

BEST MONTHLY WEBINAR


**WASHINGTON UPDATE
TAX PLANNING 2019**

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Agenda

- Individual Income Tax Planning
- Education Planning
- Retirement Planning
- Estate Tax Planning




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INDIVIDUAL INCOME TAX PLANNING

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Individual Income Tax Rates

- TCJA Section 11001, Modification of Rates. The Act has kept seven tax brackets:
 - 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
- These brackets apply to tax years beginning after Dec. 31, 2017, and before Jan. 1, 2026



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Income Tax Brackets

Single - 2019		Single - 2018	
Rates	Brackets	Rates	Brackets
10%	\$0 - \$9,700	10%	\$0 - \$9,525
12%	\$9,701 - \$39,475	12%	\$9,526 - \$38,700
22%	\$38,476 - \$84,200	22%	\$38,701 - \$82,500
24%	\$84,201 - \$160,725	24%	\$82,501 - \$157,500
32%	\$160,726 - \$204,100	32%	\$157,501 - \$200,000
35%	\$204,101 - \$510,300	35%	\$200,001 - \$500,000
37%	\$510,301 or more	37%	\$500,001 or more

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Income Tax Brackets

Married, Joint Filer - 2019		Married, Joint Filer - 2018	
Rates	Brackets	Rates	Brackets
10%	\$0 - \$19,400	10%	\$0 - \$19,050
12%	\$19,401 - \$78,950	12%	\$19,051 - \$77,400
22%	\$78,9501 - \$156,150	22%	\$77,401 - \$165,000
24%	\$156,151 - \$321,450	24%	\$165,001 - \$315,000
32%	\$321,451 - \$408,200	32%	\$315,001 - \$400,000
35%	\$408,201 - \$612,350	35%	\$400,001 - \$600,000
37%	\$612,351 or more	37%	\$600,001 or more

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Income Tax Brackets

Head of Household - 2019		Head of Household - 2018	
Rates	Brackets	New Rates	New Brackets
10%	\$0 - \$13,850	10%	\$0 - \$13,600
12%	\$13,851 - \$52,850	12%	\$13,601 - \$51,800
22%	\$52,851 - \$84,200	22%	\$51,801 - \$82,500
24%	\$84,201 - \$160,700	24%	\$82,501 - \$157,500
32%	\$160,701 - \$204,100	32%	\$157,501 - \$200,000
35%	\$204,101 - \$510,300	35%	\$200,001 - \$500,000
37%	\$510,301 or more	37%	\$500,001+

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Income Tax Brackets

Married Filing Separately - 2019		Married Filing Separately - 2018	
Old Rates	Old Brackets	New Rates	New Brackets
10%	\$0 - \$9,700	10%	\$0 - \$9,525
12%	\$9,701 - \$39,475	12%	\$9,526 - \$38,700
22%	\$39,476 - \$84,200	22%	\$38,701 - \$82,500
24%	\$84,201 - \$160,725	24%	\$82,501 - \$157,500
32%	\$160,726 - \$204,100	32%	\$157,501 - \$200,000
35%	\$204,101 - \$306,175	35%	\$200,001 - \$300,000
37%	\$306,176 or more	37%	\$300,001+

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Inflation Adjustment

- Ever since the Reagan administration, tax brackets have been indexed with inflation based on the CPI.
 - This avoids tax bracket creep when a taxpayers move into a higher tax bracket because inflation pushes up their income.
- TCJA Section 11002, Inflation Adjustment Based on Chained-CPI
 - The income threshold amounts for each rate bracket will now be indexed based on the Chained CPI Index (C-CPI-U) in tax years beginning after Dec. 31, 2018.
- Chained CPI-U
 - An adjustment to CPI that reduces the inflation rate by attempting to factor in human behavior that when prices rise, some consumers will look for less expensive substitute products, so that the overall inflation is lower than it would first appear when measured by actual spending.
- Results
 - Bracket creep will increase faster for taxpayers; this will increase taxes, and thus is a hidden revenue raiser.


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Standard Deduction

- TCJA Section 11021, Increase in Standard Deduction, increases (almost doubles) the standard deduction to the following amounts:
 - \$24,400 Joint return or a surviving spouse (was \$24,000 in 2018);
 - \$18,350 Head of Household (was \$18,000 in 2018); and
 - \$12,200 Single filers (was \$12,000 in 2018).
- The Act retains the enhanced standard deduction for the blind and elderly that is available under current law
 - \$1,300 for single or head of households; and
 - \$1,650 for other taxpayers.
- The amount of the standard deduction will be indexed for inflation using C-CPI-U. Increased standard deduction amounts will expire after Dec. 31, 2025.


