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2019 YEAR-END TAX LETTER

INSIDE THIS ISSUE:

IT'S TAX TIME AGAIN…

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.

Time to get organized

The following checklist will help you collect the documents needed to file your tax return. When all of the boxes are checked, you're ready.

☐ **Your last 3 years' tax returns** *(new client)*.

☐ **Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.

☐ **Copy of Driver's License** for taxpayer & spouse.

☐ **W-2 Forms.**

☐ **Your last paycheck stub of the year** is full of information.

☐ **1099 Forms** for interest, dividends, sales, retirement, Social Security, self-employment, and unemployment need to be entered correctly to comply with the IRS matching program.

☐ **Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).

☐ **Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.

☐ **Assets held outside the USA.** Bring statement(s). Such assets must be disclosed even if they do not generate income.

☐ **Purchase and sale information,** including dates, relating to anything sold is needed.

☐ **Stock options.** Form 1099-B and "supplemental" brokerage statements showing amounts already reported as income on the employee's W-2.

☐ **Cryptocurrency** (e.g. Bitcoin) sales. Bring details including dates, proceeds, and original cost.

☐ **Child care provider information** (name, address, SS#, amount paid) is needed for the child care credit *(even if you have a daycare flex account at work)*.

☐ **Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.

☐ **Bankruptcy or divorce papers** (if applicable).

☐ **If you paid an individual person $600 or more for services rendered in connection with your business,** please provide their name, address, and tax ID number.

☐ **Records showing income and expense for any business or rental property you own** will be needed. Records of business and personal mileage are required for automobile deductions.

☐ **If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.

☐ **IRA year-end statements.**

☐ **Bring details for <u>all</u> other income,** whether you think they are taxable or not. Examples may include foreign income, barter, & cryptocurrency.

☐ **Forms 1098-T** amounts paid for post-secondary tuition are sent to the student. If the student is your dependent you must get it from them. Bring receipts.

☐ **Forms 1099-Q** for distributions from education savings plans.

☐ **Bring your records of estimated taxes paid.**

☐ **Student loan interest forms 1098-E.**

☐ **Adoption costs** if applicable. Also bring the legal adoption documents.

☐ **Form 1098-C** for donations of automobiles or boats.

☐ **Details for charitable donations.** Bring receipts. For non-cash donations totaling over $500 include date, place, fair market value, and original cost.

☐ **If you purchased a new electric plug-in vehicle,** bring the year, make and purchase date.

☐ **If you purchased solar-electric or solar water heating systems** for your home bring receipts.

☐ **Bring a voided check for direct deposit** of any refunds you expect to receive.

☐ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

☐ **If debts were forgiven,** bring Form 1099-C or 1099-A.

☐ **If you bought or sold a home or refinanced your existing home** bring the closing papers.

☐ **If you received Forms 1099-K for internet or credit card sales** please bring them.

☐ **Health Savings Account** (HSA) **contributions and distributions.** Bring forms 5498-SA and 1099-SA.

☐ **Form(s) 1095** for health insurance.

☐ **Out of pocket medical expenses** may be deductible (if large). Bring details.

Caution: *the IRS is very attentive to taxpayers who write off local travel costs.*

A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.

Need help? There are plenty of smartphone apps that can help with tracking mileage.

DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct **14¢** for every mile you drove.

If your medical expenses are substantial, you may want to calculate a mileage deduction. Medical miles for 2019 are calculated at **20¢ per mile.**

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible (see below for home office details).

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction.

A trip to the bank, post office, or a supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate*** *for qualified business use* for 2019 is **58¢ per mile** (up 3.5 cents from 2018).

Which method is best?
In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

The office space still needs to be **used regularly and exclusively for business.** You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

The IRS has provided a simplified home office deduction, if you choose. Instead of calculating all of the above information, $5 per square foot can be deducted (maximum $1,500). The IRS estimates that the new calculation will save taxpayers 1.6 million hours per year.

COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guidelines to determine what is deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you are a student, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase. *Keep a log of computer usage to support your deduction.*

Cell phone deductions are as follows:

Employers providing cell phones do not have to require records of use to provide tax-free cell phones to employees.

Self employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

EMPLOYEE BUSINESS EXPENSE DEDUCTIONS ARE NOT ALLOWED ON THE FEDERAL RETURN

The Tax Cuts & Jobs Act eliminated federal deductions for employee work expenses. As such, the deductions discussed on this page are for business owners only. If you are an employee, ask your employer for reimbursement of any business expenses as they are no longer deductible on your federal tax return.

To avail yourself of tax deductions, you need to be organized and well documented.

Save proof of all tax deductible purchases.

WHAT'S NEW FOR 2019?

