December 22, 2019

Dear Clients and Friends,

We look forward to assisting you with your 2019 tax returns. Now is an excellent time to consider tax planning and wealth preservation strategies in advance of the close of 2019.

Below are some year-end tax planning strategies to consider, along with an update on tax law changes, tax rates and regulations that may impact you.

**Year-End Tax Planning Strategies**

With the end of the year fast approaching, now is the time to take a closer look at tax planning strategies you can use to minimize your tax burden for 2019.

Below are some general tax planning strategies to consider:

* Capital gains planning, including capital loss harvesting, and contributions to tax-deferred accounts (retirement savings or flexible spending accounts) can play an important role in your year-end tax planning strategy.
* Testing your current tax position to determine if you should make estimated payments or are subject to the Alternative Minimum Tax should be a part of your year-end review.
* Review your current withholding to determine if estimated tax payments should be made, especially if you have income not covered by withholding taxes.
* Consider funding a Health Savings Account if you meet eligibility requirements.
* Establish or contribute to a Roth IRA. Taxpayers whose income exceeds the Roth IRA AGI limitation ($137,000 single or head of household and $203,000 married filing jointly for 2019) can benefit from the “Backdoor Roth IRA” contribution to a traditional IRA.
* If you anticipate an increase in taxable income in 2020 and are expecting a bonus at year-end, try to get it before December 31. Keep in mind, however, that contractual bonuses are different, in that they are typically not paid out until the first quarter of the following year. Therefore, any taxes owed on a contractual bonus would not be due until you file your 2020 tax return in 2021.
* If your company grants stock options, then you may want to exercise the option or sell stock acquired by exercising an option this year. Use this strategy if you think your tax bracket will be higher in 2020. Generally, exercising this option is a taxable event; sale of the stock is almost always a taxable event.
* If you're self-employed, send invoices or bills to clients or customers this year to be paid in full by the end of December if you anticipate a higher tax bracket next year; however, make sure you keep an eye on estimated tax requirements.

Please note that taxpayers who paid Alternative Minimum Tax may need to modify certain strategies mentioned above.

**Noteworthy 2019 Tax Regulations and Guidelines**

**Accelerating Income and Deductions**

Accelerating income and deductions are two strategies that are commonly used to help taxpayers minimize their tax liability.

**Accelerating Income**

Accelerating income into 2019 is also a good idea if you anticipate being in a higher tax bracket next year. This is especially true for taxpayers whose earnings are close to threshold amounts ($200,000 for single filers and $250,000 for married filing jointly) that make you liable for additional Medicare Tax or Net Investment Income Tax.

Taxpayers close to threshold amounts for the Net Investment Income Tax (3.8 percent of net investment income) should pay close attention to "one-time" income spikes such as those associated with Roth conversions, sale of a home or any other large asset that may be subject to tax.

**Accelerating Deductions**

If a taxpayer is itemizing deductions, a taxpayer might accelerate and increase deductions by:

Paying an estimated state tax installment in December instead of at the January due date. However, make sure the payment is based on a reasonable estimate of your state tax.

Paying your entire property tax bill, including installments due in 2020, by year-end. This does not apply to mortgage escrow accounts.

* Prepayment of anticipated real property taxes that have not been assessed prior to 2020 is not deductible in 2019.

Under TCJA, the deduction for state and local taxes (SALT) was capped at $10,000. Once a taxpayer reaches this limit the two strategies above are not effective for federal returns.

Bunching threshold expenses (medical and dental) and charitable contributions in whichever year they provide the most benefit is a good strategy if it enables the taxpayer to get over the higher standard deduction threshold under the Tax Cuts and Jobs Act of 2017 (TCJA).

* To deduct medical and dental expenses in 2019, these amounts must exceed 10 percent of AGI.

Paying 2020 tuition in 2019 to take full advantage of the American Opportunity Tax Credit, an above-the-line tax credit worth up to $2,500 per student that helps cover the cost of tuition, fees and course materials paid during the taxable year. 40% of the credit (up to $1,000) is refundable, which means you can get it even if you owe no tax.

In cases where tax benefits are phased out over a certain adjusted gross income (AGI) amount, a strategy of accelerating deductions might allow you to claim larger deductions, credits, and other tax breaks for 2019, depending on your situation. Roth IRA contributions, conversions of regular IRAs to Roth IRAs, child tax credits, higher education tax credits, and deductions for student loan interest are examples of these types of tax benefits.

