

# 2019 Year-End Tax Planning



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# Gelman, Rosenberg & Freedman CPAs is now GRF CPAs & Advisors



Please note our new address:

4550 Montgomery Avenue, Suite 800N, Bethesda, MD 20814

# Housekeeping

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- Technical questions about the survey can be addressed to Dominic Acosta at [dacosta@grfcpa.com](mailto:dacosta@grfcpa.com).

# Housekeeping

## *Additional Information*

<b>Learning Objective</b> To provide attendees with a better understanding of how you should position your assets for the best tax advantage.	<b>Instructional Delivery Methods</b> Group Internet-based
<b>Recommended CPE</b> 1.0 CPE Credit	<b>Recommended Fields of Study</b> Tax
<b>Prerequisites</b> None required	<b>Advance Preparation</b> None
<b>Program Level</b> Basic	<b>Course Registration Requirements</b> None
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# Our Team

*Meet Your Instructors*

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*Tax and Audit*



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# Agenda

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Revisit Tax Cut  
And Jobs Act



Itemized  
Deductions



Credits



Qualified  
Business Income  
Deduction



Ways to Reduce  
Income

# Let's Revisit The Tax Cut and Jobs Act (TCJA)

*Effective January 1, 2018*

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- New tax rates for 2018 and future years. It would make sense to check your withholding for 2019.
- New thresholds for various capital gain rates.
- Elimination of personal exemptions.
- Much larger standard deduction – this had a big impact on many returns. 25 million more taxpayers claiming the standard deduction.
- Miscellaneous itemized deductions subject to the 2% of adjusted gross income floor have been eliminated – includes investment management fees and unreimbursed business expenses.

# Standard Deduction vs. Itemized

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- Standard deduction increased to
  - \$24,400 for married filing jointly.
  - \$18,350 for heads of household.
  - \$12,200 for single individuals.
- All personal exemptions repealed - \$4,050 in 2017.
- Review Itemized deductions for the year to determine best course of action.





# Specific Itemized Deductions

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- Medical expenses 10% of adjusted gross income is the floor for 2019.
- State and local taxes – \$10,000 cap on taxes.
- Mortgage Interest
  - Mortgage prior to December 15, 2017 – cap is \$1,000,000.
  - After December 15, 2017 – cap is \$750,000.
- Home equity loans are only deductible if used for buying, building or fixing up the taxpayer's residence.

# Specific Itemized Deductions

*Continued*

- Charitable contributions are still deductible – may want to bunch contributions into years in which you are going to itemized your deductions.
- Good news is that there is no limitations on itemized deductions.



# Divorce

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- After December 31, 2018 the TCJA changes the rules –
  - TCJA provides that alimony and separate maintenance payments are not deductible by the payer spouse and are not includable in income by the payee spouse.
  - The provision is not retroactive unless the agreement is modified after that date and the new agreement incorporates the new law provisions.

# Roth IRA Rule Changes

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- Roth IRA conversion contributions can no longer be recharacterized.
- Prior law allowed a traditional IRA to be converted to a Roth IRA. You could recharacterize the Roth conversion as a contribution to a traditional IRA until October 15 of the following year.

# Child Tax Credit

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- The TCJA increased the child tax credit to \$2,000 per qualifying child. Up to \$1,400 of the credit is refundable.



# Other Individual Changes

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- There is a new \$500 credit for other dependents that do not qualify for the child tax credit.
- You can now take up to \$10,000 out of your 529 plan annually per child to pay for elementary and high school education. A 529 plan is an excellent way to fund college education.
- Basic Estate, Gift Exclusion Amount and GST exemption increased to \$11,180,000 for 2018 (\$10,000,000 in 2011 dollars indexed for inflation each year). This higher exemption sunsets December 31, 2025. Retention of the §1014(a) basis adjustment (“step-up”)

# 2019 Income Tax Rates for Individuals

Filing Status				
Rate (%)	Single	Head of Household	Married Filing Jointly and Surviving Spouses	Married Filing Separately
Ordinary Income Brackets				
10%	\$0 to \$9,700	\$0 to \$13,850	\$0 to \$19,400	\$0 to \$9,700
12%	\$9,701 to \$39,475	\$13,851 to \$52,850	\$19,401 to \$78,950	\$9,701 to \$39,475
22%	\$39,476 to \$84,200	\$52,851 to \$84,200	\$78,951 to \$168,400	\$39,476 to \$84,200
24%	\$84,201 to \$160,725	\$84,201 to \$160,700	\$168,401 to \$321,450	\$84,201 to \$160,725
32%	\$160,726 to \$204,100	\$160,701 to \$204,100	\$321,451 to \$408,200	\$160,726 to \$204,100
35%	\$204,101 to \$510,300	\$204,101 to \$510,300	\$408,201 to \$612,350	\$204,101 to \$306,175
37%	\$510,301	\$510,301	\$612,351	\$306,176



# Polling Question #1

Which statement best describes where you currently stand with your 2019 tax planning?

