

Dear Client,

Once again it is time to gather your documents to file your income tax return! While April 15th may seem like a long way off, we wanted to take the opportunity to highlight some changes to the federal tax laws for 2019, as well as major tax changes for 2020. We are available to assist you to evaluate tax planning strategies to help minimize your future tax liability. We are also introducing a refer a friend incentive of a \$25 credit towards your 2019 tax return for each new referred tax client return we prepare.

### **TAX UPDATES FOR 2019**

#### **Individual Taxes:**

##### **Tax Rate Brackets**

In 2019 the 37% tax bracket applies to taxable income that exceeds \$510,300 for single and head of household ("HOH") taxpayers, \$612,350 for married individuals filing jointly ("MFJ") and surviving spouse, and \$306,175 for married individuals filing separate ("MFS"). All of the other tax brackets have been adjusted for inflation.

Workers with wages and other compensation in excess of \$250,000 for MFJ, \$125,000 for MFS, and \$200,000 for all others are subject to the additional Medicare tax of .9%. Employers are obligated to withhold the additional tax beginning in the pay period when wages exceed \$200,000 for the calendar year. The employer is obligated regardless of the filing status or income from other sources. If the taxpayer does not owe the additional withholding for Medicare, they can claim a credit on their 2019 income tax return.

##### **Preferential Rates for Capital Gains and Qualified Dividends**

Unchanged for 2019, qualified dividends and long-term capital gains can avoid tax totally under the 0% capital gains rate, or be subject to capital gains rates of 15% or 20%. The capital gains rate depends on taxable income, how much of the taxable income consists of qualified dividends and eligible long-term gains, and filing status. The 20% capital gain rate applies to single taxpayers with taxable income over \$434,550, MFJ taxpayers with taxable income over \$488,850, and for head of household taxpayers with income over \$461,700.

##### **Net Investment Income Tax**

The net investment income tax ("NIIT") is still applicable for 2019. This affects income tax returns of taxpayers who have net investment income and have modified adjusted gross income ("MAGI") over the following thresholds: \$250,000 for MFJ or surviving spouse, \$125,000 for MFS, \$200,000 for single, and \$200,000 for head of household.

If modified adjusted gross income (“MAGI”) exceeds the threshold, a 3.8% tax applies to the lesser of the net investment income or the excess of MAGI over the threshold.

## **Personal Exemptions and Itemized Deductions**

The personal exemption continues to be eliminated for 2019. This elimination modifies the level of income which a taxpayer must file a return. Also continuing for 2019 for most taxpayers, the filing requirement will be based solely upon the standard deduction available to them.

Following are the 2018 changes to itemized deductions that continue for 2019:

- Deduction for state and local income taxes, personal property taxes and real estate taxes will be limited to \$10,000 in total.
- Mortgage interest is allowed on new mortgages up to \$750,000. Interest on the portion of the mortgage not used to buy, build or remodel your personal residence is not allowed.
- Charitable donations of cash will be limited to 60% of AGI in 2019.
- All miscellaneous deductions formerly subject to the 2% threshold will no longer be available on your federal tax return. Some examples of these expenses are employee business expenses, tax preparation fees, investment expenses. However, these expenses may be available on your state tax return.
- Casualty losses will now only be allowed with regard to presidentially declared disaster areas.
- Gambling losses remain deductible as a miscellaneous itemized deduction not subject to the 2% limitation.
- The overall itemized deduction limitation of 3% of the excess of adjusted gross income over the threshold amount has been suspended.

## **Patient Protection and Affordable Care Act**

In effect for 2019, the Tax Cuts & Jobs Act repealed the tax on individuals that fail to carry minimum health coverage for themselves and their dependents, although there are still some states (such as MA, NJ and DC) that still have health insurance mandates and may apply penalties for not having coverage. Individuals and families are still able to acquire coverage through the Patient Protection and Affordable Care Act market place. Individuals with marketplace coverage may be entitled to the §36B premium assistance tax credit when filing their 2019 tax return. If a taxpayer received an advanced payment of the credit, they are required to file a 2019 Form 1040.

For 2019 the §36B premium assistance tax credit is available for taxpayers who meet certain household income criteria.

Taxpayers should receive one of the following forms which pertain to healthcare coverage and these forms should be utilized when filing your 2019 returns:

- Form 1095-A Health Insurance Marketplace Statement
- Form 1095-B Health Coverage
- Form 1095-C Employer-Provided Health Insurance Offer and Coverage

## **Standard Deductions**

The standard deduction for 2019 increases to \$24,400 for MFJ and surviving spouse, \$18,350 for head of household, or \$12,200 for all other taxpayers. The additional standard deduction for being 65 or older or blind is \$1,650 if single or head of household (\$3,300 if 65 and blind). If MFJ, the additional standard deduction is \$1,300 if one spouse is 65 or older or blind, \$2,600 if both spouses are at least 65 (or one is 65 and blind).

