withheld if each spouse earned below $200,000. This may result in under-withholding (and possible penalties). Ask your CPA whether you should pay estimates.

Important to check

Long-term capital gain (LTCG) rates:

0%
Single up to $39,375
Married filing jointly up to $77,200
Head of household up to $51,700

15%
Single $39,376–$434,550
Married filing jointly $78,751–$488,850
Head of household $52,751–$461,700

20%
Single $434,550+
Married filing jointly $488,850+
Head of household $461,700+

Estate and gift tax:

- Gift tax exclusion: $15,000
- Estate tax lifetime exemption: $11.4 million

Don't forget FSAs or HSAs!

There are ways to reduce your taxable income by making pre-tax contributions to a flexible spending account (FSA) to pay out-of-pocket medical expenses and/or contributing to a health savings account (HSA). Your employer and/or insurance plan will determine if these are applicable to you. These plans provide a way to obtain a tax benefit for paying medical expenses since taxpayers can only deduct unreimbursed medical/dental expenses that exceed 10% of their adjusted gross income.

Tax benefits and obligations

Higher education costs

- American opportunity tax credit (AOTC): up to $2,500 of federal tax credits for expenses related to a four-year degree and $1,000 of this is refundable
- Lifetime learning credit: up to $2,000 per tax return for qualified tuition and related expenses

Child and dependent care costs

- Child tax credit: provides up to $2,000 per qualifying child under 17
- Child and dependent care tax credit: provides a credit of 20–35% of the cost of care up to $3,000 for one or $6,000 for two or more children under age 13, or a spouse or other dependent who is incapable of self-care

Charitable tax planning

There are many tax planning opportunities related to charitable giving. Working with a CPA on the timing of charitable gifts — e.g., bunching them in alternating years — is more important than ever.

- Evaluate both tax and philanthropic goals when making contributions.
- Consider donating appreciated property (especially securities you are considering selling).
- Consider a donor-advised fund to help with timing/control of contributions.
- Donating services are usually not deductible (although out-of-pocket expenses related to such services are normally deductible).
- Contributions specified for certain individuals are not deductible (even if the related organization is a qualified charitable organization).
- Be aware of record-keeping and contemporaneous acknowledgment requirements.
- Note any quid pro quo statements included on acknowledgments that will affect the deductible amount of any contribution.

Looking forward: What can you do to minimize taxes?

Planning for ways to minimize taxes is an ongoing process. Here are some items to consider:

- Maximize your retirement plan contributions to minimize income tax. For tax year 2019, the limit for 401(k)s (if you are under age 50) is $19,000. The limit is $25,000 if you are age 50 or older.
- Take full advantage of employer-sponsored programs that allow you to set aside pre-tax dollars for child care or medical expenses.
- Ask your CPA whether you will likely be subject to the AMT and how to minimize the impact.
- Shift to investments that are not subject to NIIT (e.g., tax-exempt bonds).
- Offset any capital gains by harvesting losses in your taxable brokerage account.
- Your CPA can advise you more on these and other strategies.

Self-employed or own a business or rental property?

Tax planning for your business is more important than ever with the new tax law. Be sure that your books and records are in good order (or contact your CPA for bookkeeping assistance) so you can review planning opportunities with your CPA.

Deduction for business income

Some businesses will qualify for a 20% deduction of qualified business income.

Purchases of equipment

- Bonus depreciation — A deduction of 100% of the cost of the qualified property can be deducted in the first year of acquisition. In 2023, this percentage will decrease by 20% each year until it becomes 0% in 2027. Used property is now included as qualified property.
- Section 179 — For tax year 2019, businesses can deduct up to $1.02 million of business property (computers, office furniture, etc.) placed in service during the tax year. This deduction now includes the purchase of certain improvements to commercial real property.

Retirement plans

Consider establishing a qualified retirement plan, such as:

- SEP IRA: May contribute up to the lesser of 25% of net income or $56,000
- 401(k): Employee deferral plan, plus profit sharing component

Meals and entertainment expenses

Expenses defined as entertainment are no longer deductible. However, business meals that meet certain criteria will still be deductible (generally 50% of the expense) as they have been in the past. Make sure that you have these items segregated in your books and records.

Health insurance

Evaluate your health insurance options to determine if you are eligible for a deduction for self-employed health insurance premiums (medical, dental or long-term care plans).

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