Tax Update - Individual Opportunities & Strategies December 10, 2019

Bauman Associates LTD
Contact information: Chad C. Ryder, CPA
4229 Southtowne Dr, EC, WI 54701
715-834-2001
www.baumancpa.com

Bauman Associates Ltd. Certified Public Accountants & Advisors

Tax Reform passed in late 2017 – Most provisions became effective in 2018

- Generally effective after 12/31/17

- 2019 is very similar to 2018

- Most changes are temporary
  - Sunset after 2025

- State conformity to changes?

- It's possible a Technical Corrections Bill could still pass before year end

  - Main issue is a depreciation provision, but other items could be added to get it passed

Bauman Associates Ltd.
Certified Public Accountants & Advisors

The Basics

- Still seven tax brackets
  - 10%, 12%, 22%, 24%, 32%, 35%, 37%
- No more dependent exemption
- Higher child tax credit ($2,000)
  - New $500 non-child dependent credit
- **Increase in standard deduction**
  - **For 2019 is $24,400 (MFJ) / $12,200 (Single)**
- Individual AMT not repealed
  - *But* exemption amounts have increased

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Dividend and capital gains rates unchanged

- The top tax bracket for qualified dividends and capital gains is 20% (23.8% if the net investment income tax applies).

Here's the breakdown:

0% for MFJ taxpayers with < $78,750 taxable income

15% for MFJ taxpayers with between $78,750 and $488,850 taxable income

20% for MFJ taxpayers with taxable income greater than $488,850

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Itemized deductions changes

- Repeal of the overall limitation on itemized deductions
- Medical deduction threshold is 7.5% for 2017 & 2018
  - **Reverts to 10% starting in 2019**
- Mortgage interest limited to $750,000 of debt
  - Debt prior to 12/15/17 is grandfathered
- Home equity interest no longer deductible – unless used to improve house
- State and local tax (SALT) deduction is limited to $10,000 ($5,000 if MFS)
- Misc. deductions subject to 2% threshold no longer deductible

Bauman Associates Ltd.
Certified Public Accountants & Advisors

State and local tax (SALT) issues

- Total deduction limit of $10,000 ($5,000 if MFS)
    - Combination of income/sales and state/local property taxes
  - Exceptions
    - Tax imposed at entity level
    - Property taxes for residential rental property/business property

Bauman Associates Ltd.
Certified Public Accountants & Advisors

SALT Limitations – Planning Ideas

- Principal Residence
  - Since the standard deduction has been increased and the SALT limitation is $10,000 there might not be a Federal tax benefit for paying real estate taxes on your principal residence
  - Don’t forget about the WI Property Tax Credit
  - Based on the amount of RE taxes paid during the year
  - Need to pay at least $2,500 during the year in order to get the maximum $300 credit
  - Might want to pay some RE taxed by 12/31 in order to get the WI credit even if no Federal benefit
- Vacant Land
  - Can make a Section 266 election to capitalize the RE taxes paid
  - Can also capitalize the interest paid on the loan
  - Only applies to vacant land
  - Would be of benefit if claim Standard Deduction

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Miscellaneous itemized deductions subject to 2% AGI – No longer deductible

- Unreimbursed employee expenses
- Tax prep fees
- Hobby expenses
- Investment fees/expenses
- Legal fees related to producing income
- Safe deposit fee

Unreimbursed Employee Business Expenses

- Ideas to consider since these are no longer deductible on Schedule A
  - Get reimbursed by an employer under an accountable plan if possible
  - Get paid a "bonus" to try to make up for some of the expenses that are paid personally and not reimbursed
  - Convert to being an independent contractor if the circumstances work – very limited where this would work due to employee fringe benefits and the W2 vs 1099 rules

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Affordable Care Act impact

- Penalty to maintain insurance coverage (individual mandate) is repealed for 2019 and forward
- Was still in effect for 2017 and 2018

Net Investment Income Tax (NIIT)

- No change to NIIT itself, it is still 3.8% on net investment income but …
- Investment fees and state income tax (amount attributable to investment income) reduce investment income to lower amount subject to NIIT
- Since investment fees are no longer deductible and state income tax is limited to $10,000, this will likely cause an increase in the amount subject to NIIT
- NIIT applies if income is greater than $250,000 (MFJ) / $200,000 (Single)

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Alternative Minimum Tax (AMT) changes

- Alternative tax system that parallels the regular federal tax (with different rates and rules for deductions)
- Increase in exemption amount
- Due to limit on state/local tax deduction and repeal of miscellaneous deductions, impact should be less

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Estate and Gift Tax changes

- 2019 estate tax exemption: $11.4 million
- 2019 gift tax annual exclusion: $15,000
- Estate planning is more than minimizing estate taxes.
  - Updating documents (wills, trusts, etc)
  - Repurposing insurance
  - Privacy
  - Asset protection

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Other individual changes to note

- Casualty losses: only from federally-declared disasters
- Alimony: deduction/inclusion repealed for divorces executed after 12/31/18
- Moving expenses deduction repealed
- Kiddie tax now at trusts/estate tax rates

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Charitable contribution changes

- AGI limitation increased to 60% for cash contributions (from 50%)
- Exception to contemporaneous written acknowledgement requirement is repealed (must be obtained now for any contribution of $250 or more)
- Note – charitable contributions might not be as valuable if you claim the higher Standard Deduction and don't Itemize but you should keep track of them as you might get an itemized deduction credit for WI

