Arthur Lander C.P.A., P.C.
A professional corporation

300 N. Washington St. #104
Alexandria, Virginia 22314
(703) 486-0700
fax: (703) 527-7207

As we close out the year and get ready for tax season, here's what individuals and families need to know about tax provisions for 2019.

Personal Exemptions

Personal exemptions are eliminated for tax years 2018 through 2025.

Standard Deductions

The standard deduction for married couples filing a joint return in 2019 is $24,400. For singles and married individuals filing separately, it is $12,200, and for heads of household, the deduction is $18,350.

The additional standard deduction for blind people and senior citizens in 2019 is $1,300 for married individuals and $1,650 for singles and heads of household.

Income Tax Rates

In 2019 the top tax rate of 37 percent affects individuals whose income exceeds $510,300 ($612,350 for married taxpayers filing a joint return). Marginal tax rates for 2019 are as follows: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. As a reminder, while the tax rate structure remained similar to prior years under tax reform (i.e., with seven tax brackets), the tax-bracket thresholds increased significantly for each filing status.

Estate and Gift Taxes

In 2019 there is an exemption of $11.40 million per individual for estate, gift, and generation-skipping taxes, with a top tax rate of 40 percent. The annual exclusion for gifts is $15,000.

Alternative Minimum Tax (AMT)

For 2019, exemption amounts increased to $71,700 for single and head of household filers, $111,700 for married people filing jointly and for qualifying widows or widowers, and $55,850 for married taxpayers filing separately.

Pease and PEP (Personal Exemption Phaseout)

Both Pease (limitations on itemized deductions) and PEP (personal exemption phase-out) have been eliminated under TCJA.

Flexible Spending Account (FSA)

A Flexible Spending Account (FSA) is limited to $2,700 per year in 2019 (up from $2,650 in 2018) and applies only to salary reduction contributions under a health FSA. The term "taxable year" as it applies to FSAs refers to the plan year of the cafeteria plan, which is typically the period during which salary reduction elections are made.

Long-Term Capital Gains

In 2019 tax rates on capital gains and dividends remain the same as 2018 rates (0%, 15%, and a top rate of 20%); however, taxpayers should be reminded that threshold amounts don't correspond to the tax bracket rate structure as they have in the past. For example, taxpayers whose income is below $39,375 for single filers and $78,750 for married filing jointly pay 0% capital gains tax. For individuals whose income is at or above $434,550 ($488,850 married filing jointly), the rate for both capital gains and dividends is capped at 20 percent.

Miscellaneous Deductions

Miscellaneous deductions that exceed 2 percent of AGI (adjusted gross income) are eliminated for tax years 2018 through 2025. As such, you can no longer deduct on Schedule A expenses related to tax preparation, moving (except for members of the Armed Forces on active duty who move because of a military order), job hunting, or unreimbursed employee expenses such as tools, supplies, required uniforms, travel, and mileage. Business owners are not affected and can still deduct business-related expenses on Schedule C.

INDIVIDUALS - TAX CREDITS

Adoption Credit

In 2019 a nonrefundable (i.e., only those with tax liability will benefit) credit of up to $14,080 is available for qualified adoption expenses for each eligible child.

Child and Dependent Care Credit

The Child and Dependent Care Tax Credit was permanently extended for taxable years starting in 2013 and remained under tax reform. As such, if you pay someone to take care of your dependent (defined as being under the age of 13 at the end of the tax year or incapable of self-care) in order to work or look for work, you may qualify for a credit of up to $1,050 or 35 percent of $3,000 of eligible expenses.

For two or more qualifying dependents, you can claim up to 35 percent of $6,000 (or $2,100) of eligible expenses. For higher-income earners, the credit percentage is reduced, but not below 20 percent, regardless of the amount of adjusted gross income.

Child Tax Credit and Credit for Other Dependents
For tax years 2018 through 2025, the Child Tax Credit increases to $2,000 per child. The refundable portion of the credit increases from $1,000 to $1,400 - 15 percent of earned income above $2,500, up to a maximum of $1,400 - so that even if taxpayers do not owe any tax, they can still claim the credit. Please note, however, that the refundable portion of the credit (also known as the additional child tax credit) applies higher-income when the taxpayer isn't able to fully use the $2,000 nonrefundable credit to offset their tax liability.

Under TCJA, a new tax credit - Credit for Other Dependents - is also available for dependents who do not qualify for the Child Tax Credit. The $500 credit is nonrefundable and covers children older than age 17 as well as parents or other qualifying relatives supported by a taxpayer.

