

2019 TAX REFORM

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Overview

- Since the 2019 and 2020 rates will remain the same, here are what you should look at to come out ahead of changes:
- The time-tested approach of **deferring income** and **accelerating deductions** to minimize taxes still works for many taxpayers.
- **“Bunching”** expenses into this year or into the next year, whichever is more beneficial to get around those remaining deduction restrictions that are based on a percentage of adjusted gross income.
 - In some instances, threshold amounts are adjusted for **inflation from year-to-year**, which should be taken into account when running projections.

Ordinary Income Tax Rates

The current seven tax bracket system is retained, but the rates are lowered for all taxpayers and the thresholds are adjusted.

Tax Rate	Married Filing Jointly	Single	Head of Household	Married Filing Separately	Estates & Trusts
10%	\$0 - \$19,400	\$0 - \$9,700	\$0 - \$13,850	\$0 - \$9,700	\$0 - \$2,600
12%	\$19,400 - \$78,950	\$9,700 - \$39,475	\$13,850 - \$52,850	\$9,700 - \$39,475	N/A
22%	\$78,950 - \$168,400	\$39,475 - \$84,200	\$52,850 - \$84,200	\$39,475 - \$84,200	N/A
24%	\$168,400 - \$321,450	\$84,200 - \$160,725	\$84,200 - 160,700	\$84,200 - \$160,725	\$2,600 - \$9,300
32%	\$321,450 - \$408,200	\$160,725 - \$204,100	\$160,700 - \$204,100	\$160,725 - \$204,100	N/A
35%	\$408,200 - \$612,350	\$204,100 - \$510,300	\$204,100 - \$510,300	\$204,100 - \$306,175	\$9,150 - \$12,750
37%	Over \$612,350	Over \$510,300	Over \$510,300	Over \$306,175	Over \$12,750 *The highest bracket will begin at \$12,950 in 2020.

Ordinary Income Tax Rates

The State of Georgia has reduced the income tax rates as follows:

2018 – 6%

2019 – 5.75%

2020 – 5.5%

Standard Deduction & Personal Exemptions

In general, **effective** on January 1, 2018 and **expire** after December 31, 2025

- **Standard deduction** is increased to the following amounts for 2019 :
 - ***Married Filing Jointly: \$24,400***
 - ***Head-of-Household: \$18,350***
 - ***All Other Taxpayers: \$12,200***

- **Child Tax Credit** doubled from \$1,000 to \$2,000 per qualifying child. Phaseout increased to AGI of \$400,000 for joint filers (\$200,000 for all others).

- The **personal exemption** is suspended through tax year 2025.

- The exemption for **estates and trusts** remains at \$100 (complex), \$300 (simple), \$600 (estates).

Individuals

Estate and Gift Taxes: The exemption for estate and gift tax more than doubled from \$5MM to \$10MM estate and gift exemption starting in 2018 - \$22 million for a married couple.

- *\$15,000 per year tax free to any recipient (\$30,000 per married couple) does not count towards the cap*

Make gifts sheltered by the **annual gift tax exclusion** before the end of the year and thereby save gift and estate taxes. :

- *The exclusion applies to gifts of up to \$15,000 made in 2019 to each of an unlimited number of individuals, without any carryover from one year to the next.*

Kiddie Tax - Tax on children's income will have two different tax regimes for their earned and unearned income:

- **Earned Income:** Taxed at the rates applied to single filers.
- **Unearned Income:** Taxed at ordinary income and preferential rates (i.e., capital gains and qualified dividends) applied to trusts and estates. *Children will no longer be subject to their parents' tax rate.*

Above-the-Line Deductions

- **Moving Expenses:** Suspended through tax year 2025; however, still available for members of the U.S. Military who move pursuant to a military order.
- **Alimony:** Effective for divorce or separation agreements entered into after December 31, 2018:
 - *Deduction for alimony payments and inclusion in income by the recipient is repealed.*
 - *Existing alimony or separate maintenance agreements are grandfathered, as are modifications to existing agreements.*

Itemized Deductions

- **Medical Expenses** – In 2020, all taxpayers, including those that are 65 and over, can deduct medical expenses for the year only to the extent that qualified expenses exceed 10% of AGI.
- **State and Local Taxes** – Taxpayers are permitted a maximum \$10,000 deduction on the sum of state and local **real property** taxes, **personal property** taxes **income taxes** (or sales tax, if elected).
- **Mortgage Interest** – Taxpayers are permitted to deduct the interest paid on acquisition indebtedness of up to \$750,000.
 - *Debt incurred on or before December 15, 2017 is grandfathered under the previous law of interest paid on acquisition indebtedness of up to \$1,000,000.*
- **Home Equity Interest** – The deduction for interest paid on home equity indebtedness is suspended.
- **“Pease” Limitation** – Repeals the overall limitation on itemized deductions through 2025.

