Claudia A. Traynor

Certified Public Accountant

S111 McKay Avenue, PO Box 209
Spring Valley, WI 54767
715/778-4500
www.catcpa.net

2019 TAX CHANGES & TIPS

Welcome to a new decade! Our new year 2020 does not have many new tax laws. And since this is going to be an election year I wouldn't expect Congress to pass much tax legislation this year either.

Our office staff is committed to helping you through the endless maze of tax laws to get you the biggest refund or to pay the least amount of tax. We have a great staff to help you. Kim, Margaret, Minda, Mike, Nickie and I are all ready for another great tax season. Kathy Traynor will be joining us several afternoons a week to help out at the front desk.

The 2018 tax season brought a new challenge to our office with a record number of clients bringing in their tax information after 4/1/19. To help us serve you better, we have a couple of new office policies. Due to time constraints our office will file extensions for all clients that bring in their tax information after 4/3/20 and these returns will not be completed until <u>after</u> 4/15/20. A $40 extension fee will automatically be applied to your return.

We would prefer to prepare the extended tax returns in May and June rather than to wait until the Fall when we are busy with our staff training and seminars to get ready for the next tax year.

To encourage you to bring in your tax information sooner than later and to minimize the stress on myself and my staff, any tax information brought in after 9/1/20 will incur an additional $50 fee. Also, any return information brought in after 9/15/20 may not be completed by the October 15th extended deadline.

Any tax information brought in after 10/1/20 WILL NOT be completed by the October 15th extended deadline. Our desire is to do the best for you, but when your tax information is dropped off late it puts unnecessary stress on our staff.

We are enclosing the engagement letter for you (and spouse if married) to sign and bring in with your filled out Personal Tax Worksheets. We will also be posting them on our website at ***www.catcpa.net*** *. Click on the link for 2019 Tax Year Worksheets.*

As always, we welcome new clients and deeply appreciate our current clients! It's been a privilege and a pleasure serving you and we look forward to seeing you soon! Let our vast experience assist you. We succeed when you succeed!

~Claudia & staff

TCJA Tax Law

Although the Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017, some of the tax provisions did not go into effect until 2019.

Medical Expenses. A deduction is allowed for the expenses paid during the tax year for the medical care of the taxpayer, the taxpayer's spouse, and the taxpayer's dependents to the extent the expenses exceed a threshold amount. To be deductible, the expenses may not be reimbursed by insurance or otherwise. If the medical expenses are reimbursed, then they must be reduced by the reimbursement before AGI is applied.

For tax years ending after December 31, 2018, medical expenses will be subject to 10% for both regular tax and AMT purposes.

Repeal of the Individual Mandate. Under the Affordable Care Act the law required that individuals who were not covered by a health plan that provided at least minimum essential coverage were required to pay a "shared responsibility payment" (also referred to as a penalty) with their federal tax return. Unless an exception applied, the tax was imposed for any month that an individual did not have minimum essential coverage.

For months beginning after December 31, 2018, the amount of the individual shared responsibility payment is reduced to zero. However, if you are on Marketplace insurance, you still need to bring in your Form 1095-A so we can calculate your Premium Tax Credits.

Alimony. Under the Tax Cuts and Jobs Act, for any divorce or separation agreement executed after December 31, 2018, or executed before that date but modified ***after*** it (if the modification expressly provides that the new amendments apply), alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the income of the payee spouse.

Tax rules for pre-2019 Divorces. For divorce or separation instruments executed before 2019, alimony or separate maintenance payments are deductible by the payor spouse, as long as the payments qualify under the tax rules for "alimony." To qualify, the payments must (i) be required under the divorce decree or separation agreement (i.e., voluntary or "extra" payments won't qualify), (ii) be in cash only (not goods or services), and (iii) be required to end at the death of the recipient spouse. Also, the parties must be living in separate households. Alimony payments under pre-2019 instruments are includible in the gross income of (i.e., taxable to) the payee spouse.

New Tax Law

On July 1, 2019, President Trump signed into law the Taxpayer First Act of 2019. The Act changes the management and oversight of IRS with the aim of improving customer service and the process for assisting taxpayers with appeals. Some of the key provisions include:

Notification of suspected identity theft. The Act requires IRS to notify a taxpayer if it determines there has been any suspected unauthorized use of a taxpayer's identity, or that of the taxpayer's dependents, if an investigation has been initiated and its status, whether the investigation substantiated any unauthorized use of the taxpayer's identity, and whether any action has been taken (such as a referral for prosecution). Furthermore, when an individual is charged with a crime, IRS must notify the victim as soon as possible, giving victims the ability to pursue civil action against the perpetrators.

Requirements for identify protection. An Identity Protection Personal Identification Number (IP PIN) is a 6-digit number assigned to eligible taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their Social Security Numbers (SSNs) on fraudulent Federal income tax returns. While the IP PIN program was initially restricted to taxpayers affected by identity theft, the program is expanding so hopefully in a year or two, anyone will be able to request an IP PIN. The program is currently available to taxpayers in nine states plus the District of Columbia, but not Wisconsin or Minnesota.

