2019 YEAR-END TAX CONSIDERATIONS [PART I]

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To plan for 2019 year-end tax preparation, we must first revisit the passage of the Tax Cuts and Jobs Act ("TCJA") on December 22, 2017, making significant changes for income and transfer taxes between 2018 and 2025 (when the changes sunset and reverse). TCJA was billed as the largest tax cut in history. While C corporations received a healthy rate cut, down to 21%, TCJA effects on individuals were significantly more mixed in nature. Many individuals shared the author's experience of paying higher tax rates on similar income after applying the new provisions.

- **THE GOOD NEWS**
  - The top ordinary income tax rate was lowered to 37% and all rates and levels were lowered.
  - Long-term capital gains rates and qualified dividend tax rates stayed at 20%.
  - Alternative minimum tax ("AMT") exemptions were increased and the phase out of this exemption was increased above $1 million in income for a married couple, so many fewer taxpayers will be surprised by the AMT.
  - The standard deduction was doubled to $24,400 for married filing jointly. Deduction restrictions will cause most taxpayers (88% as estimated by the Joint Committee on Taxation) to use the standard deduction rather than itemize deductions.
    - [TIP] Tax credits are more valuable than tax deductions, because a tax credit reduces dollars of payable taxes, but a deduction only reduces dollars of taxable income. If you are in a 25% tax bracket, $1.00 of credit reduces taxes by $1.00, but $1.00 of deduction reduces taxable income by $1.00, but reduces taxes only by $.25.
  - The level of deductible charitable contributions was increased to 60% of annual adjusted gross income ("AGI"). Because you must itemize to deduct charitable contributions, fewer taxpayers will be benefiting from charitable deductions.
    - [TIP] For taxpayers over age 70½, who must take required minimum distributions from their IRAs, Qualified Charitable Distributions ("QCDs") from IRAs directly paid to non-profits avoids this itemized deduction issue. QCDs are exempt from income tax and therefore do not require use of a deduction. This lowers your AGI for Medicare rate and other income-driven items.
  - Probably the best planning opportunity of the TCJA, §199A, created a deduction of 20% for owners of pass-through entities including S corporations, partnerships, LLCs and sole proprietorships.

    - Business owners may be able to deduct either 20% of "qualified business income" or 20% of taxable income minus capital gains, whichever is less.
    - Earned income only, not investment income, dividends, interest or capital gains.
    - Income limitations and phase-outs apply.
    - [TIP] Limitations apply to professional service businesses, such as doctors, dentists, lawyers, accountants and financial advisors. Real estate and insurance businesses received preferable treatment. Time to rethink your choice of profession?
    - Qualifying for and calculating this deduction is incredibly complex and, when combined with the lower C corporation tax rate of 21%, has created a planning opportunity on numerous levels, including choice of entity and use of qualified pension plans to reduce taxable income.
    - We will investigate these opportunities in future installments.
  - The unified federal estate and gift tax exemption was increased from $5.49 million to $11.4 million per person, with future inflation adjustments. This would exempt almost all estates from tax. This reverses in 2026 or sooner if a different political party achieves control in 2020. [TIP] Opportunities for gifting assets to lower generations before such reversion should be pursued.
  - Qualified Opportunity Zones and Funds is a new incentive program designed to spur development and job creation in economically distressed communities. Investors receive tax incentives to reinvest capital gains into qualified funds within 180 days from the date of sale. [TIP] The full benefit requires a 7-year holding period prior to the program's end in 2026, so action should commence prior to year-end to obtain the maximum benefit.

SO MUCH FOR THE "GOOD" NEWS… NEXT TIME WE WILL REVIEW THE "OTHER" NEWS.

Remember, It is not what you make that matters… it is what you keep!!