BLUME KEENEY PLLC

Trusted Tax Advisors

2019 Year-End Tax Planning Guide

INTRODUCTION

The Tax Cuts and Jobs Act (TCJA) was enacted almost two years ago, representing the largest and most complicated tax legislation in decades. As the country enters another election year, the discussion around taxes is going to pick up again. From the new "wealth tax" to additional tax cuts, the topic will be debated, analyzed, and, scrutinized over the coming months. Regardless of the proposals from either political party, it's important to remember that tax legislation is created by Congress which must come to a majority consensus before legislation is enacted. Therefore, any extreme or radical changes to our current tax system are unlikely to ever become a reality despite the "noise" presented by the media.

Like a ship emerging from a dense fog, the true impact to taxpayers of the TCJA has become much clearer now that we have completed the first tax reporting cycle. Below are a few of our observations on how the TCJA has impacted taxpayers:

- The new tax forms and schedules are more difficult to read and understand.
- In general, taxpayers benefit from the overall lower personal income tax rates, but this benefit is difficult to quantify due to all of the other changes impacting the tax return.
- Business owners and investors in operating businesses receive significant benefit from the new Sec. 199A Qualified Business Income (QBI) deduction. This allows for a potential deduction of up to 20% of qualified business income.
- The overall changes to the Alternative Minimum Tax (AMT) greatly reduces or entirely eliminates the AMT for most taxpayers.
- The increased standard deduction reduces the number of taxpayers benefitting from itemized deductions for taxes, charitable contributions, and mortgage interest.
- The $10,000 limit on tax deductions, including real estate tax, sales tax, and state income tax, impacts many taxpayers and is a cause of frustration for many of our clients.
- Taxpayers with investment advisor fees are also disappointed in the lost benefit from that deduction.
- The limitations on the mortgage interest deduction was not impactful to the majority of taxpayers, though it is anticipated that it will impact taxpayers in future years as they refinance or purchase new homes.

Overall, the majority of our clients benefitted from the new tax law with overall lower net tax liabilities, which was the TCJA's primary goal. Unfortunately, the benefits were not universal as some clients actually experienced an increase in tax liability due to the new law.

Additionally, many of the most taxpayer-friendly provisions of the TCJA are set to expire after 2025; therefore, taxpayers should seek to enjoy the benefits while they last.

With the focus on more pressing issues this year, tax legislation has not been a priority for Congress, giving taxpayers a year without any new material tax changes to consider. That was welcome relief to tax professionals as we continue to develop planning strategies for the TCJA. Below are a few of the most impactful planning strategies that have emerged from the enactment of the TCJA:

- Individuals over age 70½ with an IRA and charitable contributions should utilize a Qualified Charitable Distribution (QCD). This is especially true if the taxpayer is taking the standard deduction and essentially receiving no benefit from the charitable contributions. To qualify as a QCD, the custodian is required to send funds directly to the charity. The amount of QCD is excluded from taxable income resulting in lower tax.

- Taxpayers with total itemized deductions fairly close to the standard deduction should "bunch" charitable contribution deductions by deferring or accelerating multiple year's contributions to charities into one year. The goal is to report itemized deductions greater than the standard deduction one year, and then utilize the standard deduction, which acts as a floor, in the next year.

- Taxpayers making charitable contributions might consider utilizing a Donor Advised Fund (DAF) as part of a bunching strategy discussed above. The DAF allows taxpayers to make a large charitable contribution one year, but distribute the funds to charities in future years.

- The new Sec. 199A deduction for Qualified Business Income (QBI) creates a potential 20% deduction against business income. This is a very complex component of the new tax law and planning strategies continue to be developed. To benefit, an activity must rise to the level of a "trade or business". Every business activity, including rental property, should be analyzed to determine how to maximize the benefit from this new deduction.

