2019 Year-End Tax Considerations [Part II]

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December 17, 2019

As promised last time, today we will discuss the flip side to last time's tax benefits. ***Remember that most of these provisions "sunset" and go away in 2026***.

- **The "Other" News"**
  - Prior to the Tax Cuts and Jobs Act of 2017 ("TCJA"), taxpayers could claim ***personal exemptions*** for themselves and for each dependent claimed in the amount of $4,500 each. These exemptions were the equivalent of deductions. But they are gone.
    - [TIP] The child care credit doubled from $1,000 to $2,000 and increased the income threshold to continue using these credits. A portion of this credit can be taken even if you do not owe taxes, as it generates a refund anyway.
    - The standard deduction also doubled, covering some of this shortfall.
  - ***State and local taxes ("SALT"),*** including income or general sales tax, real estate and personal property taxes. have previously been deductible without limitation.
    - SALT deductions are now limited to $10,000 per year per couple filing jointly.
    - This is a serious problem for residents of high state rates, such as New York or California, but can also be expensive for states such as North Carolina.
  - ***Mortgage Interest Deduction.*** In 2018 the mortgage amount on which you can deduct interest decreased from $1 million to $750,000.
    - You could previously deduct interest on a home equity line of credit ("HELOC") similar to a mortgage, no matter how you used the money. To be deductible now it must be to "buy, build or substantially improve" your main or second home.
    - [TIP] You can no longer use a HELOC to buy a car or boat because you must trace the proceeds from the HELOC to the improvement of your home.
  - ***Miscellaneous Itemized Deductions***, previously subject to aa 2% of AGI floor threshold are gone.
    - ***Unreimbursed job expenses*** such as professional dues, uniforms, legal fees, education, home office expense or job-hunting expense are gone.
    - ***Investment management expenses and tax return prep fees*** are no longer deductible.
    - [TIP] Investment interest on money borrowed for an investment remains deductible, capped at the amount of taxable investment income for the year.
  - ***Commuter tax benefits*** are largely gone, not deductible by the employer unless they are "necessary for ensuring the safety of the employee." Further undefined.

- *Moving Expense Deduction* for change of employment are gone except for active duty military personnel.
- ***Alimony Deduction*** for alimony payments used to be an "above the line" deduction (before determining adjusted gross income) and ordinary income to the recipient. In 2019-2026 it will be neither a deduction nor income. Child support payments continue to be non-deductible and non-income.
  - [TIP] If you gave the receiving spouse a lump-sum IRA, you would get the impact of a deduction since you are giving away money that you would eventually have to pay tax on. Receiving spouse would have to pay taxes on withdrawals (including a 10% penalty for withdrawals before age 59.5).

- Some itemized deductions survived the massacre:
  - ***Gambling Losses*** up to the amount of winnings remain deductible, without being subject to the 2% of AGI threshold.
  - ***Graduate Student Tuition Waivers*** remain tax-free.
  - ***Interest on Student Loans*** continues to be tax deductible, even if you do not itemize.
  - ***Student Loan Debt Discharge*** due to death or disability are no longer taxed since 2018, as it was previously.
  - ***Itemized Deductions No Longer Limited by AGI,*** so high earners can deduct without the prior Pease limitations.
  - ***Charitable Contributions*** by cash or check are now subject to a limit of 60% of your AGI, up from 50%.

So last time we looked at the ***"Good"*** and this time we reviewed the ***"Bad,"*** so next time we will venture into the ***"Ugly"*** *[ala Clint Eastwood in a spaghetti western]* by trying to apply these new rules to our year-end planning.

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