Itemized Deductions (continued)

- **Charitable Contributions** – Changes to remember:
 - *Cash contributions to public charities now have a 60% of AGI limitation (previously it was 50%).*
 - *Denial of charitable deduction for payments made in exchange for athletic seating rights (previously able to deduct 80% of amounts paid).*
 - *Removal of substantiation exception for certain contributions reported by the charitable organization.*

- **Casualty Losses** – Suspended through tax year 2025, unless the loss is attributable to a Federally declared disaster loss.
 - *If a taxpayer has a personal casualty loss gain, they may deduct personal casualty losses not attributable to a Federal declared disaster loss in the amount equal to no more than the personal casualty loss gain.*

- **Miscellaneous Itemized Deductions Subject to 2% floor** - These have been suspended and include investment fees and expenses, tax preparation fees, and unreimbursed business expenses, among others.

Alternative Minimum Tax (AMT)

- The individual AMT has been retained.
- The exemption amounts have been increased to the following thresholds:
 - **Joint Filers:** \$111,700 (\$ 55,850 for MFS)
 - **All other Filers:** \$71,700
- The exemption phase-out thresholds are increased to:
 - **Joint Filers:** \$1,020,600
 - **All other Filers:** \$510,300
 - **Trusts and Estates:** \$83,500

Other Changes for Individuals

- **Carried Interest** holding period for long-term capital gain changed to three years with respect to certain partnership interests.
- **Affordable Care Act** shared responsibility payment reduced to \$0 after 2018.
- **Roth IRA** conversion recharacterizations are no longer allowed.
- **Child Tax Credit** doubled from \$1,000 to \$2,000 per qualifying child. Phaseout increased to AGI of \$400,000 for joint filers (\$200,000 for all others).
- **529 savings accounts** are expanded to K-12 tuition in addition to college tuition. *Note that Section 529 plans can be “front-loaded” with up to five years’ worth of annual exclusion gifts (\$75,000 per person, or \$150,000 per couple).*
- **Business Losses** and **NOLs** have additional annual and carryover limitations. **NOLs** can only be carried forward.

Corporations and Business Income

Corporations

- Changes are **permanent** for C corporations.
- **Tax Rates:** 21% flat rate effective for taxable years beginning after December 31, 2017.
 - *Replaces graduated corporate tax rates, which taxed income over \$10MM at 35%*

Depreciation

- **Bonus Depreciation** under 168(k) allows for 100% deduction of the cost of new or used eligible property purchase after September 27, 2017.
 - *Phased out 20% per year starting in 2023.*
- **Section 179 Expensing** allows up to \$1MM deduction of the cost of eligible property against taxable income.

Corporations and Business Income (cont.)

Expenses and Deductions

- **Interest Deduction Limitation:** The deduction for business interest is limited to the sum of:
 - *Business Interest Income*
 - *30% of the taxpayer's adjusted taxable income*

- **Net Operating Losses (NOLs):** NOL deduction limited to 80% of taxable income without regard to the NOL.
 - *NOLs can carry forward indefinitely. Can no longer be carried back.*

- **Like-kind Exchanges:** No longer allowed for personal property (e.g., furniture and equipment).

- **Domestic Production Activity Deduction:** repealed

- **Entertainment Expenses:** Deductions for entertainment expenses are disallowed. *This includes Membership dues for **any** club organized for business, pleasure, recreation or other social purposes. Can no longer deduct university ticket contributions as Charity.*

Corporations and Business Income (cont.)

- **Accounting Methods:** Generally for businesses with less than \$25MM average annual gross receipts in a 3-year period:
 - *Cash method of accounting*
 - *Simplified inventory accounting*
 - *Exempted from 263A UNICAP rules*

- **Partnership Technical Terminations:** Repealed

- **Tax Credits, Compensation and Foreign Income**

Partnerships and Pass Through Entities

Section 199A Deduction for Qualified Business Income QBI -

What types of income are considered "pass-through?"