- An initially overlooked provision in the TCJA created an incentive for taxpayers to invest in "Opportunity Zones" which are business and real estate developments in specially designated geographic areas. Taxpayers with capital gain income that invest in an Opportunity Zone within a specified time period, can defer paying tax on the gain into a future year, receive a reduction to the tax on the original gain, and/or exclude up to 100% of the gain from the future sale of the Opportunity Zone investment.

To ensure you are able to maximize the benefits created under the TCJA, it's important to discuss your specific situation in detail with Jenny, Stephanie, or Ryan. Additionally, historical planning strategies are still beneficial. Your particular situation changes from year to year so we encourage you to read through the guide and identify any areas that might apply. Some planning opportunities remain the same, while new opportunities have been added.

TAX PLANNING CHECKLIST FOR INDIVIDUALS

Income Planning

- ☐ Tax-Exempt Income – Review investment portfolios to consider exposure to municipal bonds. Not only is the interest tax-exempt, it's also not subject to the 3.8% Net Investment Income Tax (NIIT) that might apply to other taxable income.

- ☐ 0% Tax Rate Income – For some taxpayers in the 10% or 12% income tax brackets, long-term capital gains and qualified dividend income is taxed at 0%. So if you are in one of these tax brackets, consider capital gain harvesting before year-end to increase basis within a portfolio. Note that wash sale rules that limit capital losses do not apply to gains.

- ☐ Suspended Passive Losses – Review your passive loss carryovers if selling real estate or business interests. Losses from a passive activity that are not allowed to offset current income due to the passive loss rules are suspended and carried forward. Disposing of a passive activity with suspended losses allows both the current year losses and suspended losses to offset income.

- ☐ Income Deferral – When possible, recognize income after year-end. For example, defer bonuses or delay stock option exercises and asset sales, or utilize installment sales when possible.

- ☐ Passive Income – Explore ways to increase the level of participation with passive entities or rental properties to avoid the additional NIIT. Income from passive activities may be subject to the NIIT 3.8% surtax in addition to income tax. However, this can be mitigated if taxpayers can meet one of the tests for material participation.

- ☐ IRA Conversion Strategy – Evaluate your IRA and anticipated income level for 2019 to determine if a portion of your IRA should be converted to a Roth IRA. This conversion will create additional taxable income in the current year, at a potentially lower tax rate, but the distributions from the converted account will be income tax free in future years.

2019 TAX RATES

Single	Married Filing Jointly	Marginal Rate	Long-term Capital Gain & Qualified Dividends Tax Rates
$0 to $9,700	$0 to $19,400	10%	0%
$9,701 to $39,375	$19,401 to $78,750	12%	0%
$39,376 to $39,475	$78,751 to $78,950	12%	15%
$39,476 to $84,200	$78,951 to $168,400	22%	15%
$84,201 to $160,725	$168,401 to $321,450	24%	15%
$160,726 to $204,100	$321,451 to $408,200	32%	15%
$204,101 to $434,550	$408,201 to $488,850	35%	15%
$434,551 to $510,300	$488,851 to $612,350	35%	20%
Over $510,300	Over $612,350	37%	20%

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Income Planning (continued)

- ☐ Age 70½ Initial Required Minimum Distribution – If you turn age 70½ during 2019, you have until April 1, 2020 to take your initial required minimum distribution (RMD) from retirement plans. However, if you do wait until 2020 to take your initial distribution, you will then have a double distribution in the same year potentially causing negative tax implications. To avoid that, consider taking your age 70½ RMD prior to year-end.

- ☐ Like-Kind Exchange – Consider using a like-kind exchange on the sale of rental or business property to defer taxable gains.

- ☐ Long-Term Capital Gains and Qualified Dividends – Review investment portfolios to take advantage of the preferential income tax rate for long-term capital gains and qualified dividends.

- ☐ Child's Income – Transfer income producing assets, or appreciated property to kids to utilize their (generally) lower tax bracket. However, the Kiddie Tax could eliminate a majority of the tax savings if the child is under age 18, or under age 24 and a full time student.

