2019 TAX PLANNING & TIPS

The tax laws continue to provide opportunities for the wise and traps for the unwary. Often, tax savings can be achieved by taking action before the year-end. The information and strategies discussed herein may or may not be appropriate for your situation. Remember to consult with your tax professional before implementing them.

New Tax Law

On July 1, 2019, President Trump signed into law the Taxpayer First Act of 2019. The Act changes the management and oversight of IRS with the aim of improving customer service and the process for assisting taxpayers with appeals. Some of the key provisions include:

Notification of suspected identity theft. Effective for determinations made after the date that is six months after the date of enactment, the Act requires IRS to notify a taxpayer if it determines there has been any suspected unauthorized use of a taxpayer's identity, or that of the taxpayer's dependents, if an investigation has been initiated and its status, whether the investigation substantiated any unauthorized use of the taxpayer's identity, and whether any action has been taken (such as a referral for prosecution). Furthermore, when an individual is charged with a crime, IRS must notify the victim as soon as possible, giving victims the ability to pursue civil action against the perpetrators.

Requirements for identify protection. An Identity Protection Personal Identification Number (IP PIN) is a 6-digit number assigned to eligible taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their Social Security Numbers (SSNs) on fraudulent Federal income tax returns. While the IP PIN program was initially restricted to taxpayers affected by identity theft, as a result of expansion that began in 2014, the program is now also available to taxpayers in nine states plus the District of Columbia who request an IP PIN.

Within five years of the date of enactment, the Treasury Department is required to establish a program to issue an IP PIN to any U.S. resident individual who requests one. And, for each calendar year beginning after the date of enactment, the Treasury Department is required to expand the issuance of IP PINs to individuals residing in such states as IRS deems appropriate, provided that the total number of states served by the program continues to increase.

Notification of unauthorized inspection. The Taxpayer First Act requires the IRS to notify a taxpayer if IRS or a Federal or State agency proposes an administrative determination as to disciplinary or adverse action against an employee arising from the employee's unauthorized inspection or disclosure of the taxpayer's return or return information.

Electronic signatures by taxpayers. For a request for disclosure to a practitioner with consent of the taxpayer, or for any power of attorney granted by a taxpayer to a practitioner, the Act requires IRS to publish guidance to establish uniform standards and procedures for the acceptance of taxpayers' signatures appearing in electronic form with respect to such requests or power of attorney.

Point of contact for identity theft victims. Effective on the date of enactment, the Act requires IRS to establish procedures to implement a single point of contact for taxpayers affected by identity theft.

Independent Office of Appeals. The new law also requires that the IRS establish an Independent Office of Appeals and that case files referred to independent office be available to certain individual and small business taxpayers. Eligible taxpayers are those who, for the tax year to which the dispute relates, are:

1. Individuals with adjusted gross incomes not exceeding $400,000, and

2. Entities with gross receipts not exceeding $5 million for the tax year.

In cases in which IRS has issued a notice of deficiency to a taxpayer, IRS must prescribe notice and protest procedures for taxpayers whose request for Independent Appeals consideration is denied.

TCJA Tax Law

Although the Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017, some of the tax provisions did not go into effect until 2019.

Medical expenses. A deduction is allowed for the expenses paid during the tax year for the medical care of the taxpayer, the taxpayer's spouse, and the taxpayer's dependents to the extent the expenses exceed a threshold amount. To be deductible, the expenses may not be reimbursed by insurance or otherwise. If the medical expenses are reimbursed, then they must be reduced by the reimbursement before the AGI floor is applied.

For tax years ending after December 31, 2018, medical expenses will be subject to the 10% floor for both regular tax and AMT purposes.

Repeal of the individual mandate. Under the Affordable Care Act, the law required that individuals who were not covered by a health plan that provided at least minimum essential coverage were required to pay a “shared responsibility payment” (also referred to as a penalty) with their federal tax return. Unless an exception applied, the tax was imposed for any month that an individual did not have minimum essential coverage.

For months beginning after December 31, 2018, the amount of the individual shared responsibility payment is reduced to zero.

Alimony. Under the Tax Cuts and Jobs Act, for any divorce or separation agreement executed after December 31, 2018, or executed before that date but modified after it (if the modification expressly provides that the new amendments apply), alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the income of the payee spouse. Rather, income used for alimony is taxed at the rates applicable to the payor spouse.

Tax rules for pre-2019 divorces. For divorce or separation instruments executed before 2019, alimony or separate maintenance payments are deductible by the payor spouse, as long as the payments qualify under the tax rules for “alimony.” To qualify, the payments must (i) be required under the divorce decree or separation agreement (i.e., voluntary or “extra” payments won't qualify), (ii) be in cash only (not goods or services), and (iii) be required to end at the death of the recipient spouse. Also, the parties must be living in separate households. The parties can elect to have payments that qualify be treated as not qualifying (but not

vice versa). Alimony payments under pre-2019 instruments are includible in the gross income of (i.e., taxable to) the payee spouse.

