November 19, 2019

Dear Clients and Friends,

It is hard to believe, but we are again approaching the end of another tax year. Now is a good time to consider some moves that can help lower your tax bill for this year and possibly the next. As you are now probably well aware, 2018 brought many changes as a result of the Tax Cuts and Jobs Act. The effects of this are still being absorbed by many individuals and businesses.

Here is a summary of some of the major changes resulting from The Tax Cuts and Jobs Act which were signed into law for the tax years 2018-2025.

For Individuals:

- Severely limited itemized deductions, no personal exemptions, and a higher standard deduction
- An increased child tax credit and a tax credit if adult child or qualified relative is a dependent
- Unreimbursed employee expenses (i.e. mileage for your job) are no longer deductible
- A less severe alternative minimum tax (AMT)

For Businesses:

- Corporate tax rate was cut to 21%
- Corporate Alternative Minimum Tax (AMT) was eliminated
- New limits on business interest deductions
- Significantly liberalized expensing and depreciation rules
- A new deduction for non-corporate taxpayers with qualified business income (QBI)

Below is a checklist of items that may benefit you if you act before year-end. We can better identify the actions you can take if we meet with you to tailor a particular plan. Meanwhile, please review the following list. Contact us at your earliest convenience so that we can advise you on which tax-saving moves to make.

Year-End Tax Planning Moves for Individuals

- **Surtax on Unearned Income for Higher Income Earners**
  The surtax is 3.8% of the lesser of:

  (1) Net Investment Income (NII) (eg – bonds, stocks, mutual funds, etc.)

  or

  (2) The excess of modified adjusted gross income (MAGI) over a threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case).

  Some taxpayers should consider ways to minimize (e.g. - through deferral) additional NII for the balance of the year, others should try to see if they can reduce MAGI other than NII, and other individuals will need to consider ways to minimize both NII and other types of MAGI.

- **An additional Medicare Tax for Higher-Income Earners**
  This applies to individuals for whom the sum of their wages received with respect to employment and their self-employment income is in excess of $250,000 for joint filers, $125,000 for married couples filing separately, and $200,000 in any other case.

  Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income.

  Self-employed persons must take it into account in figuring estimated tax.

  There could be situations where an employee may need to have more withheld toward the end of the year to cover the tax. For example, if you earn $200,000 from one employer during the first half of the year and a like amount from another employer during the balance of the year, you would owe the additional Medicare tax, but there would be no withholding by either employer for the additional Medicare tax since wages from each employer don't exceed $200,000.

- **Long-term Capital Gain**
  Long term capital gain from sales of assets held for over one year is taxed at 0%, 15% or 20%, depending on your taxable income. The 0% rate generally applies to the excess of long-term capital gain over any short-term capital loss to the extent that it, when added to regular taxable income, is not more than the “maximum zero rate amount” (e.g. - $78,750 for a married couple).

- **Postpone income until 2020 and accelerate deductions into 2019**
  Deferring income and accelerating deduction may enable you to claim larger deductions, credits, and other tax breaks for 2019 that are phased out over varying levels of adjusted

gross income (AGI). These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances.

- **Roth IRA**
  If you believe a Roth IRA is better than a traditional IRA consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your AGI for 2019 and possibly reduce tax breaks.

  As a reminder, a Roth IRA is one in which you fund with after-tax dollars. As a result, your money grows tax free and remains tax free when you withdraw in retirement.

- **Payroll Bonuses**
  If you have a bonus coming your way at the end of 2019, it may be of benefit to have your employer defer it until 2020. This could cut as well as defer your tax.

- **Itemized Deductions**
  Starting last year, many taxpayers who routinely claimed itemized deductions were no longer able to do so on their Federal return. That is because the basic standard deduction was increased. For the 2019 tax year, it is as follows:
    - $24,400 for joint filers,
    - $12,200 for singles,
    - $12,000 for married filing separately
    - $18,350 for heads of household

  Many itemized deductions were also either cut back or abolished.
  For example:

  (1) No more than $10,000 of state and local taxes may be deducted.

  (2) Miscellaneous itemized deductions (eg – investment advisory fees) and unreimbursed employee expenses are no longer deductible.

  (3) Personal casualty and theft losses are deductible only if they're attributable to a federally declared disaster and only to the extent the $100-per-casualty and 10%-of-AGI limits are met.

  You can still itemize medical expenses to the extent they exceed 10% of your adjusted gross income, state and local taxes up to $10,000, your charitable contributions, and interest deductions on a restricted amount of qualifying residence debt. But, payments of those items will not save taxes if they do not cumulatively exceed the new, higher standard deduction.

Here are some possibly strategies to help with these new limitations.

- Some of you may be able to apply a “bunching strategy” to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, if you know you will be able to itemize deductions this year but not next year, you may be able to make two years’ worth of charitable contributions this year, instead of spreading out donations over 2019 and 2020.

- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2019 deductions even if you do not pay your credit card bill until after the end of the year.

- If you expect to owe state and local income taxes when you file your return next year and you will be itemizing in 2019, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2019. But remember that state and local tax deductions are limited to $10,000 per year, so this strategy is not a good one if it causes your 2019 state and local tax payments to exceed $10,000.

- Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-1/2. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.