Source: TCJA 11021; IRC §1(c)(2)(A), §2(a)(2), §32, § 63(c), § 7706

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Personal Exemptions

- TCJA Section 11041, The Act suspends the deduction for personal exemptions.
 - In 2017, the deduction was worth \$4,050 for each filer, including spouse, and for each eligible dependent (was to increase to \$4,150 in 2018).
 - PEP is repealed.
- Effective for tax years beginning after Dec. 31, 2017, and before Jan. 1, 2026.




Source: TCJA 11041; IRC §151(d), §152, §642(b), §973(b), §3402(a)(2)

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Itemized Deductions

- An itemized deduction is an eligible expense that individual taxpayers can report (Schedule A) on their federal income tax returns in order to decrease their taxable income.
 - Most taxpayers were allowed a choice between the itemized deductions and the standard deduction.
- TCJA of 2017 made a lot of changes to itemized deductions and to the AMT. Pease rule repealed.




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Itemized Deductions

Deduction	Prior Law	TCJA 2017	Notes	Eff./Exp. Date
State and Local Taxes (TCJA § 11042; IRC §164(b))	Unlimited	Capped at \$10,000	Applies to state and local: (1) property taxes; plus (2) income or sales taxes.	Expires after tax year 2025
Mortgage Interest (TCJA § 11043; IRC § 163(h))	Limited to interest paid on debt of up to \$1,000,000	Lowered to \$750,000	Current home owners (or homes acquired under contracts entered into before Dec. 15, 2017, which transactions close before April 1, 2018) will remain subject to the \$1 million limitation.	New limitation applies to homes acquired under contracts entered into before Dec. 15, 2017, which close before April 1, 2018 Expires after tax year 2025
Unreimbursed Medical Expenses (TCJA § 11027; IRC §213)	Limited to 10% of AGI. Over 65, reduced to 7.5%	Reduced to 7.5% of AGI for all taxpayers	Beginning January 1, 2019, the threshold goes back up to 10% for all taxpayers	*Begins in tax year 2017, and expires after tax year 2018 (threshold increases to 10%)


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 Itemized Deductions				
Deduction	Prior Law	TCJA 2017	Notes	Eff./Exp. Date
Charitable Deductions (TCJA § 11023, §13704, §13705; IRC § 170)	Generally available for contributions to charitable orgs, certain limitations apply	Adjusted limit of cash contributions to 60%	Exception for contemporaneous written acknowledgment repealed. No deduction allowed for a donation in exchange for college sports seating rights.	Expires after tax year 2025
Limitation / Phase-out of Itemized Deductions (TCJA § 11046; IRC § 68)	Single filer with AGI over \$261,500; or married jointly AGI over \$313,500 phased out	Repealed (Phase repealed)		Expires after tax year 2025
Moving Expenses (TCJA § 11049; IRC § 217)	Allowed for unreimbursed qualified moving expenses (IRS Form 3903)	Repealed	Deduction remains for members of the Armed Forces (or their spouse or dependents) on active duty who move due to military order.	Expires after tax year 2025

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 Itemized Deductions				
Deduction	Prior Law	TCJA 2017	Notes	Eff./Exp. Date
Personal Casualty and Theft Losses (TCJA § 11044, IRC §165(h))	Generally allowable for any such loss	Only available if such loss is attributable to a disaster, as declared by the President		Expires after tax year 2025
Miscellaneous Itemized Deductions (TCJA § 11045, IRC § 662, §67(g), §262(A))	Total of misc. deductions must be more than 2% of AGI	Repealed	Generally include expenses for production or collection of income, tax preparation, unreimbursed employee expenses.	Expires after tax year 2025

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 Itemized Deductions				
Deduction	Current Law	TCJA 2017	Notes	Eff./Exp. Date
Home Equity Debt Interest (TCJA § 11045, IRC § 662, §67(g), §262(A))	Interest paid on home equity debt of up to \$100,000	Repealed	TCJA provided that any debt incurred before 12/15/17 but refinanced later, continues to be covered by the prior law to the extent the amount of the debt does not exceed the amount refinanced • IRS News Release IR 2018-32 advised taxpayers that interest paid on home equity loans and lines of credit is still deductible if the funds are used to buy, build, or substantially improve the taxpayer's home that secures the loan	Expires after tax year 2025

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Child Tax Credit

- TCJA Section 11022 Increase in and Modification of Child Tax Credit:
 - The child tax credit is \$2,000 per qualified child subject to an increased threshold MAGI amount (not indexed with inflation):
 - \$400,000 MFJ; and
 - \$200,000 for other taxpayers.
 - Provides that \$1,400 of this credit is refundable for each eligible child and also indexes the maximum amount refundable for inflation.
 - In addition, it provides a \$500 nonrefundable credit for dependents (care for adult family members) other than qualifying children.
 - Must provide the SSN# of each qualifying child.
 - All provisions are effective until December 31, 2025.