**Standard Deductions**
The standard deduction for married couples filing a joint return or qualifying widow/widower in 2019 is $24,400. For singles and married individuals filing separately, the standard deduction is $12,200.  For heads of household, the standard deduction is $18,350.

The additional standard deduction for blind people and senior citizens (over 65 years old) in 2019 is $1,300 for married individuals and $1,650 for singles and heads of household.

**Income Tax Rates**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tax Rate** | **Single** | **Married Filing Jointly or Qualifying Widow / Widower** | **Married Filing Separately** | **Head of****Household** |
| 10% | $0 to $9,700 | $0 to $19,400 | $0 to $9,700 | $0 to $13,850 |
| 12% | $9,701 - $39,475 | $19,401 - $78,950 | $9,701 - $39,475 | $13,851 - $52,850 |
| 22% | $39,476 - $84,200 | $78,951 - $168,400 | $39,476 - $84,200 | $52,851 - $84,200 |
| 24% | $84,201 - $160,725 | $168,401 - $321,450 | $84,201 - $160,725 | $84,201 - $160,700 |
| 32% | $160,726 - $204,100 | $321,451 - $408,200 | $160,726 - $204,100 | $160,701 - $204,100 |
| 35% | $204,101 - $510,300 | $408,201 - $612,350 | $204,101 - $306,175 | $204,101 - $510,300 |
| 37% | Over $510,301 | Over $612,351 | Over $306,176 | Over $510,301 |

**Alternate Minimum Tax**

The alternative minimum tax (AMT) applies to high-income taxpayers that take advantage of deductions and credits to reduce their taxable income. The AMT ensures that those taxpayers pay at least a minimum amount of tax and was made permanent under the American Taxpayer Relief Act (ATRA) of 2012 and exemption amounts increased significantly under the Tax Cuts and Jobs Act of 2017 (TCJA). As such, the AMT is not expected to affect as many taxpayers. Furthermore, the phaseout threshold increases to $510,300 ($1,020,600 for married filing jointly). Both the exemption and threshold amounts are indexed for inflation.

**Note:** AMT exemption amounts for 2019 are as follows:

* $71,700 for single and head of household filers,
* $111,700 for married people filing jointly and for qualifying widows or widowers,
* $55,850 for married people filing separately.

**Long Term Capital Gains**
In 2019 taxpayers pay 0%, 15% or 20% on long-term capital gains and dividends:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tax Rate** | **Single** | **Married Filing Jointly or Qualifying Widow / Widower** | **Married Filing Separately** | **Head of****Household** |
| 0% | $0 to $39,375 | $0 to $78,750 | $0 to $39,375 | $0 to $52,750 |
| 15% | $39,376 - $434,550 | $78,751 - $488,850 | $39,376 - $244,425 | $52,751 - $461,700 |
| 20% | Over $434,551 | Over $488,850 | Over $244,426 | Over $461,701 |

As a general rule, if you have a large capital gain this year, you may consider selling an investment on which you have an accumulated loss. Capital losses up to the amount of your capital gains plus $3,000 per year ($1,500 if married filing separately) can be claimed as a deduction against income.

**Adoption Credit**
In 2019, a nonrefundable credit of up to $14,080 is available for qualified adoption expenses for each eligible child.

**Child and Dependent Care Credit**
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. Certain summer camps may be eligible.

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 is $2,000. The credit is phased out for those with higher incomes.

**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. The maximum income limit for the EITC increased to $55,952 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.

**Education Expenses**

In 2019, there are several different tax credits or deductions that may apply depending on the type of expense.

**American Opportunity Tax Credit**
In 2019, the maximum American Opportunity Tax Credit that can be used to offset certain higher education expenses is $2,500 per student, 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 $114,000 for joint filers and $57,000 for singles and heads of household.

**Coverdell Education Savings Account**
You can contribute up to $2,000 a year 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.

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

**Student Loan Interest**
In 2019, you can deduct up to $2,500 in student-loan interest. The deduction begins to phase out if your modified adjusted gross income is larger than $135,000 for joint filers and $65,000 for singles and heads of household.

**Charitable Contributions**

Property, as well as money, can be donated to a charity. You can generally take a deduction for the fair market value of the property; however, for certain property, the deduction is limited to your cost basis. While you can also donate your services to charity, you may not deduct the value of these services. You may be able to deduct charity-related travel expenses and some out-of-pocket expenses.

Keep in mind that a written record of your charitable contributions - including travel expenses such as mileage - is required in order to qualify for a deduction. A donor may not claim a deduction for any contribution of cash, a check or other monetary gift unless the donor maintains a record of the contribution in the form of either a bank record (such as a canceled check) or written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of the contribution, and the amount of the contribution.