Earned Income Tax Credit (EITC)

For tax year 2019, the maximum earned income tax credit (EITC) for low and moderate-income workers and working families increased to $6,557 (up from $6,431 in 2018). The maximum income limit for the EITC increased to $55,952 (up from $54,884 in 2018) for married filing jointly. The credit varies by family size, filing status, and other factors, with the maximum credit going to joint filers with three or more qualifying children.

INDIVIDUALS - EDUCATION EXPENSES

Coverdell Education Savings Account
You can contribute up to $2,000 a year to Coverdell savings accounts in 2019. These accounts can be used to offset the cost of elementary and secondary education, as well as post-secondary education.

American Opportunity Tax Credit

For 2019, the maximum American Opportunity Tax Credit that can be used to offset certain higher education expenses is $2,500 per student, although it is phased out beginning at $160,000 adjusted gross income for joint filers and $80,000 for other filers.

Lifetime Learning Credit

A credit of up to $2,000 is available for an unlimited number of years for certain costs of post-secondary or graduate courses or courses to acquire or improve your job skills. For 2019, the modified adjusted gross income (MAGI) threshold at which the Lifetime Learning Credit begins to phase out is $114,000 for joint filers and $57,000 for singles and heads of household. The credit cannot be claimed if your MAGI is $67,000 or more ($134,000 for joint returns)

Employer-Provided Educational Assistance

As an employee in 2019, you can exclude up to $5,250 of qualifying postsecondary and graduate education expenses that are reimbursed by your employer.

Student Loan Interest

In 2019, you can deduct up to $2,500 in student-loan interest as long as your modified adjusted gross income is less than $65,000 (single) or $135,000 (married filing jointly). The deduction is phased out at higher income levels.

INDIVIDUALS - RETIREMENT

Contribution Limits
For 2019, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $19,000 ($18,500 in 2018). For persons age 50 or older in 2019, the limit is $25,000 ($6,000 catch-up

contribution).

Retirement Savings Contributions Credit (Saver's Credit)

In 2019, the adjusted gross income limit for the saver's credit for low and moderate-income workers is $64,000 for married couples filing jointly, $48,000 for heads of household, and $32,000 for married individuals filing separately and for singles. The maximum credit amount is $2,000 ($4,000 if married filing jointly). Also of note is that starting in 2018, the Saver's Credit can be taken for your contributions to an ABLE (Achieving a Better Life Experience) account if you're the designated beneficiary. However, keep in mind that your eligible contributions may be reduced by any recent distributions you received from your ABLE account.

If you have any questions about these and other tax provisions that could affect your tax situation, don't hesitate to call.

BUSINESS TAX PROVISIONS: THE YEAR IN REVIEW

Here's what business owners need to know about tax changes for 2019.

Standard Mileage Rates

The standard mileage rate in 2019 is 58 cents per business mile driven.

Health Care Tax Credit for Small Businesses

Small business employers who pay at least half the premiums for single health insurance coverage for their employees may be eligible for the Small Business Health Care Tax Credit as long as they employ fewer than the equivalent of 25 full-time workers and average annual wages do not exceed $50,000 (adjusted annually for inflation). In 2019 this amount is $54,200.

In 2019 (as in 2014-2018), the tax credit is worth up to 50 percent of your contribution toward employees' premium costs (up to 35 percent for tax-exempt employers.

Section 179 Expensing and Depreciation

Under the Tax Cuts and Jobs Act of 2017, the Section 179 expense deduction increases to a maximum deduction of $1.02 million of the first $2.55 million of qualifying equipment placed in service during the current tax year. The deduction was indexed to inflation for tax years after 2018 and enhanced to include improvements to nonresidential qualified real property such as roofs, fire protection, and alarm systems and security systems, and heating, ventilation, and air-conditioning systems.

Businesses are allowed to immediately deduct 100% of the cost of eligible property placed in service after September 27, 2017, and before January 1, 2023, after which it will be phased downward over a four-year period: 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026. The standard business depreciation amount is 26 cents per mile (up from 25 cents per mile in 2018).

Please call if you have any questions about Section 179 expensing and the bonus depreciation.

Work Opportunity Tax Credit (WOTC)

Extended through 2019, the Work Opportunity Tax Credit remained under tax reform and can be used by employers who hire long-term unemployed individuals (unemployed for 27 weeks or more). It is generally equal to 40 percent of the first $6,000 of wages paid to a new hire. Please call if you have any questions about the Work Opportunity Tax Credit.

