HIGHLIGHTS OF THE CHANGES EFFECTIVE 2019

Congress in December of 2017 passed the Tax Cuts and Jobs Act (TCJA) that made sweeping changes to the tax laws. The issues impacting individuals and small businesses are included throughout this pocket tax guide. Some of those changes were not effective until 2019 as described below. In addition, a substantial number of the changes required the IRS to write regulations to provide clarification. A brief summary of the most significant changes follows.

TCJA Provisions Effective In 2019

- **Medical Deduction** – For 2019, the medical expense deduction floor (the amount that is not deductible) is 10% of adjusted gross income, up from 7.5% in 2018, making it a little more difficult to deduct medical expenses.
- **Alimony** – For divorce decrees finalized after 2018, alimony is no longer deductible by the payer or taxable to the recipient. This change has no effect on divorce decrees entered into before 2019 and unmodified, for which alimony continues to be deductible by the payer and taxable to the recipient.
- **ACA Penalty** – The Affordable Care Act imposed a penalty on families without minimum essential health insurance. For 2018 that penalty was the greater of 2.5% of the family's income or the sum of $695 for each adult (half that for children) members of the family (capped at $2,085 for the family). That penalty has been repealed for 2019 and subsequent years.

Significant Issues of Concern

- **Business Meals** – Although TCJA banned all business deductions for any form of entertainment, the IRS has clarified that business taxpayers can continue to deduct 50% of the cost of food and beverages associated with operating their trade or business so long as the expense is ordinary and necessary, not lavish or extravagant, the taxpayer or an employee is present, and the food or beverage is provided to a current or potential customer, client, consultant or similar business contact. Where the food or beverage is provided during an entertainment event, to be deductible it must be purchased separately or separately stated on the bill, invoice or receipt.
- **Replacement of Business Vehicles** – Before TCJA it was common practice to trade in a business vehicle in order to defer paying tax on a gain and sell it to a third party to take advantage of any loss. TCJA now limits tax-deferred exchanges to real estate, so the trade-in or sale of a business vehicle is always reportable whether it results in gain or loss. However, on the bright side, if the replacement vehicle is an SUV weighing more than 6,000 pounds, the entire business portion of the cost can be written off in the first year using 100% bonus depreciation. For vehicles other than heavy SUVs, the maximum first-year write-off has been substantially increased.
- **State and Local Tax (SALT) Deductions** – TCJA limits the itemized deduction for SALT deductions to $10,000. Some states with high income tax rates took exception to that provision and developed work-around schemes where an individual or business could contribute to a state charity and then receive a credit against their SALTs, thus converting the limited tax deduction into a fully deductible charitable contribution. The IRS responded with regulations limiting the federal charitable deduction to the difference between the charitable contribution and the SALT credit they received on their state return. However, where a business makes such a contribution, the IRS allows that to be treated as a business tax deduction. This is an ongoing issue; watch for further developments.
- **Home Mortgage Acquisition Debt Interest** – Home mortgage interest took a big hit under TCJA. For home acquisition debt incurred prior to December 16, 2017, taxpayers can still deduct interest on up to $1 Million of acquisition debt on their 1st and 2nd homes. For mortgages acquired December 16 and later, interest will only be deductible on a maximum of $750,000 of acquisition debt on 1st and 2nd homes.
- **Home Equity Debt** – Prior to TCJA, the interest on up to $100,000 of home equity debt was deductible. This is no longer true; however, home equity debt interest may still be deductible where the use of the funds can be traced to another deductible use.
- **Employee Business Expenses** – If you are an employee, your business expenses including tools, supplies, union or professional dues, travel and home office expenses are no longer allowed through 2025.
- **Non-residential Real Estate** – TCJA expanded the definition of Sec 179 property (property that can be expensed in the first year) to include: roofs; air-conditioning, heating and ventilation systems; fire protection systems; and alarm and security systems when installed on a previously built non-residential building.
- **Lodging Facilities** – TCJA allows beds, furniture and appliances to be expensed under Sec 179 when used in the living quarters of a lodging facility. Previously only allowed for transient housing such as hotels and motels.
- **IRA Recharacterizing Rule** – Prior to TCJA, a taxpayer could convert a traditional IRA to a Roth IRA and then change their mind and recharacterize it back to a traditional IRA before the unextended due date of the return to avoid the conversion tax. This is no longer possible – once converted there is no going back.
- **Deduction for Pass-Through Income** – TCJA added the Sec. 199A (pass-through) deduction for business activities other than C-corporations. The deduction is 20% of a taxpayer's qualified business income from all of the taxpayer's business activities provided the taxpayer's taxable income is $157,500 ($315,000 of married taxpayers filing jointly) or less. Above those thresholds limitations begin to apply.
- **Casualty Losses** – Personal casualty losses will not be allowed except for those in federally declared disaster areas. Personal casualty gains in excess of personal casualty losses will be treated as capital gains and all such losses as capital losses.
- **Moving Expense Deduction** – Moving expenses and non-taxable employer reimbursement are suspended through 2025 except for members of the Armed Forces on active duty who move pursuant to a military order.
- **Net Operating Loss** – Generally net operating losses, except for those incurred prior to 2018, can only be carried forward and the deduction is limited to 80% of taxable income.