Notification of unauthorized inspection. The Taxpayer First Act requires the IRS to notify a taxpayer if IRS or a Federal or State agency proposes an administrative determination as to disciplinary or adverse action against an employee arising from the employee's unauthorized inspection or disclosure of the taxpayer's return or return information.

Point of contact for identity theft victims. The Act requires IRS to establish procedures to implement a single point of contact for taxpayers affected by identity theft.

Independent Office of Appeals. The new law also requires that the IRS establish an Independent Office of Appeals and that case files referred to independent office be available to certain individual and small business taxpayers. Eligible taxpayers are those who, for the tax year to which the dispute relates, are:

1. Individuals with adjusted gross incomes not exceeding $400,000, and

2. Entities with gross receipts not exceeding $5 million for the tax year.

In cases in which IRS has issued a notice of deficiency to a taxpayer, IRS must prescribe notice and protest procedures for taxpayers whose request for Independent Appeals consideration is denied.

Additional Information

New Form W-4. The W-4 form for employee withholding has been completely revised for 2020. If you are currently an employee you do not need to fill out a new W-4 unless you want to change your withholding, but all new employees will need to use the new form.

Non-Employee Compensation (NEC). Every year I get questions about what is considered income. If you do work for someone and get paid, generally that is considered taxable income. You don't have to receive a 1099 for it to be income.

Standard Mileage Rate. Taxpayers can use the standard mileage rate (in lieu of actual expenses) in computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups or panel trucks) for business purposes. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for business travel. The following rates are applicable for the 2019 tax year:

Business	$.58
Medical	.20
Moving	.20
Charitable	.14

Note: Except for active military members, the Tax Cuts and Jobs Act suspended the deduction for unreimbursed employee business expenses for tax years 2018 - 2025.

Estimated tax payments. Taxpayers generally must make estimated tax payments if they expect to owe $1,000 or more when they file their 2019 tax return.

For 2018, the IRS reduced the threshold for underpayment penalties; however, that was only for the 2018 tax year. For 2019, to avoid an underpayment penalty, taxpayers must meet one of the following tests:

1. The person's tax payments are at least 90 percent of the tax liability for 2019, or

2. The person's tax payments are at least 100 percent of the prior year's tax liability. (However, the 100 percent threshold is increased to 110 percent if a taxpayer's adjusted gross income was more than $150,000, or $75,000 if married and filing a separate return).

Social Security Wage Base for 2020. The Social Security Administration (SSA) recently announced that the maximum earnings subject to the Social Security component of the FICA tax will increase from $132,900 to $137,700 for 2020.

This means that for 2020, the maximum Social Security tax that employers and employees will each pay is $8,537.40 ($137,700 x 6.2%). A self-employed person with at least $137,700 in net self-employment earnings will pay $17,074.80 ($137,700 x 12.40%) for the Social Security part of the self-employment tax. The Medicare component remains 1.45% of all earnings, and individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) will pay an additional 0.9% in Medicare taxes.

Year-End Planning

Year-end planning is always complicated by the uncertainty of what the following year may bring. Questions persist over whether tax legislation will pass this year and, if so, whether it will involve sweeping tax reform, simple rate cuts, or something in between. With that in mind, here are a few steps that you might consider saving you tax dollars if you act before the end of the year.

- Taxpayers who plan their charitable gifts may be able to get themselves over the standard deduction and itemize, if they use a strategy called bunching. The Tax Cuts and Jobs Act greatly increased the standard deduction for married couples filing jointly ($24,400 for 2019 and $12,200 for single filers). It also placed new limits on itemized deductions, such as the state and local tax (SALT) deductions are limited to $10,000 per year.

  Some taxpayers may be able to work around the new limits by applying a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the tax year where they will a larger impact. For example, charitable gifts, such as cash or appreciated stock, are still tax deductible if you itemize, but not if you take the standard deduction. If you give regularly to charities, consider putting several years' worth of gifts into a single year.

  Note: This tax strategy may impact deductions and/or credits for state income tax purposes.

- Individuals at least 70½ years of age, have the ability to make a direct transfer from an IRA to a charitable organization and exclude from gross income (up to $100,000 per year) the qualified charitable distribution.

  Using your IRA distributions for charitable giving could save you more than taking a charitable deduction on a normal gift. That's because these IRA distributions for charitable giving won't be included in income at all, lowering your adjusted gross income (AGI). You'll see the difference in many AGI-based computations. Even better, the distribution to the charitable organization will still count toward the satisfaction of your minimum required distribution (RMD) for the year.

- Reducing or avoiding the net investment income tax (NIIT) can also lower your taxes. Taxpayers with modified adjusted gross income (MAGI) over $200,000 per year ($250,000 if married filing jointly and $125,000 if married filing separately) may owe the net investment income tax, in addition to income tax. The NIIT equals 3.8% of the lesser of your net investment income or the amount by which your MAGI exceeds the applicable threshold. Net investment income can include capital gains, dividends, interest, rental income and other investment-related income (but not business income or self-rental income from an active trade or business).

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information, and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.