SIMPLE IRA Plan Contributions

Contribution limits for SIMPLE IRA plans increased to $13,000 for persons under age 50 and $16,000 for persons age 50 or older in 2019. The maximum compensation used to determine contributions is $280,000.

Please contact the office if you would like more information about these and other tax deductions and credits to which you are entitled.

TAX BENEFITS OF HEALTH SAVINGS ACCOUNTS

While similar to FSAs (Flexible Savings Plans) in that both allow pretax contributions, Health Savings Accounts or HSAs offer taxpayers several additional tax benefits such as contributions that roll over from year to year (i.e., no "use it or lose it"), tax-free interest on earnings, and when used for qualified medical expenses, tax-free distributions.

WHAT IS A HEALTH SAVINGS ACCOUNT?

A Health Savings Account is a type of savings account that allows you to set aside money pre-tax to pay for qualified medical expenses. Contributions that you make to a Health Savings Account (HSA) are used to pay current or future medical expenses (including after you've retired) of the account owner, his or her spouse, and any qualified dependent.

Medical expenses that are reimbursable by insurance or other sources and do not qualify for the medical expense deduction on a federal income tax return are not eligible.
Insurance premiums for taxpayers younger than age 65 are generally not considered qualified medical expenses unless the premiums are for health care continuation coverage (such as coverage under COBRA), health care coverage while receiving unemployment compensation

under federal or state law.
You cannot be covered by other health insurance with the exception of insurance for accidents, disability, dental care, vision care, or long-term care and you cannot be claimed as a dependent on someone else's tax return. Spouses cannot open joint HSAs. Each spouse who is an eligible individual who wants an HSA must open a separate HSA.

An HSA can be opened through your bank or another financial institution. Contributions to an HSA must be made in cash. Contributions of stock or property are not allowed. As an employee may be able to elect to have money set aside and deposited directly into an HSA account; however, if this option is not offered by your employer, then you must wait until filing a tax return to claim the HSA contributions as a deduction.

HIGH DEDUCTIBLE HEALTH PLANS

A Health Savings Account can only be used if you have a High Deductible Health Plan (HDHP). Typically, high-deductible health plans have lower monthly premiums than plans with lower deductibles, but you pay more health care costs yourself before the insurance company starts to pay its share (your deductible).

A high-deductible plan can be combined with a health savings account, allowing you to pay for certain medical expenses with tax-free money that you have set aside. By using the pre-tax funds in your HSA to pay for qualified medical expenses before you reach your deductible and other out-of-pocket costs such as copayments, you reduce your overall health care costs.

Calendar year 2019. For calendar year 2019, a qualifying HDHP must have a deductible of at least $1,350 for self-only coverage or $2,700 for family coverage. Annual out-of-pocket expenses (e.g., deductibles, copayments, and coinsurance) of the beneficiary are limited to $6,750 for self-only coverage and $13,500 for family coverage. This limit doesn't apply to deductibles and expenses for out-of-network services if the plan uses a network of providers. Instead, only deductibles and out-of-pocket expenses for services within the network should be used to figure whether the limit applies.

Last month rule. Under the last-month rule, you are considered to be an eligible individual for the entire year if you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers).

You can make contributions to your HSA for 2019 until April 15, 2020. Your employer can make contributions to your HSA between January 1, 2020, and April 15, 2020, that are allocated to 2019. The contribution will be reported on your 2020 Form W-2.

SUMMARY OF HSA TAX ADVANTAGES

Tax deductible. You can claim a tax deduction for contributions you, or someone other than your employer, make to your HSA even if you don't itemize your deductions on Schedule A (Form 1040).
Pretax dollars. Contributions to your HSA made by your employer (including contributions made through a cafeteria plan) may be excluded from your gross income.
Tax-free interest on earnings. Contributions remain in your account until you use them and are rolled over year after year. Any interest or other earnings on the assets in the account are tax-free. Furthermore, an HSA is "portable" and stays with you if you change employers or leave the workforce.
Tax-free distributions. Distributions may be tax-free if you pay qualified medical expenses.
Additional contributions for older workers. Employees, aged 55 years and older are able to save an additional $1,000 per year.
Tax-free after retirement. Distributions are tax-free at age 65 when used for qualified medical expenses including amounts used to pay Medicare Part B and Part D premiums, and long-term care insurance policy premiums. However, you cannot use money in an HSA to pay for supplemental insurance (e.g., Medigap)

premiums.
Please contact the office if you have any questions about health savings accounts.

TAKE RETIREMENT PLAN DISTRIBUTIONS BY DECEMBER 31st

Taxpayers born before July 1, 1949, generally must receive payments from their individual retirement arrangements (IRAs) and workplace retirement plans by December 31.