$1 LUMP SUM AT VARIOUS RATES (FUTURE VALUE OF $1, COMPOUNDED ANNUALLY)

Interest Rate	5th Year	10th	15th	20th	25th	30th
2%	1.104	1.219	1.346	1.486	1.641	1.811
4	1.217	1.480	1.801	2.191	2.666	3.243
6	1.338	1.791	2.397	3.207	4.292	5.743
8	1.469	2.159	3.172	4.661	6.848	10.063
10	1.611	2.594	4.177	6.727	10.835	17.449

Example: If you invest $10,000 at an interest rate of 6%, at the end of 30 years you will have $57,430 ($10,000 multiplied by 5.743).

$1 PER YEAR AT VARIOUS RATES (FUTURE VALUE, COMPOUNDED ANNUALLY)

Interest Rate	5th Year	10th	15th	20th	25th	30th
2%	5.310	11.17	17.64	24.78	32.67	41.38
4	5.416	12.006	20.024	29.778	41.646	56.085
6	5.637	13.181	23.276	36.786	54.865	79.058
8	5.867	14.487	27.152	45.762	73.106	113.283
10	6.105	15.937	31.772	57.275	98.347	164.494

Example: If you put $1,000 at the end of each year in an investment paying 6% a year compounded annually, at the end of the 30th year, you will have $79,058 saved ($1,000 x 79.058).

LIFE EXPECTANCY*

Current Age	Remaining Years	Current Age	Remaining Years
25	57.0	55	28.6
30	52.2	60	24.2
35	47.3	65	20.0
40	42.5	70	16.0
45	37.7	75	12.5
50	33.1	80	9.5

Assume a planned retirement age of 60. Based on average statistics, you will need to accumulate retirement assets by age 60 to last for 24.2 yrs. * Life expectancy rates based on the IRS Unisex Single Life Tables.

TAXABLE-EQUIVALENT YIELD OF MUNICIPAL BONDS BASED ON VARIOUS FEDERAL INCOME TAX BRACKETS

	Tax-Free Yield								
%	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0
Tax Bracket	Equivalent Taxable Yield								
10	2.2	2.8	3.3	3.9	4.4	5.0	5.6	6.1	6.7
12	2.3	2.8	3.4	4.0	4.5	5.1	5.7	6.3	6.8
22	2.6	3.2	3.8	4.5	5.1	5.8	6.4	7.1	7.7
24	2.6	3.3	3.9	4.6	5.3	5.9	6.6	7.2	7.9
32	2.9	3.7	4.4	5.1	5.9	6.6	7.4	8.1	8.8
35	3.1	3.8	4.6	5.4	6.2	6.9	7.7	8.5	9.2
37	3.2	4.0	4.8	5.6	6.3	7.1	7.9	8.7	9.5

Example: A taxpayer in the 24% tax bracket would have to purchase a taxable investment yielding more than 3.3% to outperform a 2.5% tax-free investment.

2019

POCKET TAX GUIDE

2019 TAX CALENDAR

January 15	4th Quarter 2018 Estimate Due
April 15	FBAR Form Due
April 15	2018 1040 or Extension Due
April 15	1st Quarter 2019 Estimate Due
June 17	2nd Quarter 2019 Estimate Due
July 31	Pension Plan (Form 5500) Returns Due (calendar yr plans)
September 16	3rd Quarter 2019 Estimate Due
October 15	2018 1040 Extension Returns Due

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EXEMPTIONS & STANDARD DEDUCTIONS

Personal & Dependent Exemption: Not allowed under the new tax law

Standard Deduction:

Joint SS	MS	Single	Head of Household
$24,400	$12,200	$12,200	$18,350

An additional standard deduction of $1,300 is allowed for each married elderly (age 65 and over) or blind individual. If elderly and blind, the additional standard deduction is $2,600. Single individuals (elderly or blind) are allowed an additional standard deduction of $1,650, $3,300 if both elderly & blind.

SOCIAL SECURITY (OASDI), MEDICARE & SELF-EMPLOYMENT TAXES

	Social Security OASDI*	Medicare***	Total
Employee	6.20%	1.45%	7.65%
Self-Employed**	12.40%	2.90%	15.30%

*Old age, survivor and disability insurance portion of social security tax.
**Self-employed individuals are allowed to take an income tax deduction for 50% of the self-employment tax.
***Add 0.9% to rate when income exceeds $200,000 ($250,000 for married taxpayers)

SOCIAL SECURITY BENEFITS

Earnings Test – SS benefits of an individual who is under the full retirement age (66) are reduced when earnings from working exceed: $17,640/yr.