## **Deduction Floor for Medical Expenses**

Effective for 2019, the floor for deducting medical expenses as an itemized deduction is 10.0% of AGI for all taxpayers. In 2018, the floor for deducting medical expenses as an itemized deduction was 7.5% of AGI for all taxpayers.

## **Social Security Wage Base**

For 2019, the tax rate on the employee portion of social security is 6.2% on wages up to \$132,900; therefore, social security tax withholdings will not top \$8,240. Medicare tax of 1.45% is withheld from all wages regardless of amount.

Self-employment taxes of 15.3% apply to earnings up to \$132,900 after the earnings are decreased by 7.65%. The 15.3% rate equals 12.4% for social security plus 2.9% for Medicare. If net earnings are in excess of \$132,900, the 2.9% Medicare rate applies to the total amount. One half of the self-employment tax may be taken as an above the line deduction. The maximum self-employment social security tax is reached at \$16,480.

It should be noted, that if earnings exceed the applicable threshold, net self-employment earnings could be subject to the .9% additional Medicare Tax – see Tax Rate Brackets.

## **IRA and Roth IRA Contribution Phase-out**

For 2019, the contribution limit for traditional IRAs and Roth IRAs is \$6,000 or \$7,000 for those age 50 or older. For 2020, the contribution limit will remain the same with an additional \$1,000 if you are age 50 or older. The contribution deduction for traditional IRAs is phased-out for active plan participants with MAGI between \$65,000 and \$74,999 for a single person or head of household, or between \$104,000 and \$123,999 for MFJ. The phase-out range is \$196,000-\$205,999 for a spouse who is not an active plan participant and who files jointly with a spouse who is an active plan participant.

## **IRA Charitable Contribution**

The IRA charitable contribution gives the taxpayer the ability to distribute to a charity directly from an IRA for an individual over the age of 70½ without including the distribution in income or deducting the amount as a charitable contribution. This distribution is taken into account when determining the taxpayers required minimum distribution and is a permanent rule by the IRS.

## **529 Plans**

Continuing for 2019, all 529 plan savings may be used toward elementary or secondary public, private or religious school tuition. There is a \$10,000 limitation for elementary, middle or high school expenses.

## **Depreciation**

The maximum §179 deduction allowed is \$1,020,000 for qualifying property placed in service in 2019, subject to a limitation based upon the qualified assets placed into service. For 2019, this threshold amount is \$2,550,000. The §179 deduction also imposes an income limitation upon the deduction.

Bonus depreciation remains at 100% for 2019 through 2022. Bonus depreciation allows a taxpayer to take a deduction in the year that the acquired asset is placed in service. Continuing for 2019, property eligible for bonus depreciation was expanded to include used property. Bonus depreciation is mandatory unless you elect out of it.

## **IRS Mileage Allowance**

The IRS standard business mileage rate for 2019 is 58 cents a mile. The medical and moving expense mileage rate deduction is 20 cents a mile. For charitable volunteers, the mileage rate is 14 cents a mile. The deduction for moving expenses is only available for active duty members of the Armed Forces.

## **Alternative Minimum Tax**

The 2019 alternative minimum tax (“AMT”) exemptions are increased to \$111,700 for MFJ and surviving spouse, \$71,700 for single and head of household, \$25,000 for estates and trusts, and \$55,850 for MFS. The 2019 AMT exemptions phase-out begins at \$1,020,600 for MFJ and surviving spouse, \$510,300 for all others.

## **Eligibility for Saver’s Credit**

The saver’s credit is 50%, 20% or 10% of your retirement plan or IRA or ABLE account contributions depending on your adjusted gross income. The maximum amount of the credit is \$2,000. Credits are not allowed when AGI reaches \$32,000 for single taxpayers, \$48,000 for head of household and \$64,000 for MFJ and surviving spouse.

## **Adoption Credit**

For adoptions finalized in 2019, taxpayers will see an increase in the credit and exclusion amounts for the adoption credit. The amount in 2019 will be increased to \$14,080.

## **Deduction Limits for Long-Term Care Premiums**

The maximum amount of age-based long-term care premiums that can be included as deductible medical expenses for 2019 (subject to the 10% of AGI floor) is \$420 if you are age 40 or younger at the end of 2019; \$790 for those age 41 through 50; \$1,580 for those age 51 through 60; \$4,220 for those age 61 through 70; and \$5,270 for those over age 70.

## **Foreign Earned Income and Housing Exclusions**

The foreign earned income exclusion for 2019 is \$105,900. In addition, the housing expense limitation to use in calculating your maximum housing exclusion is generally \$31,770. However, the housing expense exclusion is based on locality, so in some cases there will be adjustments to the \$31,770 used to calculate the final housing exclusion.