Last Minute Changes:
On 12/20/19 the President signed several new and extended tax provisions into law. Here are the highlights of the provisions that will affect most taxpayers (enquire for the details):

Retirement Plans:

- The age for Required Minimum Distributions (RMDs) from retirement accounts is now 72 (up from $70^{1/2}$) for taxpayers that turn $70^{1/2}$ after 12/31/19.
- Age restrictions on contributing to a traditional IRA are eliminated (starting in 2020).
- Penalty-free distributions from retirement plans are allowed (up to $5,000) for births and adoptions (starting in 2020).
- Inherited retirement accounts must be distributed to beneficiaries within 10 years (starting in 2020).
- Part-time workers are now allowed to participate in company sponsored 401(k) plans (if they have 500+ hours in three consecutive years).
- Taxpayers impacted by federally declared disasters occurring 1/1/18 through 2/18/20 can make tax favored withdrawals from retirement accounts.

Education:

- Student loans can be paid with funds from a 529 education savings plan (lifetime cap of $10,000 per beneficiary, starting in 2020).
- Registered apprenticeship programs can be paid with funds from a 529 education savings plan (starting in 2020).
- The 'above-the-line' deduction for tuition & fees was brought back (through 2020).

Investments:

- Children with investment income greater than $2,100 will pay tax at their parent's tax rates (a.k.a. the Kiddie Tax).

Itemized Deductions:

- The medical expense deduction threshold was reduced from 10% to 7.5% of income (AGI).
- Mortgage insurance premiums now count as an itemized deduction.

Cancellation of Debt:

- Discharge of qualified principle residence indebtedness can be excluded from taxable income.

Penalties:

- The failure-to-file penalty was increased to $435.

Increased IRA Limits:
The amount you can contribute to IRAs (traditional plus Roth) finally went up to $6000 ($7000 if you are age 50+) after being stuck at $5500 for the last 6 years. You have until April 15th 2020 to make your contributions. It is wise to get your 2019 taxes done before you contribute because there are income restrictions.

Children with earned income can contribute to IRAs too. Roth IRAs are usually best for kids because the money has time to grow and contributions (not earnings) can be taken out before retirement age (e.g. for college or a home purchase) without tax due.

Cryptocurrency:
The IRS knows that millions of Cryptocurrency transactions go unreported each year. They will now require taxpayers to answer a yes/no question on their tax return (Schedule 1) regarding their cryptocurrency activities.

What are the rules? When you earn or sell Cryptocurrency (e.g. Bitcoin, Etherium, Litecoin, etc.) you need to report it on your tax return. What should you do? Keep a log book of all shares earned, purchased, or sold. Record the dates of all transactions too. Keeping track of this is not easy, especially if you are buying things with cryptocurrency. Try to reduce complications:

- Have just one account for all of your cryptocurrencies.
- Work with a broker that provides statements for all transactions.
- Make fewer transactions.

IRS Matters:
The IRS will soon be reorganizing due to the Taxpayer First Act. The goal of the new law is to improve taxpayer service, ease enforcement, improve cybersecurity and identity protection, and modernize the service.

Do You Owe The IRS?
The IRS lowered the interest rate on individual tax debts from 6% to 5% on 7/1/19. Different rates apply for corporations.

New W-4 Form:
The IRS is changing the form that employees use to determine how much tax to withhold from their paychecks. If you start a new job during 2020 you will have to fill it out. The good news is that you won't have to do anything if you are staying at your current job (unless you want to make a change to your withholding).

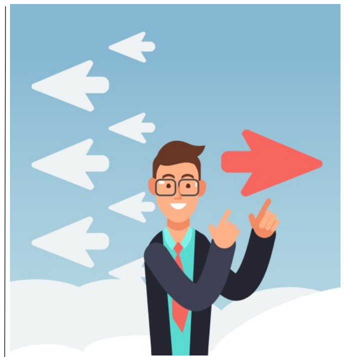
Clergy Housing Allowance:
Good news for the clergy. The constitutionality of the tax-free clergy housing allowance has been upheld in court. The ruling is not being appealed to the Supreme Court.

$10,000 SALT Limit:
A federal district court has upheld the constitutionality of the $10,000 itemized deduction limit for state and local taxes. If you live in a high tax state (like CA, NY, NJ, CT, etc.) you may have to wait for Congress to repeal it.

Hemp Businesses:
Good news for owners of hemp businesses. Most strains of hemp are no longer federally controlled substances. As such, certain hemp business owners can deduct operating expenses and claim tax credits that were previously denied by the IRS. Importantly, marijuana is still considered a controlled substance (so restrictive tax rules still apply to marijuana businesses).

Energy Credits:
2019 is the last year for the full 30% credit on qualifying residential solar, wind, geothermal, & fuel cell purchases. The credit drops to 26% in 2020. Don't forget that the system needs to be fully installed by 12/31/19 to qualify for the full 30% credit.

Opportunity Zones:
Congress created tax incentives to sell assets that have appreciated in value and reinvest the capital gains into Qualified Opportunity Funds (QOF) that invest in distressed areas. After selling the appreciated asset you have 180 days to reinvest the gains in the QOF. If you make the reinvestment before the end of 2019 and hold the investment for ten years you can get the optimal tax benefit. You can lose money investing in distressed areas so work with an investment advisor who knows the rules and risks.



2019 was shaping-up to be a quiet year (tax wise). Then at the last minute Congress passed legislation with major changes to retirement accounts, education, and more.