Known as required minimum distributions (RMDs), typically these distributions must be made by the end of the tax year. The required distribution rules apply to owners of traditional, Simplified Employee Pension (SEP) and Savings Incentive Match Plans for Employees (SIMPLE) IRAs but not Roth IRAs while the original owner is alive. They also apply to participants in various workplace retirement plans, including 401(k), 403(b) and 457(b) plans.

An IRA trustee must either report the amount of the RMD to the IRA owner or offer to calculate it for the owner. Often, the trustee shows the RMD amount on Form 5498 in Box 12b. For a 2019 RMD, this amount is shown on the 2018 Form 5498, IRA Contribution Information, which is normally issued to the owner during January 2019.

A special rule allows first-year recipients of these payments, those who reached age 70 1/2 during 2019, to wait until as late as April 1, 2020, to receive their first RMDs. What this means is that taxpayers born after June 30, 1948, and before July 1, 1949, are eligible. The advantage of this special rule is that although payments made to these taxpayers in early 2020 (up to April 1, 2020) and can be counted toward their 2019 RMD, they are taxable in 2020.

The special April 1 deadline only applies to the RMD for the first year, however. For all subsequent years, the RMD must be made by December 31. For example, a taxpayer who turned 70 1/2 in 2018 (born after June 30, 1947, and before July 1, 1948) and received the first RMD (for 2018) on April 1, 2019, must still receive a second RMD (for 2019) by December 31, 2019.

The RMD for 2019 is based on the taxpayer's life expectancy on December 31, 2019, and their account balance on December 31, 2018. The trustee reports the year-end account value to the IRA owner on Form 5498 in Box 5. For most taxpayers, the RMD is based on Table III (Uniform Lifetime Table) in IRS Publication 590-B. For example, for a taxpayer who turned 72 in 2019, the required distribution would be based on a life expectancy of 25.6 years. A separate table, Table II, applies to a taxpayer whose spouse is more than ten years younger and is the taxpayer's only beneficiary. If you need assistance with this, don't hesitate to call.

Though the RMD rules are mandatory for all owners of traditional, SEP and SIMPLE IRAs and participants in workplace retirement plans, some people in workplace plans can wait longer to receive their RMDs. Usually, if their plan allows it, employees who are still working can wait until April 1 of the year after they retire to start receiving these distributions. There may, however, be a tax on excess accumulations. Employees of public schools and certain tax-exempt organizations with 403(b) plan accruals before 1987 should check with their employer, plan administrator or provider to see how to treat these accruals.

If you have any questions about RMDs, please don't hesitate to call.

RETIREMENT CONTRIBUTIONS LIMITS ANNOUNCED FOR 2020

Cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for 2020 are as follows:

401(k), 403(b), 457 plans, and Thrift Savings Plan. Contribution limits for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan increase from $19,000 to $19,500. The catch-up contribution limit for employees aged 50 and over increases from $6,000 to $6,500.

SIMPLE retirement accounts. Contribution limits for SIMPLE retirement accounts for self-employed persons increase in 2020 as well - from $13,000 to $13,500.

Traditional IRAs. The limit on annual contributions to an IRA remains at $6,000. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions; however, if during the year either the taxpayer or their spouse was covered by a retirement plan at work, the deduction may be reduced, or phased out, until it is eliminated, depending on filing status and income. If a retirement plan at work covers neither the taxpayer nor their spouse, the phase-out amounts of the deduction do not apply.

The phase-out ranges for 2020 are as follows:

For single taxpayers covered by a workplace retirement plan, the phase-out range is $65,000 to $75,000, up from $64,000 to $74,000.
For married couples filing jointly, where a workplace retirement plan covers the spouse making the IRA contribution, the phase-out range is $104,000 to $124,000, up from $103,000 to $123,000.

For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $196,000 and $206,000, up from $193,000 and $203,000.
For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.
Roth IRAs. The income phase-out range for taxpayers making contributions to a Roth IRA is $124,000 to $139,000 for singles and heads of household, up from $122,000 to $137,000. For married couples filing jointly, the income phase-out range is $196,000 to $206,000, up from $193,000 to $203,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

Saver's Credit. The income limit for the Saver's Credit (also known as the Retirement Savings Contributions Credit) for low- and moderate-income workers is $65,000 for married couples filing jointly, up from $64,000; $48,750 for heads of household, up from $48,000; and $32,500 for singles and married individuals filing separately, up from $32,000.

If you have any questions about retirement plan contributions, don't hesitate to call.