- ☐ Same-Sex Marriage – Guidance relating to same-sex marriage has changed tax return filing requirements for certain individuals and created opportunities to potentially reduce income taxes. Furthermore, these changes apply retroactively so it is important to consider prior year tax returns in light of these changes.

- ☐ Capital Loss Harvesting – Market appreciation during the year may have generated realized capital gains. Review your portfolio to utilize any unrealized capital losses (when appropriate) to mitigate capital gains. Capital losses can be used to offset capital gains, and unused losses are carried forward to offset future capital gains. However, the wash sale rules will eliminate the benefit if the same asset is reacquired within a specified time period.

- ☐ Incentive Stock Options (ISO) – Due to the changes with AMT resulting in an increased AMT income threshold, evaluate ISO exercise strategies and consider exercising ISOs in a qualified transaction.

- ☐ Alimony – For divorces and legal separations executed after December 31, 2018, alimony and separate maintenance payments are not deductible by the payor spouse and not included in the income of the payee spouse. Alimony and maintenance payments continue to be deductible by the payor spouse and included in income of the payee spouse for agreements executed before 2019.

- ☐ Foreign Bank Accounts – With some exceptions, bank accounts, securities, mutual funds, online poker accounts, or insurance policies with cash value that are physically located outside the U.S. must be disclosed to avoid penalties. This applies to employees with signature authority and foreign retirement accounts.

Top Tax Rates for 2019	
Ordinary earned income	37%
Net investment income and passive income (1)	40.8% (2)
Long-term capital gains	23.8% (2)
Qualified dividends	23.8% (2)
Estate and gift tax	40%

(1) Includes interest, dividends, royalties, net rental income, and other passive income

(2) Includes 3.8% surtax on the lesser of a) net investment income or b) adjusted gross income over the applicable threshold of $200,000 for single taxpayers, $250,000 for joint taxpayers, or $12,750 for estates and trusts.

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Deduction Planning

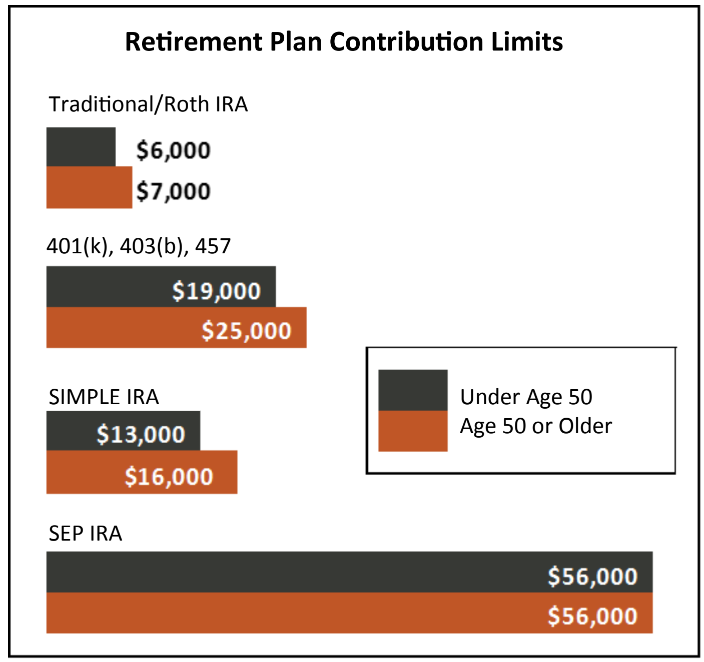
- ☐ Retirement Plan Contributions – Certain retirement plans, such as a 401(k) or Keogh must be established by year-end even though employer contributions are not due until the tax return due date.

- ☐ Over Age 50 Retirement Plan Contributions – If over age 50, be sure to utilize the “catch-up contribution” that allows for an additional $6,000 contribution to a 401(k) and a $1,000 contribution to an IRA in addition to the regular contribution limits.

- ☐ Health Savings Account (HSA) Contributions – If eligible, contributions to an HSA are tax deductible and eligible distributions are tax-free.