Source: TCJA 11022; IRC § 24

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Individual Alternative Minimum Tax

- TCJA Section 12003, Increased Exemption for Individuals:
 - Individual AMT (26% rate), is retained, but AMT exemption amounts for individuals [IRC § 55(d)(1)] are increased as follows (indexed for inflation):
 - \$111,700 for married taxpayers filing jointly or for surviving spouses;
 - \$71,700 for single or head of household taxpayers; and
 - \$55,850 for married taxpayers filing separately.
 - Also, increases the phase-out of exemption amounts in IRC §55(d)(3) as follows:
 - \$1,020,060 for married taxpayers filing jointly or for surviving spouses;
 - \$510,300 for single taxpayers and married taxpayers filing separately.
 - AMTI tax rate at 28%
 - \$194,000 for all taxpayers except married filing separately
 - \$97,400 for taxpayers married filing separately

Source: TCJA 12003; IRC §55

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Capital Gains Tax Rates

Tax Rate	Long-Term Capital Gain/ Qualified Dividend Income	
	Married Filing Jointly	Single
0%	\$0 - \$77,200	\$0 - 38,600
15%	\$77,200 - \$479,000	\$38,600 - \$425,800
20%	\$479,000 +	\$425,800+

- Short term capital gains will continue to be taxed at ordinary income rates.
- Additional 3.8% Medicare will apply if income exceeds \$250,000 married/\$200,000 single unless gain is from sale of active business asset.

Source: TCJA 12003; IRC §55

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Medicare Surtax

- The Additional Medicare Tax Rate is 0.9%

Filing Status	Threshold Amount
Married filing jointly	\$250,000
Married filing separately	\$125,000
All other taxpayers	\$200,000

The tax applies to the amount of wages, self-employment income and railroad retirement (RRTA) compensation that is more than a threshold amount. Threshold amounts are not indexed with inflation. Reported on IRS Form 1040 line 62 (Taxes from IRS Form 8959)

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3.8% Net Investment Income Tax (NIIT)

- The NIIT affects income tax returns of individuals, estates and trusts. The tax is in addition to the tax rates for high income individuals. (23.8%/40.8%)

Filing Status	MAGI Threshold Amount
Married filing jointly	\$250,000
Married filing separately	\$125,000
Single	\$200,000
Trust and Estates	\$12,750

The tax applies to investment income: Interest, Dividends, Capital Gains (long and short - including the gain on the sale of investment real estate and second homes) Annuities (but not annuities in IRAs or company plans) Royalty Income Passive Rental Income and Other Passive Activity Income. Threshold amounts are not indexed with inflation. Reported on IRS Form 1040 line 62 (Taxes from IRS Form 8960)

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Kiddie Tax

The Kiddie Tax, which taxes an 18 year old or younger child's unearned investment income over a certain threshold (\$2,100) remains the same. Prior law, unearned income of the child was taxed at the parents' rates. Under the new Act, unearned income will be taxed using the new trust tax rates, which are as follows:

Ordinary Taxable Income	Ordinary Tax Rate	Capital Gain Income	Capital Gain Tax Rate
Up to \$2,550	10%	\$0 - \$2,600	0%
\$2,551 - \$9,150	24%	\$2,661 - \$12,700	15%
\$9,151 - \$12,500	35%	\$12,701 +	20%
\$12,501 +	37%		

- Children aged 19 to 24 with unearned income over a certain threshold may also be subject to the Kiddie Tax if he or she is a full-time student.
- Complex Trust taxation - \$3,011.50 on the first \$12,500 of undistributed income - \$37% in excess thereof.
- \$100,000 of income would be taxed at a 35.39% average tax rate.

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Alimony Payments

- TCJA Section 11051, Repeal of Deduction For Alimony Payments:
 - Alimony payments will no longer be deductible by the payor and will not be included in income of the payee for divorce or separation agreements entered into after 2018.
 - Divorce or separation agreements means:
 - A decree of divorce or separate maintenance or a written instrument incident to such a decree;
 - A written separation agreement; or
 - A decree (not described above, requiring a spouse to make payments for the support or maintenance of the other spouse.