  Thus, if you turn age 70-1/2 in 2019, you can delay the first required distribution to 2020, but if you do, you will have to take a double distribution in 2020 – the amount required for 2019 plus the amount required for 2020. Think twice before delaying 2019 distributions to 2020, as bunching income into 2020 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2019 if you will be in a substantially lower bracket that year.

  If you are age 70-1/2 or older by the end of 2019, have traditional IRAs, and particularly if you can’t itemize your deductions, consider making 2019 charitable donations via qualified charitable distributions from your IRAs. Such distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040. However, the amount of the qualified charitable distribution reduces the amount of your required minimum distribution, resulting in tax savings.

  If you were younger than age 70-1/2 at the end of 2019 and you anticipate that in the year that you turn 70-1/2 and/or in later years you will not itemize your deductions, and you do not have any traditional IRAs, establish and contribute as much as you can to one or more traditional IRAs in 2019. If this applies to you, except that you already have one or more traditional IRAs, make maximum contributions to one or more traditional IRAs in 2019. Then, when you reach age 70-1/2, do the steps in the immediately preceding paragraph. Doing all of this will allow you to, in effect, convert nondeductible charitable contributions that you make in the year you turn 70-1/2 and later years, into deductible-in-2019 IRA contributions and reductions of gross income from age 70-1/2 and later year distributions from the IRAs.

- Take an eligible rollover distribution from a qualified retirement plan before the end of 2019 if you are facing a penalty for underpayment of estimated tax and the option to have your employer increase your withholding is unavailable or will not sufficiently address the problem. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2019. You can then timely roll over the gross amount of the distribution, i.e., the net amount you received plus the amount of withheld tax, to a traditional IRA. No part of the distribution will be includible in income for 2019, but the withheld tax will be applied pro rata over the full 2019 tax year to reduce previous underpayments of estimated tax.

- Consider increasing the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year.

- If you become eligible in December of 2019 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2019.

- Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2019 to each of an unlimited number of individuals. You cannot carry over unused exclusions from one year to the next. Such transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

Year-End Tax-Planning Moves for Businesses & Business Owners

- **Qualified Business Income (QBI)**
  Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income (QBI).

  For 2019, if your taxable income exceeds $321,400 for a married couple filing jointly, $160,700 for singles and heads of household, and $160,725 for marrieds filing separately, the deduction may be limited based on whether you are engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased in–for example, the phase-in applies to joint filers with taxable income between $321,400 and $421,400 and to single taxpayers with taxable income between $160,700 and $210,700.

Taxpayers may be able to achieve significant savings with respect to this deduction, by deferring income or accelerating deductions so as to come under the dollar thresholds (or be subject to a smaller phaseout of the deduction) for 2019. Depending on your business model, you also may be able increase the new deduction by increasing W-2 wages before year-end. The rules are quite complex, so do not make a move in this area without consulting us. Please note that even your rental real estate income might eligible for this deduction. Please see us to discuss the eligibility requirements.

- **Cash Method of Accounting**
  More "small businesses" are able to use the cash (as opposed to accrual) method of than were allowed to do so in earlier years. To qualify as a "small business," you must, among other things, satisfy a gross receipts test. For 2019, the gross-receipts test is satisfied if, during a three-year testing period, average annual gross receipts do not exceed $26 million (the dollar amount was $25 million for 2018, and for earlier years it was $5 million). Cash method taxpayers may find it a lot easier to shift income, for example by holding off billings till next year or by accelerating expenses, for example, paying bills early or by making certain prepayments.

- **Business Property Expensing**
  Businesses should consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2019, the expensing limit is $1,020,000, and the investment ceiling limit is $2,550,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software.
  It is also available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems.
  The generous dollar ceilings that apply this year mean many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full (if you are otherwise eligible to take it) regardless of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2019, rather than at the beginning of 2020, can result in a full expensing deduction for 2019.

- **Bonus Depreciation**
  Businesses can also claim a 100% bonus first year depreciation deduction for machinery and equipment – bought used (with some exceptions) or new – if purchased and placed in service this year. The 100% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 100% bonus first year write-off is available even if qualifying assets are in service for only a few days in 2019. This deduction is also allowed for certain land improvements such as parking lots, fences, drainage, shrubbery, etc.

- **De Minimis Safe Harbor Election**
  Businesses may be able to take advantage of the de minimis safe harbor election to expense the costs of lower-cost assets and materials and supplies. This does not include the purchase of inventory or land. Consider purchasing such qualifying items before the end of 2019.

- **Net Operating Loss (NOL)**
  A corporation (other than a "large" corporation) that anticipates a small net operating loss (NOL) for 2019 (and substantial net income in 2020) may find it worthwhile to accelerate just enough of its 2020 income (or to defer just enough of its 2019 deductions) to create a small amount of net income for 2019. This will permit the corporation to base its 2020 estimated tax installments on the relatively small amount of income shown on its 2019 return, rather than having to pay estimated taxes based on 100% of its much larger 2020 taxable income.

- **Other Ideas to reduce 2019 taxable income**
  - Consider deferring a debt-cancellation event until 2020.

  - To reduce 2019 taxable income, consider disposing of a passive activity in 2019 if doing so will allow you to deduct suspended passive activity losses.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

Cheers to a safe and joyous rest of 2019.

Sincerely,

Harwood, MacAdam, Wartnik, Fisher & Gorman, LLC.