- ☐ Bunch Deductions – With the new increased standard deduction making it harder to reach the threshold to itemize deductions, consider bunching two years of deductions into one year by accelerating or deferring deductions like medical expenses and charitable contributions to maximize the deduction benefit.

- ☐ Charitable Contributions – Consider giving appreciated property to a charity instead of cash to receive a deduction for the fair market value and avoid paying tax on the capital gain. Conversely, investment assets with unrealized losses should be sold first, and the cash donated to charity to receive the benefit of the capital loss.



- ☐ Charitable Miles – A deduction of $0.14 per mile is allowed when using a vehicle for charitable purposes, plus parking fees and tolls.

- ☐ Timing of Charitable Contributions – Credit card charges and checks mailed on or before December 31, though not actually paid until 2020, are still considered deductions in 2019.

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Deduction Planning (continued)

- ☐ Substantiation of Charitable Contributions – The IRS has been disallowing charitable contribution deductions when taxpayers are unable to completely meet the substantiation requirements. When giving over $250 to charity, be sure to get an acknowledgement letter from the charity. It would even be advisable to take a photo of non-cash items contributed.

- ☐ Qualified Charitable Distribution (QCD) – If over age 70½, you can make tax-free distributions from your IRA of up to $100,000 directly to charitable organizations. These distributions are excluded from your taxable income. The QCD also provides benefit from the contribution even if the taxpayer is utilizing the standard deduction.

- ☐ Home Equity Interest – For tax years 2019 through 2025, the deduction for interest from a home equity loan or line of credit is suspended if the proceeds were not used to acquire or substantially improve your primary or secondary home. The loss of deduction should be factored into the total financing cost for the purchase, and consider reducing the outstanding debt.

- ☐ Mortgage Interest – Interest from mortgage loans originating after December 15, 2017 is deductible on mortgage debt up to $750,000. Loans originating before that date are still able to use the previous $1 million limitation. Second mortgages are also deductible as long as the proceeds were used to acquire or improve the residence and the total mortgage debt is below the applicable threshold.

- ☐ College Athletic Seating Rights – Charitable contribution deductions for college athletic seating rights are no longer deductible after 2017.

- ☐ Residential Energy Tax Credits – The tax credits for installing residential energy efficient property and personal energy property were reinstated through 2021. This includes an unlimited 30% credit for installing solar water heaters, solar panels, geothermal heat pumps, small wind turbines, and fuel cells; along with a limited 10% credit for items meeting specific energy efficiency requirements, including biomass stoves, central air conditioners, furnaces, insulation, roofs, hot water heaters, windows, doors, and skylights.

- ☐ Education Credits and Deductions – To be eligible for the American opportunity tax credit or the lifetime learning credit, taxpayers must have a Form 1098-T from the educational institution. Information from the Form 1098-T is needed to claim the credits or deductions.

- ☐ School Teachers – Elementary and secondary school teachers are allowed to deduct up to $250 on books, supplies, and materials purchased for their classrooms.

TAX PLANNING CHECKLIST FOR INDIVIDUALS (CONTINUED)

Estate and Gift Planning

- Annual Exclusion – Every taxpayer has a $15,000 per recipient annual exclusion from gift tax. Combined with a spouse's annual exclusion, a married couple can give $30,000 per recipient. Consider evaluating your gifting options before year-end.

- Federal Lifetime Exemption – The federal lifetime exemptions for gift and estate tax is now $11.4 million (this is in addition to the $15,000 per-recipient annual exclusions for lifetime gifts referenced above). The gift and estate tax rate for transfers greater than $11.4 million is 40% for 2019.

- State Estate Tax – Some states, including Washington, Oregon, and Massachusetts, have state estate taxes. The state exemptions are lower than the federal exemption so it is important to consider state estate taxes in your estate plans.

- Charitable Gifts – Taxpayers with significant charitable intent may be able to receive both an income tax benefit and an estate tax benefit with proper planning.

