

December 2019

To Our Clients and Friends:

We have listed below some tax-saving ideas that you may want to put into action before the end of 2019. Please note that all of these ideas reflect the legislation passed in the Tax Cuts and Job Act (TCJA).

- Postpone income and bonuses until 2020 and accelerate deductions into 2019 to lower your 2019 tax bill, unless you expect to be in a higher tax bracket for 2020.
- For 2019, the standard deduction is \$24,400 for married taxpayers filing joint returns. For married taxpayers filing separate and for single taxpayers, the amount is \$12,200. As a result of this larger standard deduction, many people no longer itemize. You can try to bunch some of your deductions, such as paying charitable donations in January and December of the same year, but you still might not itemize.
- If you itemize your deductions, consider using a credit card to pay certain deductible expenses before the end of the year. You can take the deduction even if the credit card bill is not paid until 2021.
- If you itemize your deductions, consider prepaying state and local taxes/increase your withholding before the end of the year, unless you tend to be subject to alternative minimum tax (AMT). This could lower your Federal income taxes. BUT keep in mind that your total state and local tax deduction, including real estate taxes is limited to \$10K for married joint and for single taxpayers, \$5K for married filing separate. Also note, a prepayment of real estate tax that has not yet been assessed is not deductible until the year it is assessed.
- If you have appreciated stock (or mutual fund shares) that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value, and no capital loss will be available.
- Solve an underpayment of estimated tax problem. Because of the additional .9% Medicare tax and/or the 3.8% surtax on unearned income, some individuals have faced penalties for underpayment of estimated tax. An employed individual who is facing a penalty for underpayment of estimated tax as a result of either of these taxes or for any other reason should consider asking his employer—if it's not too late to do so—to increase income tax withholding before year-end. Generally, income tax withheld by an employer from an employee's wages or salary is treated as paid in equal amounts on each of the four estimated tax installment due dates. Thus, if an employee asks his employer to withhold additional amounts for the rest of the year, the penalty can be retroactively eliminated. This is because the heavy year-end withholding will be treated as if paid equally over the four installment due dates.
- Between now and year-end, review your securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the \$3,000 (\$1,500 married filing separate) net capital loss that's deductible each year.

- Starting January 1, 2019, there is no penalty for not having health insurance coverage. However, some states may still require you to be enrolled in health insurance coverage.
- Make HSA contributions. Under Code Sec. 223(b)(8)(A), a calendar year taxpayer who is an eligible individual under the health savings account (HSA) rules for December 2019, is treated as having been an eligible individual for the entire year. Thus, an individual who first became eligible on, for example, Dec. 1, 2019, may then make a full year's deductible-above-the-line contribution for 2019. If he/she makes that maximum contribution, he/she gets a deduction of \$3,500 for individual coverage and \$7,000 for family coverage (those age 55 or older also get an additional \$1,000 catch-up amount).
- Make year-end gifts. A person can give any other person up to \$15,000 for 2019 without incurring any gift tax. The annual exclusion amount increases to \$30,000 per donee if the donor's spouse consents to gift-splitting. Annual exclusion gifts take the amount of the gift and future appreciation in the value of the gift out of the donor's estate, and shift the income tax obligation on the property's earnings to the donee who may be in a lower tax bracket (if not subject to the kiddie tax). Direct payments related to education and medical expenses on behalf of someone else do not count towards the annual exclusion.
- Fund Section 529 college savings plans by 12/31. If you use an Ohio plan with CollegeAdvantage, an individual can invest \$15K per beneficiary (married couples can invest \$30K) without incurring any Federal gift tax consequences. You can also contribute five years' worth of tax-free gifts at one time, \$75K/\$150K.
- If you have a retirement plan through your employment, check the status of your contribution for the year. For 2019, employees can defer up to \$19K of income into a 401(k) or 403(b) plan, plus catch-up contributions of \$6K if they are 50 or older. If you are self-employed, there are a variety of retirement plan options for you to consider. Some require action before 12/31.
- Be sure to take required minimum distributions (RMDs). Taxpayers who have reached age 70-1/2 should be sure to take their 2019 RMD from their IRAs or 401(k) plans (or other employer-sponsored retired plans). Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Those who turned age 70-1/2 in 2019 can delay the first required distribution to 2020. However, taxpayers who take the deferral route will have to take a double distribution in 2020 — the amount required for 2019 plus the amount required for 2020. An RMD is based on the total value of all retirement accounts and remaining expected life expectancy. Life expectancy tables have recently been updated.
- Consider directing up to \$100K of an IRA withdrawal or RMD to charity. Not only is the income not taxable, but it reduces AGI and can lower your state tax liability in some states.
- If you own an interest in a partnership or S corporation that you expect to generate a loss this year, you may want to make a capital contribution (or in the case of an S corporation, a shareholder loan) before year end to ensure you have sufficient basis to claim a full deduction.
- One of the biggest changes and challenges to come out of the TCJA was the Qualified Business Income (QBI) deduction. It is available to sole-proprietors, partners in partnerships, shareholders of S-Corporations and some trusts and estates. C-corporations and employees are not eligible. The amount of the deduction is generally up to 20% of QBI received from a qualified trade or business. The calculation is complex and involves income, wages and certain property elements. There are thresholds based on taxable income of the taxpayer, which may reduce the deduction. The deduction is also limited for certain "Specified Service Trades or Businesses," mainly personal service types of businesses, as well as those in the fields of health, law and accounting. It is possible to plan for this deduction in order not to exceed some of the limitations and receive the full deduction.

- Taxpayers with rental real estate activities may also be eligible for the QBI deduction mentioned in the previous bullet, as long as certain conditions are met in accordance with a safe harbor ruling. The conditions are 1) separate books and records are maintained that reflect the income and expenses of the activity, 2) 250 or more hours of rental services are performed per year (which can include the hours of subcontractors and service people), and 3) the taxpayer maintains contemporaneous records and logs that document hours of service performed, description of services performed, dates the services were performed, and who performed the service. Triple net leases do not qualify for the safe harbor.
- As a result of the TCJA, a child's net unearned income over \$2,200 is taxed at the trust and estate tax rates, which are generally higher than the individual rates. However, if the child is under age 19 or a full-time student under age 24, the parents can elect to report the income on their own return if certain qualification are met, which could reduce overall taxes.
- And finally, watch out for the Alternative Minimum Tax (AMT) in your planning because what may be a great move for regular tax purposes may create or increase an AMT problem. In most cases, AMT may no longer apply given the high thresholds.
- Some Life Cycle Changes Important to Year-End Planning:
 - Change in filing status due to marriage, divorce, death, or HOH
 - Death of a spouse, or birth of a child
 - Child no longer eligible for the child tax credit
 - Changes in medical expenses
 - Move or relocation
 - College and tuition expenses
 - Employment changes
 - Retirement
 - Bankruptcy
 - Inheritance
 - New business, or close a business

There are a number of popular deductions and credits that expired after 2017 and have not been renewed. Congress has made little effort to address these tax breaks since the last major tax legislation. Do not look for them to be reinstated anytime soon.

Again, these are just a few suggestions to get you thinking about your own tax situation. If you'd like to know more about any of them or want to discuss other planning ideas, please feel free to contact us. Please also contact us if you feel we should prepare a tax projection for you, as you may be unsure or something has changed since the previous year.

Very truly,

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