Bauman Associates Ltd.
Certified Public Accountants & Advisors

20% pass-through deduction from Qualified Business Income

- The QBI Deduction will be reported on your 1040
  - Factors pass-through on K1s
  - Schedules C and F qualify if a Trade or Business (hobbies don't qualify)
  - Rentals
    - Not much guidance from IRS – facts and circumstances
    - Self-rentals qualify
    - Active participation in rental real estate probably qualifies
    - **Should issue 1099s (businesses are required to issue 1099s)**

- **Will discuss QBI in more detail at the Business Tax Update Webinar on December 11**

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Depreciation – Schedule C/E/F and Pass-through Entities

- Bonus depreciation
  - Additional first yr. 100% deduction for property acquired after 9/27/17
  - Bonus depreciation phase down schedule for years after 2022
  - **Now allowed for new and used property**
- Auto limits
  - Luxury auto 1st year additional $8k depreciation has been extended
  - SUV Sec 179 limitation remains at $25,000

- Qualified improvement property – new definition and recovery period
- Section 179
  - Increased to $1M and threshold $2.5M
    - **2019 inflation adjusted is $1,020,000 / $2,550,000**
  - Eligible property now includes nonresidential improvement real property (roofs, HVAC, and fire/security/alarm systems)
  - Eligible property also includes residential personal property (furniture, appliances, etc.)

******Remember De Minimis Election***

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips - Individuals

- Take advantage of lower tax brackets
  - ROTH IRA conversion
  - Taking IRA withdrawals after age 59 ½ but before RMD
  - Capital Gains
- Itemized Deductions vs Standard Deductions
- Stocks – Charitable Donations vs Selling
- HSA/Retirement Plan Contributions
- Sale of Principal Residence
- QCD
- Social Security
- Education Credits/529 Plans

Bauman Associates Ltd.
Certified Public Accountants & Advisors

2019 Tax Brackets

Taxable Income up to the following amounts (MFJ/Single):

- 10% $ 19,400 / $ 9,700
- 12% $ 78,950 / $ 39,475
- 22% $168,400 / $ 84,200
- 24% $321,450 / $160,725
- 32% $408,200 / $204,100
- 35% $612,350 / $510,300
- 37% Over $612,350 / $510,300

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- ROTH IRA conversion
  - Will be taxable but not subject to 10% penalty
  - Must be from Traditional IRA to ROTH IRA

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- Taking IRA withdrawals after age 59 ½ but before RMD
  - If you are in a lower bracket, can take an IRA withdrawal before the RMD
  - Will reduce future RMD amounts
  - Taxable but no 10% penalty if over 59 ½

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- Capital Gains/Qualifying Dividends
  - Long-Term Capital Gains can be taxed at 0% for Federal, if taxable income is under $78,750 / $39,375 (MFJ/Single)
  - Timing/planning as to when to sell assets

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- Itemized Deductions vs Standard Deduction
  - The Standard Deduction was increased to $24,400 / $12,200 (MFJ / Single) so many taxpayers will claim the Standard Deduction
  - Itemized Deductions (Schedule A) include:
    - Medical Expenses (must exceed 10% of AGI for 2019)
    - State & Local Taxes (limited to $10,000)
    - Mortgage Interest (note $750,000 limit)
    - Charitable Donations
- There could be an opportunity to double up on deductions and claim Itemized one year and Standard the next

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- Stocks
  - If you have a stock with gains, you can gift it to a charity and receive a donation (Schedule A) for the FMV
    - Need to know how close you are to Standard Deduction
  - If you have a stock with losses, consider selling it to claim the capital loss

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- HSA
  - High Deductible Health Plan
  - Pre-Tax through your employer
  - Can make contributions on your own
  - Report on Form 8889
- Retirement Plan Contributions
  - Employer plan – 401K, etc
    - Pre-Tax vs ROTH (after-tax)
  - IRA/ROTH IRA
  - SEP if self-employed
- Tax Advantage of Employer Pre-Tax Benefits
  - Employer Matching Contributions

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- Sale of Principal Residence
  - You can exclude up to $500,000 / $250,000 (MFJ/Single) of gain on the sale of your principal residence
    - Must have been your principal residence for at least 2 of the previous 5 years

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- Qualified Charitable Distribution (QCD)
  - Must be at least 70 ½
  - Can contribute up to $100,000 **directly** from an IRA to a charity
  - No charitable donation but it isn't included in income
    - Wouldn't get a Federal benefit if claim Standard Deduction
    - Reduces AGI
    - Can be used to satisfy RMD

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- Social Security
  - Be aware of the impact of other income on the taxability of Social Security
  - Planning for distributions, sale of assets, etc
  - WI doesn't tax Social Security

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Planning tips

- Education Credits
  - American Opportunity Credit (AOC)
    - Maximum is $2500 – need at least $4,000 in tuition
    - Income Phase-outs
- Section 529 Plans
  - No Federal tax deduction
  - Could be a WI tax deduction if a WI plan
  - Grows tax-free and distributions are tax-free if used for education
- Interplay between AOC and Section 529

Bauman Associates Ltd.
Certified Public Accountants & Advisors

Thank You!

Presented by Chad Ryder
chadryder@baumancpa.com

Bauman Associates Ltd.
Certified Public Accountants & Advisors