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Individual Tax Planning Moves That Will Help Lower Your Tax Bill

As the end of the year approaches, it is a good time to think of planning moves that will help lower your tax bill for this year and possibly the next.

Year-end planning for 2019 takes place against the backdrop of the 2017 Tax Cuts and Jobs Act that had major changes in the tax rules for individuals. There were new, lower income tax rates, a substantially increased standard deduction, severely limited itemized deductions and elimination of personal exemptions, an increased child tax credit, and a watered-down alternative minimum tax (AMT), among many other changes.

In response to these changes, our office can help you prepare an effective strategy to lower your tax bill. The earlier we get started, the greater the potential maximization of benefits. We have compiled a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them. We can narrow down the specific actions that you can take and once we meet with you, we can tailor a particular plan. Please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving strategies may be beneficial to you.

Tax Rates for 2019

2019 Tax Year Brackets (Jan. 1 - Dec. 31, 2019) Tax Return due on April 15, 2020

Tax Rate	Single	Married filing jointly/Widow(er)	Married filing separately	Head of Household
10%	$0 - $9,700	$0 - $19,400	$0 - $9,700	$0 - $13,850
12%	$9,701 - $39,475	$19,401 - $78,950	$9,701 - $39,475	$13,851 - $52,850
22%	$39,476 - $84,200	$78,951 - $168,400	$39,476 - $84,200	$52,851 - $84,200
24%	$84,201 - $160,725	$168,401 - $321,450	$84,201 - $160,725	$84,201 - $160,700
32%	$160,726 - $204,100	$321,451 - $408,200	$160,726 - $204,100	$160,701 - $204,100
35%	$204,101 - $510,300	$408,201 - $612,350	$204,101 - $306,175	$204,101 - $510,300
37%	$510,301 +	$612,351 +	$306,176 +	$510,301 +

Capital gains - Tax rates on long-term capital gain and qualified dividends

2019	Single	Married filing jointly	Married filing separately	Head of Household
0% if taxable income is less than	$ 39,375	$ 78,750	$ 39,375	$ 52,750
15% if taxable income is less than	$ 434,550	$ 488,850	$ 244,425	$ 461,700
20% if taxable income is over the above amount				

Other capital gains	2019
Unrecaptured depreciation on real estate	25%
Most collectibles	28%
Small business stock	28%
Exclusion for gain on principal residence	$ 250,000
Exclusion for gain on principal residence - married filing joint	$ 500,000

Deductions, exemptions, and other threshold amounts:	2018	2019
Standard deduction		
Single	$12,000	$12,200
Married Filing Joint Return and Surviving Spouse	$24,000	$24,400
Married Filing Separately	$12,000	$12,200
Head of Household	$18,000	$18,350
Additional deduction for over 65 or blind		
Married or surviving spouse	$1,300	$1,300
Single or head of household	$1,600	$1,650
If a taxpayer can be claimed as dependent of another, greater of	$1,050	$1,100
Or earned income plus	$350	$350
Personal exemptions		
Single	N/A	N/A
Married Filing Joint Return and Surviving Spouse	N/A	N/A
Married Filing Separately	N/A	N/A
Head of Household	N/A	N/A
	2018	2019
Personal exemptions		
Medical expenses	10%	10%
Casulty Loss	7.50%	10%
Miscellaneous itemzied deductions	N/A	N/A
Alternative minimum tax exemptions		
Exemption amounts		
Married filing joint return or surviving spouse	$109,400	$111,700
Single or head of household	$70,300	$71,700
Married filing separate return	$54,700	$55,850
Child subject to "kiddie tax": earned income plus	$7,600	$7,750
Exemption phase out equals 25% of AMTI less		
Married filing joint return or surviving spouse	$1,000,000	$1,020,600
Single or head of household	$500,000	$510,300
Married filing separate return	$500,000	$510,300
28% AMT tax bracket	$191,100	$194,800
For married filing separate return	$95,550	$97,400

Social Security		
OASDI maximum wage base	$128,400	$132,900
OASDI rate	6.20%	6.20%
Medicare rate	1.45%	1.45%
Rate for compensation over threshold amount	2.35%	2.35%
OASDI rate (self-employed)	12.40%	12.40%
Medicare rate (self-employed)	2.90%	2.90%
Rate for self-employment income over threshold	3.80%	3.80%

Itemized Deductions

Although the standard deduction increased, various itemized deductions have been cut back or abolished. Miscellaneous itemized deductions and unreimbursed employee expenses are no longer deductible, personal casualty and theft losses are deductible only if they're attributable to a federally declared disaster and only to the extent the $100 per casualty and 10% of AGI limits are met. Taxpayers can deduct certain unreimbursed medical expenses that exceed 10% of 2019 AGI. State and local taxes are still capped at $10,000; this includes income taxes paid to the state government, state and local real property taxes, and state and local personal property taxes (such as driver's license fees). Taxes paid for property held for investment is still deductible in full and does not fall within the $10,000 overall limitation. Same as in prior years, you take the higher of standard deduction or itemized deductions. Therefore, itemized deductions won't have an impact on your tax return if they don't cumulatively exceed the new, higher standard deduction.

The phaseout of itemized deductions is still temporarily repealed. This means taxpayer's itemized deductions are no longer limited if their adjusted gross income reaches over a certain amount.

New Deduction for Pass-through Entities ("199A Deduction")

An individual, trust, and estate may deduct up to 20% of certain domestic qualified business income (QBI) from a sole proprietorship, partnership, and S corporation for tax years beginning after December 31, 2017, and before January 1, 2026. The QBI deduction, also known as the "pass-through deduction," is generally the lesser of combined QBI or 20% of the excess (if any) of taxable income over net capital gain.