Contributions of appreciated property (i.e. stock) provide an additional benefit because you avoid paying capital gains on any profit.

Taxpayers age 70 or older can reduce income tax owed on required minimum distributions (RMDs) from IRA accounts by donating them to a charitable organization(s) instead.

**Investment Gains and Losses**

Investment decisions are often more about managing capital gains than about minimizing taxes. For example, taxpayers below threshold amounts in 2019 might want to take gains; whereas taxpayers above threshold amounts might want to take losses.

Fluctuations in the stock market are commonplace; don't assume that a down market means investment losses as your cost basis may be low if you've held the stock for a long time.

Minimize taxes on investments by judicious matching of gains and losses. Where appropriate, try to avoid short-term capital gains, which are taxed as ordinary income (i.e., the rate is the same as your tax bracket).

Wash Sale Rule. After selling a securities investment to generate a capital loss, you can repurchase it after 30 days. This is known as the "Wash Rule Sale." If you buy it back within 30 days, the loss will be disallowed. Or you can immediately repurchase a similar (but not the same) investment, e.g., an ETF or another mutual fund with the same objectives as the one you sold.

**Tax Treatment of Virtual Currency Transactions**

If you've invested in Bitcoin (or another virtual currency) and decide to sell you need to consider the impact of virtual currency transactions on your taxes.

Prior to 2014, there was no IRS guidance and many people did not understand that selling virtual currency was a reportable transaction. They may have found themselves with a hefty tax bill - money they were hard-pressed to come up with at tax time. Others were unaware that they needed to report their transactions at all or failed to do so because it seemed too complicated.

In 2018, the IRS announced a Virtual Currency Compliance campaign to address tax noncompliance related to the use of virtual currency through outreach and examinations of taxpayers, and in August 2019, began sending letters to taxpayers with virtual currency transactions that potentially failed to report income and pay the resulting tax from virtual currency transactions did not report their transactions properly.

More than 10,000 taxpayers received these letters, whose names were obtained through various ongoing IRS compliance efforts. There were three variations of the letter: Letter 6173, Letter 6174 or Letter 6174-A. All three versions strive to help taxpayers understand their tax and filing obligations and how to correct past errors.

In October 2019, the IRS expanded their guidance to include two additional pieces of information that help taxpayers understand their reporting and tax obligations with regard to virtual currency transactions.

If you have sold virtual currency or have questions on the tax treatment, please contact us if you have questions.

**Additional Medicare Tax**

Taxpayers whose income exceeds certain threshold amounts ($200,000 single filers and $250,000 married filing jointly) are liable for an additional Medicare tax of 0.9% on their tax returns but may request that their employers withhold additional income tax from their pay to be applied against their tax liability when filing their 2019 tax return next April.

As such, high net worth individuals should consider contributing to Roth IRAs and 401(k) because distributions are not subject to the Medicare Tax. In addition, if you're a taxpayer who is close to the threshold for the Medicare Tax, it might make sense to switch Roth retirement contributions to a traditional IRA plan, thereby avoiding the 3.8% Net Investment Income Tax.

**Net Investment Income Tax (NIIT)**

The Net Investment Income Tax, which went into effect in 2013, is a 3.8% tax that is applied to investment income such as long-term capital gains for earners above a certain threshold amount ($200,000 for single filers and $250,000 for married taxpayers filing jointly). Short-term capital gains are subject to ordinary income tax rates as well as the 3.8% NIIT. This information is something to think about as you plan your long-term investments. Business income is not considered subject to the NIIT provided the individual business owner materially participates in the business.

**Gift Tax**

The federal gift and estate tax exemption is currently set at $11.40 million but increases to $11.58 million in 2020. The maximum estate tax rate is set at 40 percent.

Sound estate planning often begins with lifetime gifts to family members. In other words, gifts that reduce the donor's assets subject to future estate tax. Such gifts are often made at year-end, during the holiday season, in ways that qualify for exemption from federal gift tax.

Gifts to a donee are exempt from the gift tax for amounts up to $15,000 a year per donee in 2019 and remain the same for 2020.

An unused annual exemption doesn't carry over to later years. To make use of the exemption for 2019, you must make your gift by December 31.

Husband-wife joint gifts to any third person are exempt from gift tax for amounts up to $30,000 ($15,000 each). Though what's given may come from either you or your spouse or both of you, both of you must consent to such "split gifts."

