American Association of Individual Investors

Year-End Tax Update

Presented by Claudia Hill, EA, MBA

Claudia Hill, EA, MBA

- Tax Analysts' Top 10 Persons of the Year for 2011
- Nationally recognized tax professional and frequent lecturer on taxation of individuals, tax planning, and representation before IRS
- Editor-in-chief of the Wolters Kluwer Journal of Tax Practice and Procedure, co-author of CCH's Expert Treatise Tax Practice & Procedure and a frequent presenter at association and industry seminars
- Owner and principal of Tax Mam, Inc. and TMI Tax Services Group, Inc., she maintains an active tax planning, preparation and representation practice in Cupertino, CA

- **Not a lot of law changes in 2019…we're still trying to absorb last year's Tax Cuts and Jobs Act**

- ***“Today is truly a historic day for the American people. By signing the Tax Cuts and Jobs Act, President Trump put our nation’s broken tax code behind us and ignited a new era of American Prosperity.”***

Tax Cuts & Jobs Act

Marginal Tax Rate	Single	Married Filing Jointly	Head of Household	Married Filing Separately
10%	$0-$9,700	$0-$19,400	$0-$13,850	$0-$9,700
12%	$9,701-$39,475	$19,401-$78,950	$13,851-$52,850	$9,701-$39,475
22%	$39,476-$84,200	$78,951-$168,400	$52,851-$84,200	$39,476-$84,200
24%	$84,201-$160,725	$168,401-$321,450	$84,201-$160,700	$84,201-$160,725
32%	$160,726-$204,100	$321,451-$408,200	$160,701-$204,100	$160,726-$204,100
35%	$204,101-$510,300	$408,201-$612,350	$204,101-$510,300	$204,101-$306,175
37%	Over $510,300	Over $612,350	Over $510,300	Over $306,175

DATA SOURCE: IRS.

Key element of TCJA was revised tax rates & higher standard deduction

Filing Status	Standard Deduction for 2019 Tax Year
Single	$12,200
Married filing jointly	$24,400
Head of household	$18,350
Married filing separately	$12,200

DATA SOURCE: IRS.

Those who are 65 or older or are blind get to take additional amounts as a standard deduction. For marrieds, the added amount is $1,300; singles get to add $1,650.

How big is it?

Tax Rate on Income	Single	Married Filing Jointly	Head of Household	Married Filing Separately
0%	Up to $39,375	Up to $78,750	Up to $52,750	Up to $39,375
15%	$39,375 to $434,500	$78,750 to $488,850	$52,750 to $461,700	$39,375 to $244,425
20%	Above $434,500	Above $488,850	Above $461,700	Above $244,425

DATA SOURCE: IRS.

And don't forget the **3.8** percent **Net Investment** Income **Tax** (NIIT) applies to individuals, estates, and trusts that **have net investment** income above $200,000 for singles and $250,000 for married taxpayers.

What about Capital Gains Rates?

Medicare Part B premiums 2020

Individual and joint filers

Individual tax filers	Married, file jointly	Adjustment amount	Monthly premium
Up to $87,000	Up to $174,000	$0.00	$144.60
$87,000-$109,000	$174,000-$218,000	$57.80	$202.40
$109,000-$136,000	$218,000-$272,000	$144.60	$289.20
$136,000-$163,000	$272,000-$362,000	$231.40	$376.00
$163,000-$500,000	$326,000-$750,000	$318.10	$462.70
$500,000 or more	$750,000 or more	$347.00	$491.60

While not a tax, older taxpayers have another reason to moderate their income

- **Many wage earners were surprised that their withholding wasn’t enough…**
- **Winners and losers with the TCJA**
- **Higher standard deduction on the Federal return helped offset the loss of many items previously itemized**
- **California DIDN’T adopt the Federal changes**

Any problems with last filing season?