Source: TCJA 11051; IRC § 61, § 121(d)(3)

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EDUCATION PLANNING

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529 Plans

- TCJA, Section 11032, 529 Account Funding For Elementary and Secondary Education:
 - Qualified expenses will now include elementary and high school education of up to \$10,000 per beneficiary (regardless of the number of contributing plans) each year at an elementary or secondary (k-12) public, private or religious school of the beneficiary's choosing.
- TCJA Section 11025 Rollovers To ABLE Programs From 529 Plans:
 - Allows families who have saved money in 529 plan to roll over up to \$15,000 each year to an ABLE account. The 529 plan must be for the same beneficiary as the ABLE account or for a member of the same family as the ABLE account holder [IRC 529 (c)(3)(C)]
 - The total limit over time that can be made to an ABLE account is subject to the individual state and its limit for education-related 529 savings accounts (Many states have set this limit at more than \$300,000 per plan.)

Source: TCJA 11032; IRC § 529(c)

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ABLE Accounts

- ABL Accounts (Achieving A Better Life Experience Act of 2014) are a tax-preferred way for those with disabilities to save.
- Annual contributions are capped at the annual gift exclusion amount (\$15,000 in 2019) and are not deductible, but earnings in the account are tax-deferred, and can be tax-free if withdrawn for qualified disability expenses.
- The Act limits eligibility to individuals who are blind or disabled by a condition that began before the individual's 26th birthday.
- TCJA Section 11024 Increased Contributions to ABL Accounts:
 - ABL account beneficiaries earning income from employment will be able to make ABL contributions above the \$15,000 annual cap from their own income up to the FPL, which is currently \$12,140 for a single individual, provided they do not participate in their employer's retirement plan.

Source: TCJA 11024; IRC § 529A(b)(2)(B); IRC § 25(b)

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ABLE Accounts

- TCJA Section 11024 Increased Contributions to ABL Accounts:
 - ABL account beneficiaries earning income from employment will be able to make ABL contributions above the \$15,000 annual cap from their own income up to the FPL, which is currently \$12,140 for a single individual, provided they do not participate in their employer's retirement plan.

Source: TCJA 11024; IRC § 529A(b)(2)(B); IRC § 25(b)

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RETIREMENT PLANNING

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Employee/Individual Contribution Limits

Employee/Individual Contributions	2019	2018
Elective Deferral – 401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs	Lesser of \$19,000 or 100% of compensation	Lesser of \$18,500 or 100% of compensation
SIMPLE 401(k) Plans and SIMPLE IRA Plans	Lesser of \$13,000 or 100% of compensation	Lesser of \$12,500 or 100% of compensation
Traditional and Roth IRAs	Lesser of \$6,000 or 100% of earned income	Lesser of \$5,500 or 100% of earned income

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Employer Contributions Limits

	2019	2018
Defined Benefit Plan Annual benefit limit per participant	Lesser of \$225,000 of average compensation for highest three consecutive years	Lesser of \$220,000 of average compensation for highest three consecutive years
Defined Contribution plan limits (qualified plans, 402(b) plans, SEP and SIMPLE Plans) Annual addition limit per participant (employer contribution; employee pretax, after tax and Roth contributions; and forfeitures (does not apply to SIMPLE Plans) Maximum tax deductible employer contribution (not applicable to 403(b) plans)	Lesser of \$56,000 or 100% (25% for SEP) of participants compensation. 25% of total compensation of employees covered under the plan (20% if self-employed) plus any employee pretax and Roth contributions; 100% for Simple Plans	Lesser of \$55,000 or 100% (25% for SEP) of participants compensation 25% of total compensation of employees covered under the plan (20% if self-employed) plus any employee pretax and Roth contributions; 100% for Simple Plans

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Compensation Limits

Retirement Plan Compensation Limits	2019	2018
Maximum compensation per participant that can be used to calculate tax-deductible employer contribution (qualified plans and SEPs)	\$280,000	\$275,000
Compensation threshold used to determine HCE	\$125,000 (when 2019 is the look-back year)	\$120,000 (when 2018 is the look-back year)
Compensation threshold to determine a key employee in a top-heavy plan	\$1 for more than-5% owners; \$180,000 for officers; \$150,000 for more than-1% owners	\$1 for more than-5% owners; \$175,000 for officers; \$150,000 for more than-1% owners
Compensation threshold used to determine qualified employee under a SIMPLE Plan	\$5,000	\$5,500
Compensation threshold used to determine a qualifying employee under a SEP plan	\$600	\$600

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IRA Phase-out Ranges 2019

Single & HOH

<\$64,000 Fully Deductible \$64,000 - \$74,000 Partially Deductible >\$74,000 No Deduction