Maximum Earnings Benefit– The maximum retirement benefit for workers retiring in 2019 at age 66 (full retirement age): $2,861/mo.

Taxation Thresholds – A certain % of an individual's SS benefits are taxed when his or her provisional income* exceeds certain threshold amounts:

	Up to 50% Taxed	Up to 85% Taxed
Married Joint	$32,000 - $44,000	Over $44,000
Others**	$25,000 - $34,000	Over $34,000

*Provisional income generally includes adjusted gross income plus nontaxable interest plus one-half of social security benefits.

CAPITAL GAINS

Special rates (capital gain rates) apply to gains attributable to sale of capital assets held for more than a year.

Capital Gain Rates: The Tax Cuts & Jobs Act altered the regular individual tax rates, which the capital gains rates were previously tied to. So the Act created a separate rate schedule for capital gains tax. The table below illustrates the CG tax rates by filing status and range of income within the filing status.

CG Rates	MFJ	MFS	HH	Single
Zero	0 to $78,750	0 to $39,375	0 to $52,750	0 to 39,375
15%	78,751 to 488,850	39,376 to 244,425	52,751 to 461,700	39,376 to 434,550
20%	488,851 & Up	244,426 & Up	461,701 & Up	434,551 & Up

Excluded From the 0%, 15% & 20% Rates:
Gain attributable to real property depreciation: 25% Max
Gain attributable to collectibles & qualified small business stock: 28% Max

Maximum Annual Net Loss Deduction: $3,000 ($1,500 MFS filers)

Netting Short-Term (ST) and Long-Term (LT) Gains & Losses: ST gains and losses are netted as are LT gains and losses. Then the two are netted together, with the result being either a net ST or LT gain or loss. Taxpayers, when possible, can achieve a better overall tax benefit by offsetting short-term capital gains with long-term capital losses, thus offsetting higher-taxed profits with lower-taxed losses.

LONG-TERM CARE INSURANCE DEDUCTIONS

The maximum deductible amounts of long-term care premiums are based on age and for 2019 are:

40 or Less	41 to 50	51-60	61-70	71 & Older
$420	$790	$1,580	$4,220	$5,270

KIDDIE TAX

The Tax Cuts & Jobs Act altered the way children under age 19 and full-time students under age 24 who have unearned income are taxed. For 2019 these children will file their own tax returns with earned income taxed at the single rates and unearned income taxed at the very high tax rates for estates and trusts which hits 37% at income of $12,750. The standard deduction for these children is the greater of the following two amounts but not exceeding the standard deduction for singles ($12,200 in 2019):

1. The base amount which is $1,100, or 2. The child's earned income plus $350.

Parents may elect to include a child's investment income on their return if the investment income is no more than $10,999 (up from $10,499 in 2018) and the child has no earned income.

TRADITIONAL IRA - MAX DEDUCTIONS & LIMITS

Maximum Contribution & Deduction for 2019: $6,000 ($7,000 if age 50 & older) (1)

The deduction is ratably phased out for higher income individuals who actively participate in an employer-sponsored plan and/or whose spouse is an active plan participant. The following are the phase-out ranges based on Modified AGI:

Single (Active)	$ 64,000 – $ 73,999
Married (only spouse is active)	$193,000 – $202,999
Married (both spouses active)	$103,000 – $122,999
Married Separate	$ 0 – $9,999

Contributions must be made by the due date of the tax return, NOT including extensions. Contributions are NOT allowed upon reaching age 70.5 (however contributions to SEP IRAs are allowed after age 70.5).

ROTH IRA - MAX DEDUCTIONS & LIMITS

Maximum Contribution & Deduction for 2019: $6,000 ($7,000 if age 50 & older) (1)

There is no tax deduction for contributions to a Roth IRA, there is no tax on qualified distributions, and the accounts benefit from tax-free accumulation. The contributions are ratably phased out for higher income individuals. The following are the phase-out ranges based on Modified AGI:

Married	$193,000 – $202,999
Married Separate	$ 0 – $9,999
Others	$ 122,000 – $136,999

Contributions must be made by the due date of the tax return, NOT including extensions. Contributions ARE allowed after age 70.5 (must have earned income).

(1) The $6,000 and $7,000 limits apply to the combined Traditional and Roth IRA contributions of the individual for the year.