## **Report of Foreign Bank and Financial Accounts (“FBAR”)**

The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 provides, for tax years beginning after December 31, 2015, the TD-F-90-22.1 (Fin Cen Report 114) “Report of Foreign Bank and Financial Accounts (FBAR)” must be electronically filed to the Treasury Department on or before April 15th with an automatic extension of six months. All US persons who have a financial interest in or signature authority over at least one foreign account and the aggregate value of the accounts exceeds \$10,000 at any time during the year must file a FBAR. They are filed separate from your income tax return. The willful failure to file a FBAR can carry a penalty equal to the greater of \$100,000 or 50% of the highest balance in the account, for each violation.

## **First-Time Homebuyer’s Credit**

The first-time homebuyer’s credit, for homes purchased after April 8, 2008 and before January 1, 2009 has to be recaptured over a 15-year period. The 15-year period began in 2010. For home purchases in 2009 and 2010 there is no 15-year repayment requirement. In general, if your home stops being your main home or you sell it, you may need to repay the credit in full. There are some exceptions to this rule.

## **Annual Exclusion for Gifts**

With regards to gift taxes, the per-donee exclusion for gifts of present interest is \$15,000, for 2019 and 2020.

## **Child Tax Credit**

The child tax credit remains the same for 2019 at \$2,000 per child and the level the credit begins to phase-out for MFJ is \$400,000 and \$200,000 for all others. Of this amount up to \$1,400 is refundable.

## **Dependent Credit**

Continuing for 2019, taxpayers are eligible for a non-refundable \$500 credit for each dependent who is not a qualifying child under age 17.

## **Gift Tax and Estate Tax Exemption**

For 2019 gift tax and estate tax purposes, the basic exemption amount is \$11,400,000 for federal taxes which will increase to \$11,580,000 for 2020. The top rate remains at 40% for 2019.

## **Education Credits**

The maximum credit allowed under the American Opportunity Credit is \$2,500 per student for all taxpayers except MFS, who do not qualify for the credit. For 2019, the credit starts to phase out at \$160,000 for MFJ filers and \$80,000 for all other qualifying taxpayers.

The maximum credit allowed under the Lifetime Learning Credit is \$2,000 per return for all taxpayers except MFS, who do not qualify for the credit. For 2019, the credit starts to phase out at \$116,000 for MFJ filers and \$58,000 for all other qualifying taxpayers.

## **Solar Credits**

2019 is the last year you are eligible for the 30% federal tax credit for solar installations purchased prior to December 31, 2019. For 2020, the tax credit decreases to 26%. If you purchase or lease solar energy system equipment you are also eligible for a New York State credit equal to 25% of your qualified solar energy system equipment expenditures with a maximum amount of \$5,000.

## **Identity Theft Issues**

The IRS, states, and tax industry have joined together to form the Security Summit to enact new safeguards to combat tax-related identity theft. Many of these safeguards will be invisible to the taxpayer, but will enable them to continue the fight against this type of crime.

Publication 5027, Identity Theft Information for Taxpayers, and Publication 4524, Security Awareness for Taxpayers, are accessible on the IRS website for further information on how to protect yourself from identity theft and steps to take if your identity has been stolen.

The IRS will continue to have available Form 14039, *Identity Theft Affidavit* that taxpayers who are actual or potential victims can file. This form will allow the IRS to flag the account for review of any suspicious activity.

A new pre-screening procedure for suspicious returns has been adopted by the IRS. If any suspicion arises, the IRS will send a Letter 5071C or Notice CP01B to the taxpayer requesting that they visit <https://www.irs.gov/identity-theft-fraud-scams/idverify> or call 1-800-830-5084 within 30 days to verify that the tax return filed was the taxpayers.

If your identity has been stolen and a fraudulent return filed in your name, the IRS will create an Identity Protection Personal Identification Number (IP PIN) to prevent any further fraudulent activity from occurring. This IP PIN is a six-digit number used to file a taxpayer's federal tax return. In addition, the IRS will also invite taxpayers where the IRS has identified certain indicators of identity theft on their returns to voluntarily opt into the IP PIN program.

