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Dear Clients:

First and foremost, I wish you a very blessed holiday season. I am pleased to announce that I am now a Grandpa. Grayson David Yuska was born on December 9, 2019 in San Francisco.

We are now in full swing under the new tax laws. The Tax Cuts and Jobs Act (TCJA) was signed into law at the end of 2017, with taxpayers seeing the real effects when they filed their 2018 tax returns. This legislation has made a profound impact on many taxpayers and has created new planning opportunities. This summary is for educational purposes only and is not to be relied on for specific tax advice. Please contact us before undertaking any strategies as a result of information contained in this letter.

Here are a few items to note:

- Deductions - Due to the increase in the standard deduction, many individuals did not itemize their deductions last year. While this may seem like a simplification for some, there are still strategies to consider. For example, we can help you navigate whether it makes sense to “bunch” deductions, such as charitable contributions, into one year to allow you to itemize.
- Withholdings - You may have experienced a surprise when you filed your tax return. This was likely because your withholding adjustment may not have reflected your actual tax situation. Now is a great time to look at your projected tax. Doing this will help avoid unwanted penalties/interest as well as help you plan for cash flow needs.

NEW Tax Law – As of the date of this letter, the SECURE Act has passed the Senate, and is expected to pass Congress and be signed by the President into law. The new law is expected to resurrect some extenders that had expired bringing back many provisions and creating some new ones as well. Below are some of the provisions that would be **extended** if this is signed in to law.

- Mortgage insurance premiums will be deductible.
- Tuition and Fees deduction would be extended. You may be able to deduct up to $4,000 in higher education costs and expenses for a child in college.
- Debt Forgiveness Exclusion – If your lender cancelled or forgave the loan on your principal residence, the extender allows you to exclude up to $2 million (if married) from your gross income on the discharge of this debt. (The bill would apply to debt discharges occurring before 1/1/2021).
- Medical expense deduction limitation was expected to increase to 10%, but the bill extends the limitation threshold to 7.5% through the end of 2020.

Some of the NEW items that are expected to take effect as of **1/1/2020** if the bill is signed in to law:

- The start date for which RMDs (Required Minimum Distributions) are required to be taken will increase from age 70 ½ to age 72, but this only applies to those who did not reach 70 ½ by the end of 2019.
- Allows those who are over 70 ½ and still working to contribute to IRAs (Does not apply to 5% or more owners/shareholders of a company they work for).
- Removal of the “stretch RMD” (Required Minimum Distribution) provisions for inherited IRA’s from taxpayers dying after 12/31/19. Instead of being able to stretch RMDs out over the life of a beneficiary, a non-spousal beneficiary will have to take all RMDs of a retirement account by the end of year 10 after an account owner passes away.

## Fraud Alert

Our firm takes security very seriously and you should as well. Fraudsters continue to refine their techniques and tax identity theft remains a significant concern. Beware if you:

- Receive a notice or letter from the Internal Revenue Service (IRS) regarding a tax return, tax bill or income that doesn't apply to you
- Get an unsolicited email or another form of communication asking for your bank account number or other financial details or personal information
- Receive a robo call insisting you must call back and settle your tax bill

Make sure you're taking steps to keep your personal financial information safe. Let us know if you have questions or concerns.

## Adjusted Gross Income (AGI)

Throughout this article, we will refer to the term AGI. AGI (Adjusted Gross Income) refers to the total of a taxpayer's gross income which is subject to tax. AGI is the starting point for calculating the amount of tax a taxpayer will owe prior to applying itemized deductions or the standard deduction.

## ACA Health Insurance Requirement

Recent tax law changes repealed the penalty that the ACA imposes on individuals who do not have health insurance. However, other aspects of the ACA still are in place. Contact us if you have questions about how this affects you.

## Gifting Limits

Taxpayers can gift up to $ 15,000 per recipient for tax years 2019 and 2020. Any gifts in excess of this amount will require a gift tax return filing.

## Qualified Business Income (QBI) Deduction

This deduction reduces AGI for qualifying taxpayers. In other words, it is deducted after AGI has been computed. The deduction is available for the following business owners, on their individual tax returns, subject to numerous restrictions:

- Sole proprietors (Schedule C)
- Rental properties
- S Corporations K-1 Income
- Partnerships K-1 Income

The deduction can be as high as 20% of the QBI. This deduction is complex and well beyond the scope of our tax summary. Please visit our website at www.buterbaughcpa.com, click on "Tax News" and click on "The Tax Adviser Article - Understanding the new Sec. 199A business income deduction" to read more on this topic.