- A. *I have already done my planning for 2019*
- B. *I am interested in planning but I have not begun the process*
- C. *I do not plan on doing any planning this year*



# Qualified Business Income Deduction

- Taken on your personal return when you have domestic “qualified business income” (QBI)
  - Sole Proprietorship (Schedule C)
  - Partnership income
  - LLC income
  - S-Corp income
  - Rental income
  - Note: All K-1s must provide the required information to be able to claim the deduction



# Qualified Business Income Deduction

## *Continued*

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- Deduction equal to the lesser of 20% of QBI or 20% of taxable income (after removing capital gains/losses).
- Further restrictions for Married filers with taxable income above \$321,400 and all other filers with taxable income above \$160,700.
- Rental real estate can qualify for the QBID if
  - Activity rises to the level of a trade or business under section 162 (actively and continually involved for profit)
  - Satisfies safe harbor requirements under Notice 2019-07 (250 hours)
  - Meets self-rental exception
- New forms 8995 and 8995-A used to calculate and report QBID
- QBID FAQ on IRS website <https://www.irs.gov/newsroom/tax-cuts-and-jobs-act-provision-11011-section-199a-qualified-business-income-deduction-faqs>

# QBID

## Further Restrictions

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- Specified Service Business - defined in §1202(e)(3)(A): “any trade or business involving the performance of services in the fields of:
  - Health
  - Accounting
  - Performing Arts
  - Consulting\*
  - Law
  - Actuarial Services
  - Athletes
  - Financial Services and Brokerage
  - Any other trade or business where the principal asset is the reputation or skill of an owner or employee. Defined in the regulations as income from endorsements, licensing and appearance fees.

*Note: Architects and Engineers are OK as are Real Estate and Insurance Agents/Brokers*

*\*Consulting – the provision of professional advice and counsel to clients to assist the client in achieving goals and solving problems. Consulting includes providing advice and counsel regarding advocacy with the intention of influencing decisions made by a government or governmental agency and all attempts to influence legislators and other government officials on behalf of a client by lobbyists and other similar professionals performing services in their capacity as such. The performance of services in the field of consulting does not include the performance of services other than advice and counsel, such as sales (or economically similar services) or the provision of training and educational courses.*

# QBID

## *Further Restrictions*

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- For taxpayers who are not a specified service their QBID as previously calculated is further limited to the greater of:
  - 50% of W-2 Wages (box 5) or
  - 25% of W-2 Wages (box 5) plus 2.5% of the unadjusted basis of depreciable assets.
- The Specified Services and the Wage limitations phase in on a MFJ return with taxable income from \$321,400 – \$421,400 and on all other returns with taxable income from \$160,700 – \$210,700.
- Wages must be reported to the Social Security Administration within 60 days of when due to be counted in the calculation.

# QBID

## *Other Considerations*

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- S-Corp shareholder compensation
  - Reduces QBI (is an issue for taxpayers below income thresholds)
  - Reasonable compensation
  - May want to increase if subject to wage limitation
- Guaranteed payments are not QBI
- REIT Dividends and PTP income qualifies as QBI
- QBI does not include foreign income
- QBID is calculated on a per business basis and then aggregated (can elect to aggregate the calculation if over income limits and you meet the criteria to do so)
- Net QBI losses carryover to the next year