- Interest Rates – Applicable federal rates (AFRs), minimum interest rates that are required to be charged by related parties, have been increasing, but still remain relatively low. In some cases, it may be possible to refinance loans between related parties to reduce interest payments.

- Valuation Discounts – Discounts have been an extremely valuable tool in the estate planning arena for decades. Proposed regulations from Treasury to limit the application of these discounts have been withdrawn so this strategy is still available.

- Same-Sex Marriage – New guidance relating to same-sex marriage has created opportunities for certain individuals. Wills and other estate planning documents should be updated to incorporate these new opportunities.

Affordable Care Act - Health Insurance

- Required Insurance – All U.S. citizens and legal residents are required to have qualifying health insurance; however, the penalty for not having insurance has been eliminated started in 2019.

- Premium Tax Credits – Taxpayers with household incomes below four times the federal poverty limit may qualify for a premium tax credit or a premium subsidy.

- Reporting – A Form 1095-A, 1095-B, or 1095-C will be issued to anyone enrolled in health insurance during the year substantiating health insurance coverage for the calendar year. These forms will be needed to complete the Form 1040.

TAX PLANNING CHECKLIST FOR TRUSTS

Tax Planning for Trusts

- ☐ Distributions – Trusts have a low threshold of $12,750 for the NIIT so most undistributed income in a trust will be subject to the additional tax. Trustees should consider maximizing distributions to beneficiaries, and consider strategies to distribute capital gains.

- ☐ Income Sources – Similar to the tax planning strategies for individuals, trustees should evaluate the role of tax-exempt income in the trust's investment portfolio given the 3.8% NIIT on taxable income.

- ☐ Passive Activities – IRS guidance has clarified the application of NIIT on a trust's business and/or real estate income. In light of this new guidance, consider the role of a trustee in the management of the trust assets and whether additional steps can be taken to mitigate this additional tax.

Trust Taxable Income	Marginal Tax Rate
$0 to $2,600	10%
$2,601 to $9,300	24%
$9,301 to $12,750	35%
Over $12,750*	37%

*Additional 3.8% tax on investment and passive income in excess of $12,750

TAX PLANNING CHECKLIST FOR BUSINESSES

Tax Planning for Businesses

- Entity Selection – With the new corporate tax rate of 21%, consider evaluating the tax benefits of a C corporation compared to an S corporation.

- 20% Qualified Business Income Deduction – Non-corporate taxpayers with income from a pass-through entity or sole proprietorship are allowed a deduction of up to 20% of the qualified businesses income (QBI). Certain service business are excluded from this benefit, but rental and other passive activities are included.

- Form W-2 – The filing deadline for Forms W-2/W-3 is January 31. Employers are also required to disclose the annual cost of health plan or HRA coverage to an employee on the W-2.

- Health Insurance – Employers with 50 or more FTE employees must offer minimum essential coverage and report insurance coverage for employees on Forms 1094-B, 1094-C, 1095-B, and 1095-C.

- Cash method of accounting and UNICAP – Under the TCJA, taxpayers that satisfy a $26 million gross receipts test may now use the cash method of accounting and are exempt from application of the uniform capitalization (UNICAP) rules.

- Limitation on Health FSA Reimbursements - The maximum Health FSA reimbursement may not exceed $2,700 per year for 2019.

- Section 179 – The Section 179 depreciation deduction for qualifying assets acquired in 2019 is $1,020,00. This depreciation deduction begins to phase out once total depreciable assets purchased during the year exceed $2,550,000. The definition of qualifying assets has also been expanded to include roofs, heating systems, HVAC units and other specific assets that are used in a trade or business.

- Bonus Depreciation – 100% bonus depreciation is allowed for qualified tangible personal property with a recovery period of 20 years or less, for both new and used assets.

- Automobile Depreciation – The maximum allowable first year depreciation for passenger automobiles placed in services after 2018 increased to $10,100. The TCJA retained the $8,000 limit for bonus deprecation, so in 2019, the maximum first year deduction for a passenger automobile is $18,100.