## **Corporate Taxes:**

Major corporate tax changes took effect for years beginning on or after January 1, 2018. The following is a summary of some of the key changes that are still in effect for 2019:

- C-Corporations will continue to have a flat tax rate of 21% on all taxable income.
- Net operating losses for C-Corporations will only be able to offset 80% of taxable income and the carry back of losses is eliminated, but the carry forward is now indefinite. Losses created prior to 2018 will be governed by the prior rules.
- The use of business losses of noncorporate taxpayers is restricted to \$250,000 for unmarried taxpayers and \$500,000 for married taxpayers.
- Every business is subject to a limited deduction for interest expense equal to the sum of the taxpayer's business interest income, 30% of the adjusted taxable income of the business, and the taxpayer's floor plan financing interest.
- The deduction for employer provided meals that were previously 100% deductible under the de minimis rules are now subject to the 50% limitation.
- For 2019 there is no deduction allowed for amounts paid for entertainment expenses.
- Eligible employers are entitled to a credit for paid family and medical leave ranging from 12.5% to 25% of wages paid to qualifying employees while on family or medical leave and are being paid at least 50% of their regular wage amount. The credit applies for qualifying wages paid before January 1, 2020.
- The alternative minimum tax no longer applies to corporations.
- **Qualified Business Income Deduction (199A Deduction):**
  - A special 20% deduction will apply for certain business income reported on a person's individual return. This includes income from qualified businesses.
  - This deduction is available to sole proprietors (Schedule C), real estate rental income (Schedule E), Trust and Estates, Partnerships and S-Corporations.
  - The deduction is subject to some limitation rules and in general will not be allowed for most professions or consulting businesses, unless the taxpayer's total income is under \$157,500 for single and \$315,000 for MFJ taxpayers.

## **PREPARING FOR 2020**

### **Individual Taxes:**

The following is a summary of some of the key changes for 2020.

#### **Tax Rate Brackets**

The tax brackets for 2020 will remain the same as 2019: 10%, 12%, 22%, 24%, 32%, 35% and 37%. The top rate will apply if taxable income exceeds \$518,400 for single and head of household taxpayers, \$622,050 for MFJ. All of the tax brackets will be adjusted for inflation.

## **Standard Deductions**

The standard deduction for 2020 will be \$24,800 for MFJ taxpayers, \$18,650 for head of household, or \$12,400 for single taxpayers.

## **Alternative Minimum Tax**

For 2020, AMT exemptions will be increased to \$113,400 for MFJ taxpayers and \$72,900 for single while the phaseouts will be increased to \$1,036,800 for MFJ taxpayers and \$518,400 for single taxpayers.

## **Annual Exclusion for Gifts**

With regards to gift taxes, the per donee exclusion for gifts of present interest remains at \$15,000 for 2020.

## **IRS Mileage Allowance**

The IRS standard business mileage rate for 2020 has not been released as of yet.

## **Divorce**

For divorce agreements entered into during 2019 and thereafter, alimony payments will not be deductible by the payor and the corresponding income to the payee is no longer includible in income.

## **Tax Organizer**

We have included the engagement letter and tax organizer to assist you in gathering information necessary for the preparation of your 2019 tax return. We recommend that you enter all pertinent 2019 information and bring it with you to your tax appointment. In the interest of time savings, or personal preference, you can also mail in your completed organizer or send it electronically through the firm's client tax portal with all supporting tax documentation. This can assist those who do not have major changes in their tax returns from the prior year. Be sure to complete the section pertaining to your contact information including your email address and current phone number. For the safety and security of our client's personal information, we will be once again utilizing a client tax portal to send and receive tax information for the upcoming tax season. For those clients who do not have access to a computer, we will still accept hard copies of tax documents and provide a hard copy of your tax return.

The enclosed engagement letter should be signed by both taxpayer and spouse if filing a joint return and brought with you to your appointment or sent electronically through the firm's client tax portal.

When you come in for your tax appointment or send in your tax documents, verify beforehand that you have all your IRS forms, including W-2 forms, 1099 forms and K-1 forms and any other information that has been sent to the IRS. This will eliminate assessments by the IRS after the tax returns have been filed.

We have provided a complete tax service to our clients for over eighty years. We also provide you with highly professional services at a fair and reasonable cost commensurate with the service rendered



and complexity of the tax return. We are available throughout the year for any questions you may have concerning taxes or other financial matters.

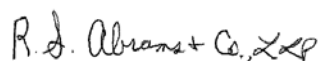
Appointments may be made by calling (631) 234-4444 by April 6th. After that date, it may be necessary to file an extension. Call if an extension is necessary.

We would also like to remind business owners that tax filings for Partnerships, C-corporations, and S-corporations are due March 16, 2020. Please forward all necessary information as soon as possible to assist us with filing your return on a timely basis.

We will commence accepting phone calls for appointments on January 13, 2020, for appointments February 3, 2020 through April 6, 2020. We recommend you call early for an appointment. For your convenience we are still accepting credit card payments.

If you have any questions, feel free to contact us. You may visit our website at [www.rsabrams.com](http://www.rsabrams.com) for updated information on tax matters and other relevant changes. We would like to take this opportunity to thank you for your confidence in us and to wish you Happy Holidays.

Very truly yours,



R.S. Abrams & Co., LLP