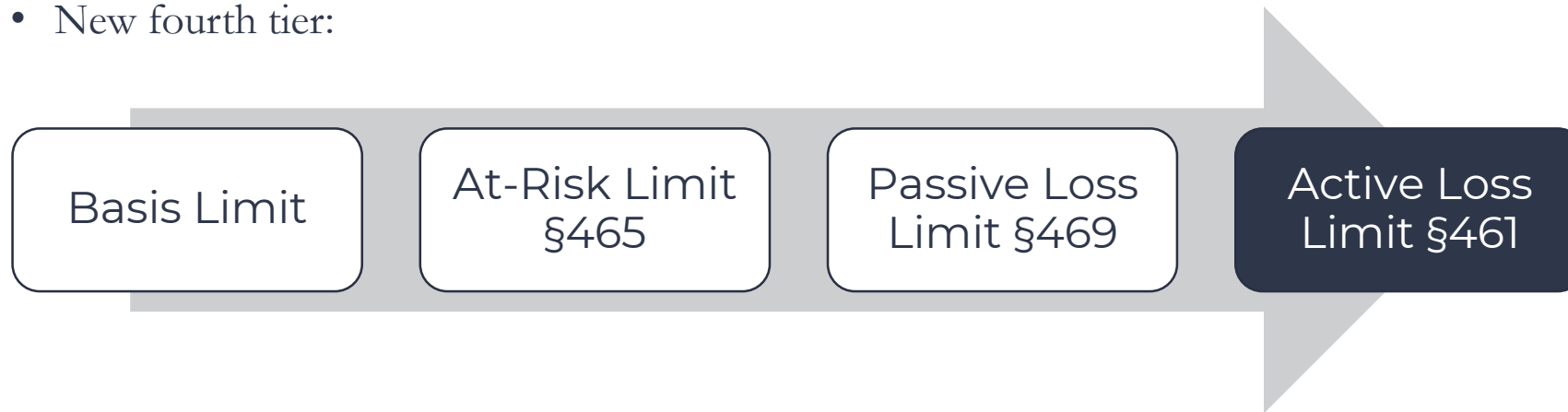
## Polling Question #2

Do you expect to utilize the new QBID on your 2019 tax return?

- A. *Yes and I have already factored it into my tax planning.*
- B. *How do I find out if I qualify?*
- C. *I do not expect to utilize the deduction.*

# Loss Rules

- Amends §461 to add a new subsection (l)
- Active business loss limited to \$500, 000 MFJ and \$250,000 for all other returns.
- Applied on taxpayer level (rather than business level)
- Excess can only be carried forward
- New fourth tier:



# New Loss Limitation

- Jeff, a married filing jointly taxpayer, owns a small business (in which Jeff “materially participates”) that generates a \$750,000 loss in 2018. Jeff has \$2,000,000 of other non-business income.

	Old Law	2018 Law
Other income	\$2,000,000	\$2,000,000
Business loss	(\$750,000)	(\$500,000)
Adjusted Gross Income (AGI)	\$1,250,000	\$1,500,000

*NOTE: The \$250,000 loss disallowed will be carried forward to future tax years*

*Wages and 1231 gains count as business income and can therefore be offset by business losses without limitation*



# Cost Recovery

## *Bonus Depreciation*

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Period	Applicable Percentage
9/27/2017 – 2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

*Includes Used Property (formerly only allowed new property)  
Applies to property with 3, 5, 7, 10, 15, 20 year life categories  
Must elect out (by asset class) if bonus not desired.*

# Cost Recovery

## *IRC §179 Expansion*

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- For 2019, a taxpayer may expense (under IRC §179) up to \$1,020,000 of property. However, this is phased out if a business places over \$2,550,000 of property in service during the tax year (old law was 500K and 2M).
- Section 179 applies to new and used property.
- Expands the definition of qualified property to include.
  - Tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging
  - Improvements to **nonresidential** real property
    - Roofs
    - Heating, ventilation and air conditioning;
    - First protection and alarm systems; and
    - Security systems

# Other 2018 Tax Law Change Reminders

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- Corporate tax rate is a flat 21%
- NOLs carryforward only and can only be used to offset 80% of current year net income.
- Entertainment expenses disallowed
  - Business meals @50%
- Parking and mass transit deductions denied
  - Employee still excludes
- Moving expense reimbursement exclusion suspended
- Cash Basis method now available for C-Corps up to 25M in gross revenue.



# Ways to Reduce Income

## *Earned Income*

- Use your year-end bonus to max out your 401(k)/403(b)
- Home office (self-employed)
- Depreciation (Buy new fixed assets)
- Business use of your personal automobile
- Retirement plans (open a SEP)
- Accelerate expenses
- Deferred income



# Ways to Reduce Income

## *Other Income/Deductions*

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- Timing of initial qualified retirement plan distribution
- Hold investments for more than one year before selling – LTCG
- Sell investments at a loss to offset capital gains.
- Report unreimbursed business expenses related to pass-through activities (partnerships)
- Contribute to your IRA (deductible under certain circumstances)
- Donate IRA RMD directly to charity
- Don't miss out on common tax credits (Childcare, Education\*) *\*subject to phase-out*



## Polling Question #3

Which statement best describes how tax laws impact your behavior?

- A. *The potential tax outcome at the forefront of my mind*
- B. *I only think about the impact for significant events.*
- C. *It doesn't. Why worry about them?*

# Questions?

*Contact Us*

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