Cash or publicly traded securities raise the fewest problems. You may choose to give property you expect to increase substantially in value later. Shifting future appreciation to your heirs keeps that value out of your estate. But this can trigger IRS questions about the gift's true value when given.

You may choose to give property that has already appreciated. The idea here is that the donee, not you, will realize and pay income tax on future earnings and built-in gain on the sale.

**New Tax Rate Structure for the Kiddie Tax**

The kiddie tax rules changed under the TCJA. For tax years 2018 through 2025, unearned income exceeding $2,200 is taxed at the rates paid by trusts and estates. For ordinary income (amounts over $12,750), the maximum rate is 37 percent. For long-term capital gains and qualified dividends, the maximum rate is 20 percent.

**Retirement Plan Contributions**

Consider maximizing your retirement plan contributions. If you own an incorporated or unincorporated business, consider setting up a retirement plan if you don't already have one. It doesn't actually need to be funded until you pay your taxes, but allowable contributions will be deductible on this year's return.

If you are an employee and your employer has a 401(k), contribute the maximum amount ($19,000 for 2019), plus an additional catch-up contribution of $6,000 if age 50 or over, assuming the plan allows this, and income restrictions don't apply.

If you are employed or self-employed with no retirement plan, you can make a deductible contribution of up to $6,000 a year to a traditional IRA (deduction is sometimes allowed even if you have a plan). Your spouse also needs to not be covered in a retirement plan to make this full $6,000 contribution.

Further, there is also an additional catch-up contribution of $1,000 if age 50 or over.

**Retirement Savings Contribution Credit**
In 2019, the AGI limit for the saver's credit for low-and moderate-income workers is $65,000 for married couples filing jointly, $48,750 for heads of household, and $32,500 for married individuals filing separately and for singles. The maximum credit is $1,000 ($2,000 for married couples filing jointly).

**Health Savings Accounts (HSA)**

Consider setting up a HSA. You can deduct contributions to the account, investment earnings are tax-deferred until withdrawn, and amounts you withdraw are tax-free when used to pay medical bills.

In effect, medical expenses paid from the account are deductible from the first dollar (unlike the usual rule limiting such deductions to the amount of excess over 10 percent of AGI). For amounts withdrawn at age 65 or later that are not used for medical bills, the HSA functions much like an IRA.

To be eligible, you must have a high-deductible health plan (HDHP), and only such insurance, subject to numerous exceptions, and must not be enrolled in Medicare. For 2019, to qualify for the HSA, your minimum deductible in your HDHP must be at least $1,350 for single coverage or $2,700 for a family.

**Flexible Spending Accounts (FSA)**
FSAs are limited to $2,700 per year in 2019 and apply only to salary reduction contributions under a health FSA. The term "taxable year" refers to the plan year of the cafeteria plan, which is typically the period during which salary reduction elections are made.

Specifically, in the case of a plan providing a grace period (which may be up to two months and 15 days), unused salary reduction contributions to the health FSA for plan years beginning in 2012 or later that are carried over into the grace period for that plan year will not count against the $2,700 limit for the subsequent plan year.

FSAs are typically “use it or lose it” within the year. However, many employers allow employees to carry over up to $500 in their account into the next calendar year, but aren't required to do so.

**Dependent Care FSA**

Dependent Care FSA is a pre-tax benefit account ($5,000 per year) used to pay for eligible dependent care services, such as preschool, summer day camp, before or after school programs, and child or adult daycare.

**529 Education Plans**

Maximize contributions to 529 plans, which starting in 2019, can be used for elementary and secondary school tuition as well as college or vocational school. Some states offer tax credits for contributions.

**Social Security Benefits**

All Social Security benefit recipients should receive Form SSA-1099 from the Social Security Administration, which shows the total amount of benefits.

**Tips for Recently Married or Divorced Taxpayers**

Newlyweds and the recently divorced should ensure the name on their tax return matches the name registered with the Social Security Administration (SSA).

**Local Taxes**

Please note that the TAXPAYER is responsible for determining if there are any local taxes owed.  The TAXPAYER is responsible for letting Brothers Tax LLC know that a municipality or county will be assessing taxes. We are happy to work with you to make this determination, but the facts are very case specific. Please let us know if your residence or your workplace might cause you to be subject to local taxes.

**Businesses**

Whether you file as a corporation or sole proprietor, below is what business owners need to know about tax changes for 2019.

**Deferring Income**

Businesses using the cash method of accounting can defer income into 2020 by delaying end-of-year invoices, so payment is not received until 2020. Businesses using the accrual method can defer income by postponing delivery of goods or services until January 2020.