- Entertainment and Fringe Benefits – The 50% deduction for business-related entertainment expenses and deduction for employee transportation fringe benefits are now disallowed. The 50% deduction for business meals is still allowed.

- Family Employees – Consider hiring your school-age child to work for your business part-time. Reasonable compensation is deductible, reducing your self-employment income. No Social Security or Medicare tax is due on the child's earnings if they are under age 18 and the business is not a corporation. Also, the child could make a contribution to a traditional or Roth IRA.

- Form 1099 – All businesses must issue a Form 1099MISC to report payments to any vendor over $600. The Form 1099/1096 is due by January 31 and the penalty for late filing can be as high as $530 per Form 1099 with no maximum penalty. <u>The IRS has emphasized greater enforcement of the Form 1099 compliance process.</u>

- Small Business Health Care Tax Credit – Small employers, generally those with fewer than 25 full-time equivalent employees with average wages of $54,200 or less, are allowed a maximum credit for 50 percent of premiums paid for employees' health insurance. Insurance must be purchased through the Small Business Health Options Program (SHOP) or qualify for an exception to the requirement.

TAX PLANNING CHECKLIST FOR BUSINESSES (CONTINUED)

Tax Planning for Businesses (continued)

- Health Reimbursement Arrangement (HRA) – Employers with fewer than 50 employees and no company provided health insurance can utilize an HRA to reimburse employees for healthcare expenditures. Annual reimbursements are limited to $5,150 for employee only coverage and $10,450 for family coverage.

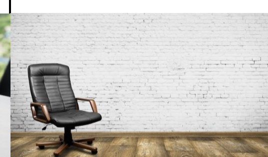
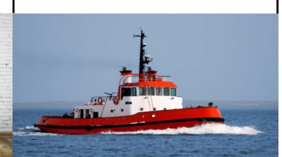
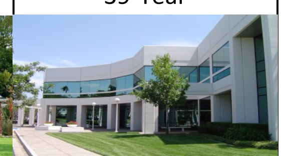
- Work Opportunity Tax Credit – Employers who hire and retain veterans and other qualified individuals, including long-term unemployment recipients, are eligible for a tax credit up to 40% of the employee's wages.

- Employer-Provided Child Care Credit – Employers can claim a credit of 10 to 25 percent up to $150,000 for supporting employee child care or child care resource and referral services.

- Research and Development Credit – Companies that develop new or improved products or processes may be able to benefit from research tax credit incentives. The research tax credit law was permanently extended.

- Qualified Small Business Stock – Up to 100% of the gains from the sale of certain qualified small business stock can be excluded from income.

- Family and Medical Leave Credit – Employers that provide paid family and medical leave to qualified employees during 2019 are eligible for a new credit of 25% of wages paid for up to 12 weeks of pay.

MACRS Depreciation Asset Classes			
3-Year	5-Year	7-Year	10-Year
			
Tractor units for over-the-road-use	**Vehicles, computers and equipment, appliances**	**Office furniture and fixtures, farm equipment**	**Vessels, barges, tugs**
15-Year	20-Year	27.5 Year	39-Year
			
Certain land improvements	**Certain farm buildings**	**Residential rental property and apartment buildings**	**Non-residential real property—office and commercial**

IMPORTANT DUE DATES

Tax Form	Filing Deadline	Extended Filing Deadline
Form W-2/W-3	January 31	N/A
Form 1099/1096	January 31	N/A
Individuals – Form 1040	April 15	October 15
FBAR – Form 116	April 15	October 15
Trusts – Form 1041	April 15	September 30
Partnerships – Form 1065	March 16	September 15
C Corporations – Form 1120	April 15	October 15
S Corporations – Form 1120S	March 16	September 15

For most taxpayers the TCJA has increased the complexity of income tax planning and tax return filings. However, those same complications present a number of planning opportunities available to you for 2019 and beyond. We are always happy to discuss these opportunities with you.

Contact Ryan Blume, Stephanie Onzay, or Jenny Keeney for more information

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