Key Issues

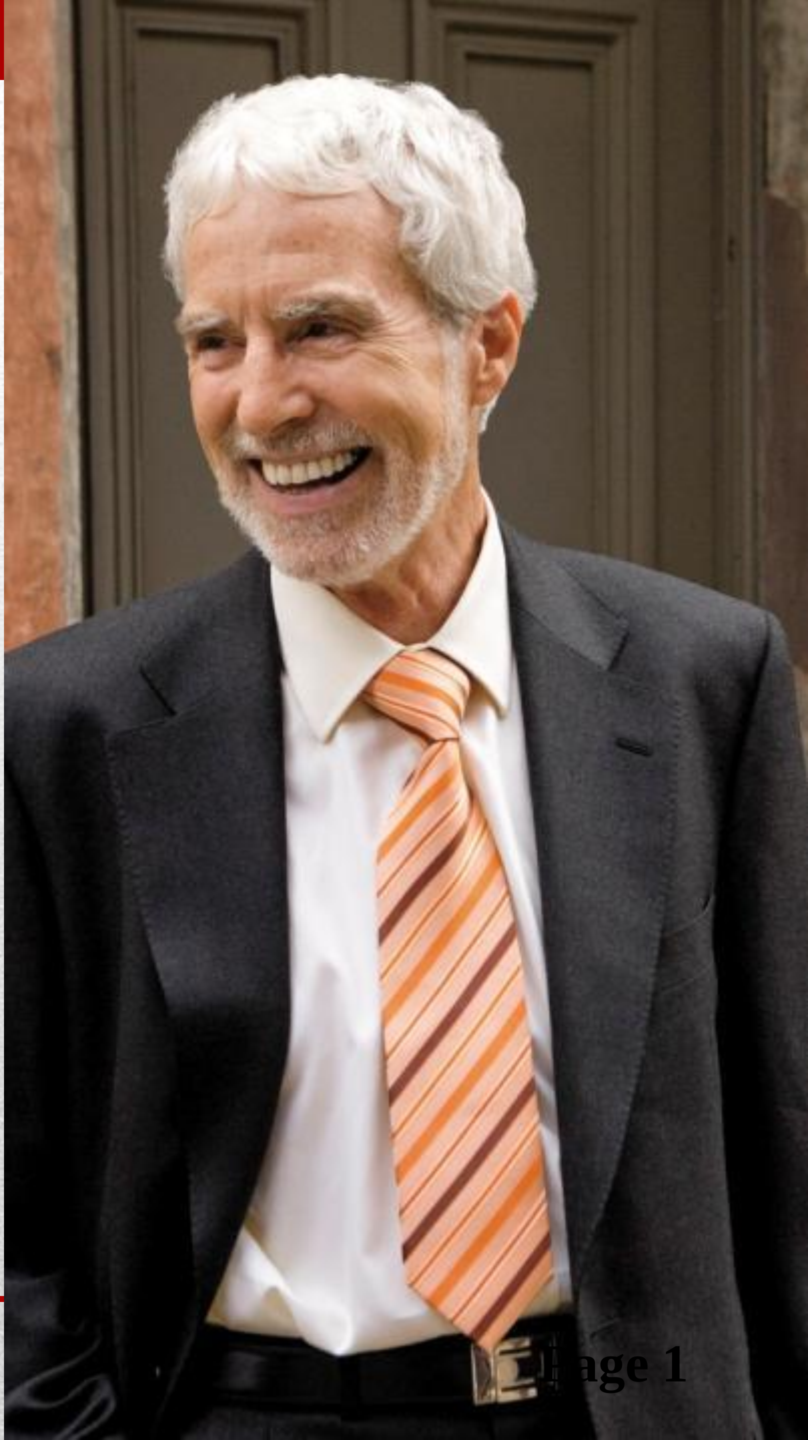
1. Filing Season 2018: Unfinished Business
2. What’s left of Schedule A
3. Rental Properties & QBI

What's New for Form 1040?

1. Form 1040-SR
2. Fewer numbered schedules
3. Even higher standard deduction

New for 2019!

- If you were born before January 2, 1955, you have the option to use new Form 1040-SR.
  - More like the 2017 1040, but…
  - Must use standard deduction
  - Font is larger; colors brighter



New for 2019: Virtual Currency Question

At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? . . . . ☐ Yes ☐ No

If, in 2019, you engaged in any transaction involving virtual currency, check the "Yes" box next to the question on virtual currency at the top of Schedule 1.

IRS BEGINS A COMPLIANCE CAMPAIGN

Virtual currency transactions are taxable by law just like transactions in any other property. Taxpayers transacting in virtual currency may have to report those transactions on their tax returns.

Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value. In some environments, it operates like "real" currency (i.e., the coin and paper money of the United States or of any other country that is designated as legal tender, circulates, and is customarily used and accepted as a medium of exchange in the country of issuance), but it does not have legal tender status in the U.S. Cryptocurrency is a type of virtual currency that utilizes cryptography to secure transactions that are digitally recorded on a distributed ledger, such as a blockchain, DAG, or Tempo.

What is Virtual Currency?

- **Virtual currency**, or **virtual money**, is a type of unregulated **digital currency**, which is issued and usually controlled by its developers and used and accepted among the members of a specific **virtual** community. ... By contrast, a **digital currency** that is issued by a central bank is **defined** as "central bank **digital currency**".

- Wikipedia

What is Virtual Currency?

- Virtual currency is a type of unregulated digital currency that is only available in electronic form. It is stored and transacted only through designated software, mobile or computer applications, or through dedicated digital wallets, and the transactions occur over the internet through secure, dedicated networks. Virtual currency is considered to be a subset of the digital currency group, which also includes cryptocurrencies, which exist within the blockchain network.
    - Investopedia

What is Virtual Currency?