## Moving Expenses

The deduction for moving expenses is no longer allowable under the TCJA. The deduction is still available for members of the Armed Forces on active duty who move pursuant to a military order. Employers are no longer allowed to deduct moving expenses for employee moves.

**Depreciation – Section 179**

A taxpayer may elect to expense the cost of any Section 179 property in the year the property is placed in service. The maximum deduction for 2019 increased to $ 1,020,000. The Section 179 deduction begins to phase-out when new equipment purchases total $ 2,550,000.

**Business Deduction for Entertainment**

The new tax law disallows a deduction for business entertainment. Please visit our website at www.buterbaughcpa.com, click on “Client Resources” and then under the “Individual” header, click on “Entertainment & Meals: Important Changes in Reporting and Deducting” to view our analysis of this change in the law.

**Alimony**

Alimony payments are no longer deductible for any agreement executed or modified after December 31, 2018. Similarly, alimony payments received will no longer be taxable for any agreement executed or modified after the same date. If you know somebody who is in the process of a divorce or a modification of alimony, please share this information with them.

**Roth IRA Conversions**

Taxpayers are still permitted to convert a Traditional IRA to a Roth. Under the old tax law, a taxpayer was permitted to undo this transaction prior to the extended due date for the filing of their tax returns. Under the new tax law, a taxpayer is not permitted to re-characterize (undo) a Roth conversion.

**“Back Door” Roth IRA’s**

Taxpayers with high AGI are limited in their ability to fund a Roth IRA. For taxpayers with high AGI and no Traditional IRA’s, it is possible to make a “Back Door” Roth contribution. Please contact us for more information.

**Charitable Donations of appreciated stock**

Donating appreciated stock securities, or mutual funds is an excellent way to make a charitable donation. Most large charities are able to accept these types of donations. The donor receives a charitable deduction for the fair market value of the donated stock, security or mutual fund if held for more than one year. In addition, the taxpayer is not taxed on the gain from the sale of the appreciated stock. Bear in mind, you must itemize deductions in order to benefit from this tax planning strategy.

**529 Savings Plans**

529 plans are tax-advantaged investment accounts originally designed to help families pay for college expenses. 529 plans have always allowed tax-free withdrawals as long as the funds were spent on eligible post-secondary institution expenses such as tuition, room and board, books, etc.
The current law now allows tax-free withdrawals for parents to pay for their children’s private elementary and high school expenses. The State of Arizona allows taxpayers a small deduction for 529 contributions ($4,000 for married couples filing jointly and $2,000 for single taxpayers) on their Arizona tax return.

**State Tax Deduction Limitations**

For the year 2019 and for future years, taxpayer deduction for state and local income taxes including real estate taxes are limited to $10,000 per year.

**Personal Casualty and Theft Losses**

The deduction for casualty and theft losses are no longer deductible other than for a federally-declared disaster area.

**Charitable Donations**

The overall limitation for charitable donations to public charities remains at 60% of AGI. Also, no charitable deduction is allowed for a payment to a higher educational institution for which the payer receives the right to purchase tickets or seating to an athletic event.

**Qualifying Charitable Distributions (QCDs)**

The current tax law continues to allow taxpayers over age 70 ½ an excellent opportunity to make charitable donations out of their IRA Required Minimum Distributions (RMDs). Taxpayers are permitted to direct their IRA to pay a portion, or all, of their RMD directly to a qualifying charity. The QCD is not subject to income taxation and is an excellent strategy to reduce taxable income for charitable donations for taxpayers who do not itemize deductions. Please visit our website at www.buterbaughcpa.com, click on "Client Resources" and then under the "Individual" header, click "IRA RMD Planning Opportunity" to view our article on this topic.

**Arizona Tax Credit Donations**

AZ tax credit donations made for tax year 2019 are not deductible as a charitable donation on your Federal tax return. You may still make these donations for AZ credit purposes, any made for 2019 will have the effect of reducing your Arizona tax liability dollar for dollar. Arizona tax credit donations should be paid personally and not as a QCD.