**Business Expense Deductions for Meals, Entertainment**

As the end of the year approaches, taxpayers should be reminded that business expense deduction for meals and entertainment have changed due to tax law changes in the Tax Cuts and Jobs Act (TCJA) of 2017. Until proposed regulations clarifying when business meal expenses are deductible and what constitutes entertainment are in effect, taxpayers should rely on transitional guidance that was issued by the IRS late last year.

Prior to 2018, a business could deduct up to 50 percent of entertainment expenses directly related to the active conduct of a trade or business or, if incurred immediately before or after a bona fide business discussion, associated with the active conduct of a trade or business. However, the TCJA eliminated the deduction for any expenses related to activities generally considered entertainment, amusement or recreation.

Taxpayers may continue to deduct 50 percent of the cost of business meals if the taxpayer (or an employee of the taxpayer) is present and the food or beverages are not considered lavish or extravagant. The meals may be provided to a current or potential business customer, client, consultant or similar business contact.

Please note that food and beverages that are provided during entertainment events will not be considered entertainment if purchased separately from the event and the cost is stated separately from the entertainment on one or more bills, invoices or receipts.

**Purchase New Business Equipment**

**Section 179 Expensing**

Businesses should take advantage of Section 179 expensing this year for a couple of reasons. First, is that in 2019 businesses can elect to expense (deduct immediately) the entire cost of most new equipment up to a maximum of $1.02 million for the first $2.55 million of property placed in service by December 31, 2019. Keep in mind that the Section 179 deduction cannot exceed net taxable business income. The deduction is phased out dollar for dollar on amounts exceeding the $2.55 million threshold and eliminated above amounts exceeding $3.57 million.

The TCJA removed computer or peripheral equipment from the definition of listed property. This change applies to property placed in service after December 31, 2017.

Tax reform legislation also expanded the definition of Section 179 property to allow a taxpayer to elect to include certain improvements made to nonresidential real property after the date when the property was first placed in service. These changes apply to property placed in service in taxable years beginning after December 31, 2017.

Bonus Depreciation. Businesses are allowed to immediately deduct 100% of the cost of eligible property placed in service after September 27, 2017, and before January 1, 2023, after which it will be phased downward over a four-year period: 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026.

**Qualified Property**

Qualified property is defined as property that you placed in service during the tax year and used predominantly (more than 50 percent) in your trade or business. Property that is placed in service and then disposed of in that same tax year does not qualify, nor does property converted to personal use in the same tax year it is acquired.

Under tax reform real estate qualified improvement property is not eligible for bonus depreciation.

Many states have not matched these amounts and, therefore, state tax may not allow for the maximum federal deduction. In this case, two sets of depreciation records will be needed to track the federal and state tax impact.

If you plan to purchase business equipment this year, consider the timing. You might be able to increase your tax benefit if you buy equipment at the right time. Please contact us if you’d like to discuss further.

**Qualified Business Income Deduction**

Under the Tax Cuts and Jobs Act, non-corporations may be entitled to a deduction of up to 20 percent of their qualified business income (QBI) from a qualified trade or business for tax years 2018 through 2025. The QBI deduction is fully phased out at $415,000 for married filing jointly and $207,500 for all other filers.

The QBI is complex, and tax planning strategies can directly affect the amount of deduction, i.e., increase or reduce the dollar amount. As such it is especially important to speak with a tax professional before year's end to determine the best way to maximize the deduction.

**Standard Mileage Rates**
The standard mileage rates in 2019 is 58 cents per business mile driven.

**Retirement Plans**

Self-employed individuals who have not yet done so should set up self-employed retirement plans before the end of 2019.

**SIMPLE IRA Plan Contributions**Contribution limits for SIMPLE IRA plans increased to $13,000 for persons under age 50 and $16,000 for persons age 50 or older in 2019. The maximum compensation used to determine contributions is $280,000.

**Small Business Health Care Tax Credit**

Small business employers with 25 or fewer full-time-equivalent employees with average annual wages of $50,000 indexed for inflation (e.g., $54,200 in 2019) may qualify for a tax credit to help pay for employees' health insurance. The credit is 50 percent (35 percent for non-profits).

**Dividend Planning**

Reduce accumulated corporate profits and earnings by issuing corporate dividends to shareholders.

**Paid Family and Medical Leave Credit**

Last chance to take advantage of the employer credit for paid family and medical leave, which expires at the end of 2019.