- Digital currency is the overall superset that includes virtual currency, which in turn includes cryptocurrencies. Compared to virtual currency, a digital currency covers a larger group that represents monetary assets in digital form.
- Digital currency can be regulated or unregulated. In the former case, it can be denominated to a sovereign currency—that is, a country's central bank can issue a digital form of its fiat currency notes. On the other hand, a virtual currency often remains unregulated and hence constitutes a type of digital currency.
- Cryptocurrencies like bitcoin and ethereum are considered to be a part of the virtual currency group. A cryptocurrency uses cryptography technology that keeps the transactions secure and authentic, and also helps to manage and control the creation of new currency units. Such cryptocurrencies exist and are transacted over dedicated blockchain-based networks that are open to the common public.

- Investopedia

Digital, Virtual, Crypto Currency?

- Overall limit on itemized deductions is gone
- SALT limited to $10,000
- Limit on home mortgage interest deduction
- No deduction for home equity loan interest
- Expired deduction for Mortgage Insurance
- No miscellaneous itemized deductions
- Casualty & Theft losses limits
- Higher threshold for charity

Schedule A – What happened?

Medical & Dental Expenses

NOT CHANGED

- **Self-employed taxpayers who qualify for the medical insurance adjustment**

NOT CHANGED

- **Items or categories that constitute deductible medical expenditures**

CHANGED

- **<u>For 2019</u>, taxpayers must absorb medical expenses equal to 10% of their AGI**

- **Qualified long-term care services**
- **Know the activities of daily living**
- ***It's not limited to specific medical treatments only…it's <u>all</u> medical care***

What category of medical expenses is growing exponentially?

- **The TCJA limits annual itemized deductions for all nonbusiness state and local taxes deductions, including property taxes, to $10,000 ($5,000 for married taxpayer filing a separate return) for 2018 through 2025**

Practitioners recommend you limit your SALT intake…

IRS Guidance

- Salt Work-arounds:
- Home office/vacation home allocation rules
- State charity deduction; credit as state taxes paid…
- Was IRS treatment of state taxes paid for NII correct?

- Rev. Rul. 2019-11

Tax Benefit Rule in calculating taxability of state tax refunds

- PTMA 2019-01 Interplay between the $10,000 limitation of §164(b)(6) and §280A(b)

Mortgage Interest *Effective for Tax Years After 12/31/2017*

- **TCJA limits the home mortgage interest deduction for tax years through 2025**
- **The deduction of interest on home equity debt is suspended**
- **The maximum amount that may be treated as acquisition debt is reduced to $750,000 ($375,000 if married filing separately) for any acquisition debt incurred after December 15, 2017**

Courtesy of the 2017 Tax Cuts & Jobs Act …

TAX CUTS & JOBS ACT

- **Pre-2018 loans of up to $1 million are grandfathered and are not subject to the new $750,000 cap**
- **Refi's without adding to debt are allowable**
- **Interest remains deductible on second homes, but subject to the overall $1 million / $750,000 limits**

- ***"…despite newly-enacted restrictions on home mortgages, taxpayers can often still deduct interest on a home equity loan, home equity line of credit (HELOC) or second mortgage, regardless of how the loan is labeled."***
- ***The loan must be secured by the t/p's main or second home (aka qualified residence), not exceed the cost of the home, be used to buy, build or substantially improve that same home, and be within the qualifying mortgage amount limitations.***

IRS Guidance: IR 2018-32

IRS Clarified …

- **Just because the source of funds was a home equity loan doesn't automatically disqualify the interest … we use tracing rules**

- **Interest is still deductible on home equity loans (or second mortgages) <u>if</u> the proceeds are used to substantially improve the residence, within the overall limitation on deductible mortgage debt**

WOW!

- Because of the concern that taxpayers would reduce their charitable giving if they were not receiving a tax benefit, our Congress INCREASED the amount that could be given annually to 60% of AGI (instead of 50%)

Charitable Contributions

- **Any trade or business income <u>except</u>**
  - **Specified service trade or business**
  - **Trade or business of being an employee**
- **20% of qualified business income**
  - ***Limitations may apply…***
- **20% of REIT & PTP income**

The 20% QBI Deduction

- **QBI is the net amount of qualified items of income, gain, deduction *and loss* from any qualified trade or business, including income from partnerships, S corporations, sole proprietorships, and certain trusts.**
- **These includable items must be effectively connected with the conduct of a trade or business within the U.S.**

What's Qualified Business Income?

IS YEAR-END PLANNING STILL WORTHWHILE?

What still works?

- **Bunching deductions still works; alternate years for itemizing v. standard deduction**
- **If you're RMD age, use your RMDs for QCDs**
- **Year-end loss harvesting**
- **Roth Conversions…no more do-overs**
- **Consider Relocating to a Tax-Friendly State**

Ideas for Year-End Planning