Donating IRA Distributions to Charity

The PATH Act made permanent the ability of individuals of 70-1/2 years or older to exclude from gross income qualified charitable distribution from IRAs of up to $100,000 per year. On the other hand, no donation deduction is allowed. This is an extremely useful tool under the TCJA as lesser taxpayers will be itemizing due to an increase of standard deductions and various limitations put on itemized deductions.

Conversion from Traditional IRA to Roth IRA

Taxpayers can no longer recharacterize a conversion from a traditional IRA, SEP, or SIMPLE to a Roth IRA. The new law also prohibits recharacterizing amounts rolled over to a Roth IRA from other retirement plans, such as 401(k) or 403(b) plans. You can still treat a regular contribution made to a Roth IRA or to a traditional IRA as having been made to the other type of IRA.

Net Investment Income Tax

A 3.8% surtax applies to the lesser of (1) net investment income or (2) the excess of modified adjusted gross income (MAGI) over the threshold.

Modified adjusted gross income thresholds				
Single	Married filing jointly	Married filing separately	Head of Household	Window(er) with dependent child
$ 200,000	$ 250,000	$ 125,000	$ 200,000	$ 250,000

MAGI is adjusted gross income (AGI) increased by the amount excluded from income as foreign earned income (net of the deductions and exclusions disallowed with respect to the foreign earned income). The 3.8% surtax applies to gross income from interest, dividends, annuities, royalties, and rents unless those items are derived in the ordinary course of a trade or business to which the tax doesn't apply. The tax also applies to income generated from a trade or business if it is a passive activity of the taxpayer. Hence, the tax doesn't apply to active businesses conducted by a sole proprietor, partnership, or S corporation. Investment income does not include any amount subject to the self-employment tax and doesn't include amounts distributed from retirement plans. As year-end nears, a taxpayer's approach to minimizing or eliminating the 3.8% surtax will depend on his or her estimated MAGI and net investment income (NII) for the year. Some taxpayers should consider ways to minimize (e.g., through deferral) additional NII for the balance of the year, others should try to see if they can reduce MAGI other than unearned income, and others will need to consider ways to minimize both NII and other types of MAGI. One way to reduce NII is to recognize losses on stocks and use them to offset other gains taken earlier this year. In addition, taxpayers that own interests in several passive activities also should reexamine the way they group their activities. Taxpayers expecting significant gains on sale of property may want to consider using the installment method to spread out the taxable gain on sale if applicable.

Alternative Minimum Tax

Like the NII tax, the alternative minimum tax (AMT) also requires personalized attention. There are steps that taxpayers subject to AMT can take to reduce its effect on their tax liability. For instance, taxpayers can undertake to eliminate certain tax preferences. Certain deductions, including the accelerated depreciation deduction on real property, as well as expensed research and development costs and expensed mining exploration and development costs, are tax preference items only to the extent that they exceed an otherwise allowable deduction. However, with State and Local Tax Deductions being capped at $10,000, we are expecting much fewer taxpayers being subject to AMT. For 2019 exemption and phaseout amounts, please refer to the table above.

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Additional Medicare Tax

The 0.9% additional Medicare tax also may require higher-income earners to take year-end actions. It applies to individuals for whom the sum of their employment wages and their self-employment income is in excess of an unindexed threshold amount. The threshold amounts are:

Income threshold for additional medicare tax				
Single	Married filing jointly	Married filing separately	Head of Household	Window(er) with dependent child
$ 200,000	$ 250,000	$ 125,000	$ 200,000	$ 200,000

There could be situations where an employee may need to have more taxes withheld towards the end of the year to cover the tax. For example, if an individual earns $200,000 from one employer during the first half of the year and a like amount from another employer during the balance of the year, he or she would owe the additional Medicare tax, but there would be no withholding by either employer for the additional Medicare tax since wages from each employer don't exceed $200,000. If you feel you do not have enough income tax withholding to cover this tax, you may request that your employer process additional withholding from your income.

Gift Tax

The annual exclusion for gifts remained $15,000 in 2019. Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift taxes. The exclusion applies to gifts of up to $15,000 made in 2019 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is gifted to family members in lower income tax brackets who are not subject to the kiddie tax.

Complex Trusts and Estates

There is a special election available for estates and complex trusts for distributions made to a beneficiary within 65 days following the end of a tax year. The fiduciary can elect to treat any such distribution or part of a distribution as having been made in the prior year. The effect of this election is that the deduction for the distribution can be taken by the estate or trust in the year before the distribution was made. However, the beneficiary receiving the distribution must also be taxed on the distribution in the year before the distribution was received.

The amount covered by the 65-day election is limited to the greater of:

- the amount of the estate's or trust's income; or
- the estate's or trust's DNI, reduced by amounts paid or required to be distributed during the tax year, other than amounts subject to the 65-day election.

This election is made on Form 1041. Once made, the election is irrevocable, but is binding only for that year. The 65-day election is not available for accumulation distributions.

Residential Energy Efficient Property Credit

A nonrefundable tax credit is available to an individual for residential energy efficient property placed in service before January 1, 2022, and installed on, or in connection with, a dwelling unit located in the United States and used as a residence by the taxpayer. The credit is available for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, and geothermal heat pump property. Cooperative and condominium dwellers can claim the credit by splitting the cost of installing equipment with other unit owners.

The credit is 30% of the cost of eligible property placed in service in 2017, 2018, or 2019; 26% of the cost of eligible property placed in service in 2020; and 22% of the cost of eligible property placed in service in 2021. There is also a $500 credit limit with respect to each 0.5 kilowatts of capacity of qualified fuel cell property expenditures for each tax year.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a plan that will work best for you.