Section 199A of the newly updated U.S. tax code allows owners of certain types of pass-through businesses to deduct as much as 20% of their business income. Generally speaking, this includes most business income not derived from ownership in a corporation which includes (but isn't necessarily limited to):

- Income from a sole proprietorship
- Income from an LLC or S-corporation
- Partnership income
- Income from rental properties (Including income passed through from REITs)
- Any S-corporation, partnership, or trust that owns an interest in another pass-through business.

Partnerships and Pass Through Entities

Section 199A Deduction for Qualified Business Income QBI -

What types of income IS NOT considered "pass-through?"

owners of "specified service businesses" cannot use the pass-through deduction if their income exceeds certain thresholds. This list provided by the IRS includes businesses that perform services the following fields:

- Health -- including doctors, pharmacists, nurses, dentist, and more.
- Law -- specifically lawyers, paralegals, legal arbitrators, and mediators.
- Accounting
- Actuarial science
- Performing arts -- However, broadcasters are generally excluded.
- Consulting
- Athletics
- Financial services -- such as financial advisors, investment managers, and investment bankers.
- Brokerage services -- This only has to do with securities. Real estate brokers, for example, are excluded.
- Trading businesses dealing in securities, partnership interests, or commodities
- Any trade or business where the "principal asset ... is the reputation or skill of one or more of its employees or owners."

Partnerships and Pass Through Entities

Section 199A Deduction for Qualified Business Income QBI -

- 20% of all pass through income is deductible up to limits:
 - taxpayer's taxable income does not exceed \$315,000 (joint filer) or \$157,500 (other filers), subject to full phase-in at \$415,000 and \$207,500, respectively.
- The deduction attributable to 20% of the taxpayer's QBI cannot exceed the greater of (A) 50% of W-2 wages paid with respect to the QBI or (B) The sum of 25% of W-2 wages plus 2.5% of the unadjusted basis of qualified property (depreciable property on hand).

Breaks Extended Through 2020

Widely relevant breaks extended through 2020

- The exclusion from **Gross income** of discharge of qualified principal residence indebtedness.
- **Mortgage insurance premiums** treated as qualified residence interest for itemized deduction purposes.
- **The reduction of medical expense** itemized deduction floor to 7.5% of adjusted gross income
- **Tuition and related expense** *Above-the-line deduction.*
- **Employer tax credit:** *For paid family and medical leave.*

- Other credits extended:
 - **Empowerment zone tax incentives**
 - **The New Markets credit**
 - **Employer tax credit** for paid family and medical leave.
 - **The Work Opportunity credit**

Big Changes in 2020: The SECURE Act

The **SECURE Act (Setting Every Community Up for Retirement Enhancement)** is intended to encourage saving for retirement, most provisions take **effect** January 1, 2020.

- Provision changes to **age requirements**:
 - Elimination of the age 70 1/2 limit for making traditional IRA contributions.
 - *Anyone can contribute as long as they are working.*
 - Increase of age taxpayers must be to take RMDs from 70 1/2 to 72.

- Provision changes to **employee requirements**:
 - Elimination of employers' potential liability when it comes to selecting appropriate annuity plans.
 - A new requirement that employers allow participation in their retirement plans.
 - *This includes participation by part-time employees who've work at least 1,000 hours in one year or three consecutive years of at least 500 hours.*

The SECURE Act Continued...

Other Changes

- **MEPs** (multi-employer plans) can be expanded to smaller, unrelated business to team up to provide contribution plans at lower costs.
- **“Stretch” RMD** *provisions are eliminated*
- Early retirement account withdrawals now have exception from the 10% tax penalty on withdrawals of up \$5,000 within one year of the birth or adoption of a child.

Tax Saving Ideas to think about

- Timing of when to buy equipment
- Timing of paying expenses – prepay or defer
- Legitimate tax savings opportunities State
 - Low Income Housing Credits
 - State - Historic Renovation Credits
 - Fed and State - Conservation Easement Deductions
 - State - Film Tax Credits
- State credits allocations
 - Student Scholarship organizations like Georgia Goal and Grace Scholars
 - Regional hospital donation credits
- R&D tax credit study
- Cost Segregation Study
- Work Opportunity and Jobs tax credits

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Questions?



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