**Limitation on Home Mortgage Deduction**

New limitations apply for deducting mortgage interest on a primary and a second home starting in 2018. You can deduct the home mortgage interest on the first $ 750,000 ($ 357,500 if married filing separately) of mortgage indebtedness. However, the limitation is $ 1,000,000 ($ 500,000 if married filing separately) if your mortgage was incurred before December 16, 2017. Please visit our website at www.buterbaughcpa.com, click on "Tax News" and click on "IRS Publication 936 - Home Mortgage Interest Deduction - 2019 Tax Returns" to view IRS Publication 936 for a more detailed explanation of these rules.

**Limitation on Home Equity Loan Interest**

You can no longer deduct the interest from a loan secured by your home unless the loan proceeds were used for home improvements.

**Miscellaneous Itemized Deductions Subject to the 2% Limitation**

The deduction for miscellaneous itemized deductions subject to the 2% limitation are to be non-deductible. Specifically, the following deductions are no longer deductible:

- Employee business expenses

- Investment advisor fees
- Investment expenses
- Job search expenses
- Tax preparation fees (unless some of the fee can be allocated to a business or rental property)
- Safe deposit box fees
- Most legal fees including estate planning

**Lower Tax Brackets**

The TCJA made significant reductions to the tax rates for 2018 and forward. The tax rates are scheduled to expire in 2025. Please visit our website at www.buterbaughcpa.com, click on "Client Resources" and then under the "Individual" header, click on "2019/2020 Marginal Federal Tax Rates Comparison" to view our summary comparing the tax rates between 2019 and 2020.

**Alternative Minimum Tax (AMT)**

The TCJA has greatly increased the limitations on when taxpayers are subjected to AMT so that a greater percentage of taxpayers will not be subject to the additional tax. The AMT exemption amounts and phase-out thresholds have been increased:

- AMT Exemption amount increased to \$ 111,700 for Married Filing Joint (\$ 71,700 for Single and Head of Household)
- AMT Exemption phase-out increased to \$1,020,600 (\$ 510,300 for Single and Head of Household)

The new increases, along with fewer adjustments and preference items, continue to result in significantly fewer taxpayers subject to AMT in 2019.

**Personal Exemptions and Standard Deduction**

The standard deduction for 2019 was increased to \$ 12,200 for Single taxpayers and \$ 24,400 for married couples who file a joint tax return. The standard deduction is indexed for inflation. For 2019, Arizona has conformed to the Federal standard deduction amounts and also eliminated the personal exemptions.

**Tax Credits for Children and Other Dependents**

The tax credit for children under age 17 has been increased to \$ 2,000 per child. There is also a \$ 500 credit for qualifying dependents other than children under age 17. This credit is available for other dependents such as a parent. The income thresholds were increased for phase-out limitations. The credit does not begin to phase-out until AGI exceeds \$ 400,000 for married couples and \$ 200,000 for all other taxpayers.

Arizona has replaced the dependent deduction with a dependent credit. The credit is \$100 for each child dependent and \$25 for all other dependents. The credit is subject to a phase out for higher income taxpayers.

**Limitation on Business Losses**

The tax law limit's a taxpayer's ability to use a business loss in 2019 to no more than \$ 250,000 (single taxpayer) and \$ 500,000 (joint filers). Any loss in excess of these limits will carryforward to 2020.

**Kiddie Tax**

This tax applies generally to children under age 19 (24 if a full time student) who have unearned income in excess of \$ 2,200. Common examples are interest and dividend income and capital gains. The parent's tax rate is no longer used to calculate the Kiddie tax. The taxable income for unearned income is now taxed according to the tax brackets for an estate and trust. The estate and trust tax brackets are much less favorable than individual tax brackets. Thus, this change is generally not advantageous to most taxpayers.

**Foreign Tax Reporting**

Our firm has significant expertise with foreign tax matters. These laws are very complex. Please contact us if you are involved with any of the following situations:

- You have signature authority or control over any bank account in a foreign country or have any foreign brokerage accounts
- You have any vested balance in a foreign pension
- You receive foreign Social Security or pension payments
- You own an interest in any foreign corporation, partnership or LLC equivalent
- You have or plan on investing in a hedge fund or partnership which has foreign investments
- You own rental real estate in a foreign country
- You have any foreign income

There are many complex reporting requirements for these items. The penalties for failure to file any of these forms generally start at $10,000 per offense. We are here to protect you from these very steep penalties.

Please feel free to contact our office if you have any questions about any items contained in this letter.

Thank you for placing your trust in our firm.

Sincerely,

David L. Buterbaugh, CPA