On top of Congressional action, IRS rulings and court cases made 2019 an even more interesting year for taxpayers.

These are only the highlights of the new laws affecting your 2019 tax situation. A good tax professional can help you use these new rules to their fullest.

Turn the page for some great year-end tax tips

YEAR-END TAX TIPS

Hindsight is 20/20… but don't wait until 2020 to consider these tips.

Lower Your Taxable Income:

Employees still have time to increase pre-tax deductions (e.g. 401(k), 403(b), etc.) from their paycheck (unless already maxed). Self-employed folks can lower their taxable income too by making business purchases before the end of the year or contributing to a SEP IRA before the filing deadline (including extensions).

Why consider this? Not only can it reduce tax, but there are plenty of credits and surtaxes that are sensitive to income levels. Each income threshold is calculated differently and there are other limiting factors, so ask for help if you need to figure out precisely how much extra to contribute. With that in mind, here are some of the most common examples:

Do you have kids in college? The American Opportunity Credit (first four years of college) begins to phase out at an income of $80,000 (single) and $160,000 (married).

Do you own a business? The QBI deduction begins to phase out for many businesses starting at a taxable income of $160,700 (single) and $321,400 (married).

Do you have a modest income? The Earned Income Credit phases out at varying income levels between $15,570 (single with no qualifying children) and $55,952 (Married with 3+ children).

Do you have a larger income? The Child Tax Credit begins to phase out at $200,000 (single) and $400,000 (married). Medicare and investment surtaxes begin at $200,000 (single) or $250,000 (married).

Do you put money in a Roth IRA? Contributions to a Roth IRA begin to phase-out $122,000 (single) or $193,000 (married). Roth conversions, however, are still allowed at any income level.

Do you own rental property? Your ability to deduct most rental losses incurred during the current tax year phases out between $100,000 and $150,000 of income.

Are you paying student loans? Your ability to deduct the interest begins to phase out at $70,000 (single) and $140,000 (married).

Do you buy health insurance on healthcare.gov or a state run exchange? If you receive a subsidy you will have to pay it all back if you make more than four times the federal poverty level. The federal poverty level starts at $12,490 (single) and goes up based on the number of people on the tax return. HHS publishes the poverty guidelines on their website (www.aspe.hhs.gov/poverty-guidelines).

Are you over age $70^{1/2}$?

Make sure that you take Required Minimum Distributions (RMDs) from retirement accounts on time. Technically, you can wait one year AFTER you turn $70^{1/2}$, but if you do that you must take two years worth of RMDs in one year.

The good news for taxpayers older than $70^{1/2}$, however, is that you can get a deduction for charitable contributions even if you don't itemize. In order to get this special treatment you must give to the charity directly from an IRA. This is called a **Qualified Charitable Distribution (QCD).** QCDs also count toward your RMDs.

Charity:

For those under age $70^{1/2}$ charity can only be deducted if you itemize. However, the Tax Cuts & Jobs Act made it harder to itemize due to the increase in the standard deduction. If you are one of the millions that no longer itemize, consider the following non-deductible alternatives:

- **Volunteer more:** Plenty of organizations need your help, especially with the holidays approaching.
- **Gift more:** Increase your year-end gifting to friends, family, GoFundMe campaigns, etc. You can gift up to $15,000 per person without having to file a gift tax return.
- **Skip a few years:** Save your charity money for several years and give it all at once. This may be enough to push you over the increased standard deduction.

In addition to the above, consider **increasing your pre-tax retirement contributions**. This strategy provides two benefits; 1. It's a tax deduction in the current year, and 2. You might retire rich and have the means to give a big portion of your IRA to charity when you turn $70^{1/2}$ (see previous section about QCDs for details).

Selling investments?

If your taxable income is likely to fall below $39,375 (single) or $78,750 (married) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds.

Conversely, it might be wise to check your portfolio for losses to reduce your income. You can offset up to $3,000 of other income with investment losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

Roth conversions:

The deadline to convert funds from a traditional IRA to a Roth IRA is 12/31/19. Remember that you pay tax on the amount converted. Also remember that you can no longer un-do Roth conversions at a later date.

Health insurance:

When you consider your health insurance options, remember that you no longer have to pay a penalty for not having insurance.

If you choose a health plan that is compatible with **Health Savings Accounts (HSA)** you should start funding your HSA right away. That's because medical expenses do not count as a "qualified" for tax free distributions if they occur before the HSA was funded. The maximum amount you can shelter per year is $3,500 (single) or $7,000 (married). You should contribute the maximum if you can. That's because HSAs have a three-fold tax benefit; 1. Contributions are a tax deduction, 2. Distributions for qualified medical expenses are tax free, and 3. You can invest the funds and reimburse yourself for qualified medical expenses after the account has grown in value.

Employee fringe benefits:

Aside from HSAs, look into other pre-tax spending options that your employer offers such as; insurance, daycare, commuting, parking, education, etc.

Year-end gifting:

You can gift up to $15,000 (for each recipient) without having to file a gift tax return.

The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

If you need year-end tax planning a consultation would be wise. Call before it's too late.