Additional Information

Standard mileage rate. Taxpayers can use the standard mileage rate (in lieu of actual expenses) in computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups or panel trucks) for business purposes. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for business travel. The following rates are applicable for the 2019 tax year:

Business	$0.58
Medical	0.20
Moving	0.20
Charitable	0.14

Note: Except for active military members, the Tax Cuts and Jobs Act suspended the deduction for unreimbursed employee business expenses for tax years 2018-2025.

Estimated tax payments. Taxpayers generally must make estimated tax payments if they expect to owe $1,000 or more when they file their 2019 tax return.

For 2018, the IRS reduced the threshold for underpayment penalties; however, that was only for the 2018 tax year. For 2019, to avoid an underpayment penalty, taxpayers must satisfy one of the following tests:

1. The person's tax payments are at least 90 percent of the tax liability for 2019, or

2. The person's tax payments are at least 100 percent of the prior year's tax liability. (However, the 100 percent threshold is increased to 110 percent if a taxpayer's adjusted gross income was more than $150,000, or $75,000 if married and filing a separate return).

Social Security wage base for 2020. The Social Security Administration (SSA) recently announced that the maximum earnings subject to the Social Security component of the FICA tax will increase from $132,900 to $137,700 for 2020.

This means that for 2020, the maximum Social Security tax that employers and employees will each pay is $8,537.40 ($137,700 x 6.2%). A self-employed person with at least $137,700 in net self-employment earnings will pay $17,074.80 ($137,700 x 12.40%) for the Social Security part of the self-employment tax. The Medicare component remains 1.45% of all earnings, and individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) will pay an additional 0.9% in Medicare taxes.

Year-End Planning

Year-end planning is always complicated by the uncertainty of what the following year may bring, but this year presents an even bigger challenge. Serious questions persist over whether tax legislation will pass this year and, if so, whether it will involve sweeping tax reform, simple rate cuts, or something in between. With that in mind, here are a few steps you might consider to save tax dollars if you act before the end of the year. Please note that all actions may not apply in your situation.

- Taxpayers who plan their charitable gifts may be able to get themselves over the standard deduction and itemize, if they use a strategy called bunching. The Tax Cuts and Jobs Act greatly increased the standard deduction for married couples filing jointly ($24,400 for 2019 and $12,200 for single filers). It also placed new limits on itemized deductions, such as the state and local tax (SALT) deductions are limited to $10,000 per year.

  Some taxpayers may be able to work around the new limits by applying a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the tax year where

they will have a larger impact. For example, charitable gifts, such as cash or appreciated stock, are still tax-deductible if you itemize, but not if you take the standard deduction. If you give regularly to charities, consider putting several years' worth of gifts into a donor-advised fund (DAF) for a single year. Then you can spread out the giving from the DAF over the next several years, based on your charitable intent.

Note: This tax strategy may impact deductions and/or credits for state income tax purposes.

- Individuals at least 70½ years of age have the ability to make a direct transfer from an IRA to a charitable organization and exclude from gross income (up to $100,000 per year) the qualified charitable distribution.

  Using your IRA distributions for charitable giving could save you more than taking a charitable deduction on a normal gift. That's because these IRA distributions for charitable giving won't be included in income at all, lowering your adjusted gross income (AGI). You'll see the difference in many AGI-based computations. Even better, the distribution to the charitable organization will still count toward the satisfaction of your required minimum distribution (RMD) for the year.

- Postpone income until 2020 and accelerate deductions into 2019 to lower your 2019 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2019 that are phased out over varying levels of AGI.

- Understanding the tax consequences associated with buying and selling mutual fund shares can also have an impact on your tax situation.

  Time your purchases and sales. If you're planning to invest in a mutual fund, there are some important tax consequences that you should take into account in timing the investment. For instance, an investment shortly before payment of a dividend is something you should generally try to avoid. Your receipt of the dividend (even if reinvested in additional shares) will be treated as income and increase your tax liability. If you're planning a sale of any of your mutual fund shares near year-end, you should weigh the tax and the non-tax consequences of a sale in the current year versus a sale in the next year.

  Identify the shares you sell. Where you sell fewer than all of the shares that you hold in the same mutual fund, there are complicated rules for identifying which shares you have sold. The proper application of these rules can reduce the amount of your taxable gain or qualify the gain for favorable long-term capital gain treatment.

- Reducing or avoiding the net investment income tax (NIIT) can also lower your taxes. Taxpayers with modified adjusted gross income (MAGI) over $200,000 per year ($250,000 if married filing jointly and $125,000 if married filing separately) may owe the net investment income tax, in addition to income tax. The NIIT equals 3.8% of the lesser of your net investment income or the amount by which your MAGI exceeds the applicable threshold. Net investment income can include capital gains, dividends, interest, rental income and other investment-related income (but not business income or self-rental income from an active trade or business). Many of the strategies that can help you save or defer income tax on your investments can also help you avoid or defer NIIT liability.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients or required by law. We restrict access to non-public personal information and we maintain physical, electronic, and procedural safeguards to protect your personal non-public information.