Married Filing Jointly – Both “Active”

<\$103,000 Fully Deductible \$103,000 – \$123,000 Partially Deductible >\$123,000 No Deduction

Married Filing Jointly – One “Active” (Non-active Spouse)

<\$193,000 Fully Deductible \$193,000 – \$203,000 Partially Deductible >\$203,000 No Deduction

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Roth IRA Phase-out Ranges 2019

Single Filer

< \$122,000 (Indexed) Full Contribution \$122,000 – \$137,000 Partial Contribution >\$137,000 (Indexed) No Contribution

Married Filing Jointly

< \$193,000 (Indexed) Full Contribution \$193,000 – \$203,000 Partial Contribution >\$203,000 (Indexed) No Contribution

Married Filing Single

< \$10,000 Full Contribution >\$10,000 No Contribution

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Savers Tax Credit

Credit Rate	MFJ	HLD	All other Filers
50% of contribution	AGI < than \$38,500	AGI < than \$28,875	AGI < than \$19,250
20% of contribution	\$38,501 - \$41,500	\$28,876 - \$31,125	\$19,251 - \$20,750
10% of contribution	\$41,501 - \$64,000	\$31,126 - \$48,000	\$20,751 - \$32,000
0% of contribution	AGI > than \$64,000	AGI > than \$64,000	AGI > than \$64,000

The most that can be received in a given year is \$1,000 on a retirement contribution of \$2,000 (double if married filing a joint return). IRS Form 8880

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PLR 201833012

- In an attempt to encourage retirement savings by younger employees, PLR 201833012 provides that employers can provide matching contributions to the 401(k) plan accounts of employees who make student loan payments in lieu of matching contributions that would otherwise be made to the plan
- Features of the 401(k) plan as set forth in PLR 201833012 include the following:
 - Participation in the program is voluntary
 - A participating employee receives a non-elective contribution for each pay period in which a student loan debt payment is made
 - The employer contribution is equal to the matching contribution the employee would otherwise receive if the employee made contributions to the plan during the same payroll period
- The student loan repayment benefit effectively replaces the employer matching contribution for an employee who chooses to participate in the program • The employee is not eligible for other 401(k) matching contributions • The student loan repayment benefit is subject to the other rules for 401(k) plans, including contribution limits and nondiscrimination requirements

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ESTATE PLANNING

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Estate Tax Law Summary

	2018	2019	After 2025
Annual Gift Exemption	\$15,000	\$15,000 (as adjusted for inflation)	\$15,000 (as adjusted for inflation)
Tuition and Medical Direct Payment Exemption	Unlimited	Same	Same
Lifetime Exemption (TCJA § 11061; IRC § 2010(c)(3))	\$11.2 million,	\$11,400,000 (plus inflation)	Back to \$5,600,000 (as adjusted for inflation) in 2026
Estate Tax Rate	40%	40%	40%
Discounts and Installment Sales/GRATs, etc.	Available	Available	Same as 2018-2015
Portability of First Dying Spouse Exemption	Yes	Yes	Yes

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Estates and Trust Tax Rates

2019 Tax Brackets		2018 Tax Brackets	
Rate	Income Level	Rate	Income Level
10%	\$0 - \$2,600	10%	\$0 - \$2,550
24%	\$2,601 - \$9,300	24%	\$2,551 - \$9,150
35%	\$9,301 - \$12,750	35%	\$9,151 - \$12,500
37%	\$12,751 or more	37%	\$12,501+

Note: Repeal of itemized deductions may affect Trust income

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“Bunching” Itemized Deductions

- The tax strategy of “bunching” deductions
 - Taxpayers whose itemized deductions are near the standard deduction have been able to do this for years, not only with charitable contributions, but with property taxes and to some extent with income taxes.
 - TCJA significantly increases the number of taxpayers who should consider this strategy for their charitable contributions.”
- The itemized deduction that provides the most leeway is the charitable contribution.
 - Six remaining itemized deductions
- Use of Donor Advisor Funds

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Consider Making QCD

- Individuals taking Required Minimum Distributions (RMDs) from their IRAs should consider QCD in (2019)
- A QCD counts towards an individual’s RMD requirement and reduces taxable amount of an IRA distribution, thus lowering both AGI and taxable income.
- The check must be made payable the qualified charity from the IRA
- The Charity must be a IRC § 501(c)(3) organization
- Private foundations and donor-advised funds (DAFs) do not qualify
- Making a QCD has the additional benefit of reducing income for Medicare purposes
- The QCD amount is not considered part of modified adjusted gross income (MAGI) that is used to determine a taxpayer’s Medicare premium.

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Survey




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