RETIREMENT PLANS – CONTRIBUTION LIMITS

SE Defined Contribution Plans: Lesser of 25%(1) of compensation or $56,000

SEP Plans: Lesser of 25%(1) of compensation or $56,000

401(k) and 403(b) Plans Elective Deferrals: $19,000 ($25,000 age 50+) (2) (3)

SIMPLE Plans Elective Contributions: $13,000 ($16,000 age 50 and over) (3)

Defined Benefit Plans: Max annual benefit: $225,000

Highly Compensated Employee Status Threshold: $125,000 (4)

Key Employee Status Threshold: $180,000

(1) Effectively 20% of net self-employment income.

(2) The annual contribution to all of an employee's retirement accounts, including elective deferrals, employee contributions, employer matching, discretionary contributions and forfeiture allocations cannot exceed the lesser of 100% of compensation or $56,000.

(3) Maximum compensation that can be considered in determining employer and employee contributions (employer matching contribution for SIMPLE Plans) is $280,000 ($125,000 for highly compensated employees).

(4) Includes 5% owners and at employer's election 20% of the top paid employees.

SAVING FOR EDUCATION

National Average Annual College Costs (2018)

	Tuition & Fees	Room & Board	Other Expenses	Total
Public 4-yr In-state Institutions	$ 9,970	$10,800	$4,520	$25,290
Public Out of State	$25,620	$10,800	$4,520	$40,940
Private Non-Profit Colleges	$34,740	$12,210	$3,950	$50,900

Source: lenderedu.com

Three tax plans are provided to save funds for a child's education. Contributions to them are NOT tax deductible. The tax benefit is the account earnings accrue tax deferred and are free from tax if used for qualified education expenses.

Coverdell Account – The annual contribution limit for 2019 is $2,000 per student. Funds can be used not only for higher education but also for Kindergarten through grade 12. Contributions must be made by the April due date for filing the return. The contribution limit is ratably reduced to zero for Joint filers with MAGI between $190K and $220K and $95K and $110K for others.

Sec 529 Plan – The total contribution per student is only limited by the projected cost of the student's planned education. The donor's annual contribution is generally predicated on donor's gift tax issues. Generally each donor can contribute up to the annual gift tax exclusion ($15,000 in 2019) per year without gift tax implications. In addition the exemption amount for the next four years (total $75,000 in 2019) can be contributed at one time (generally in the earlier years to benefit from increased earnings). Funds can only be used for post-secondary education, except the Tax Cuts & Jobs Act allows up to $10,000 per year to be used for elementary and high school education expenses beginning in 2018 and through 2025v.

Savings Bonds – A taxpayer who pays qualified higher education expenses with redemption proceeds from Series EE or I Bonds issued after 1989 may be able to exclude the bonds' income. To qualify they must have been purchased when the individual was at least age 24 and redeemed at the time of the education expense for the taxpayer, spouse, or dependent. The income exclusion phases out for joint filers with a MAGI between $121,600 and $151,600 ($81,600 and $96,600 for others).

STANDARD MILEAGE DEDUCTIONS

These are the $/mile rates in effect during 2019.

Business	Charitable	Medical & Moving
$0.58	$0.14	$0.20

PER DIEM RATES*

These are the $/mile rates in effect during 2018 (2019 rates not available at publication date).

	High-Cost Locality	Low-Cost Locality
Meals and incidental expenses (M & IE)	$ 71	$ 60
Lodging and M & IE	$ 287	$ 195

*Reflects rates in effect since 10/1/2018, using the simplified method of determination.

SEC 179 BUSINESS ASSET EXPENSING

Each year, an amount of the cost of certain eligible personal property purchased during the year and used in the active conduct of a trade or business can be expensed. For 2019, the maximum that can be expensed under Sec 179 is $1,020,000*.

*The limit is reduced when more than $2,550,000 of qualifying property is placed into service.

BONUS DEPRECIATION

Taxpayers can elect 100% first year (bonus) depreciation for tangible business assets (except structures) acquired after September 27, 2017 and placed into service during years 2018 through 2022.

INCOME TAX RATES – CORPORATIONS

The Tax Cuts & Jobs Act established a flat corporate tax rate of 21% beginning in 2018.

TRUST & ESTATE INCOME TAX RATES

Taxable Income Over	But Not Over	Pay	Plus	Of the Amount Over
0	$2,600	0	10%	0
$2,600	$9,300	$260.00	24%	$2,600
$9,300	$12,750	$1,868.00	35%	$9,300
$12,750		$3,075.50	37%	$12,750

UNIFIED ESTATE & GIFT TAX SCHEDULE

Year	Estate Tax		Gift Tax	
	Exemption (Millions $)	Top Tax Rate	Exemption (Millions $)	Top Tax Rate
2016	5.45	40%	5.45	40%
2017	5.49	40%	5.49	40%
2018	11.18	40%	11.18	40%
2019	11.40	40%	11.40	40%

2019 ANNUAL GIFT TAX EXCLUSION $15,000

Each individual is allowed an annual gift tax exclusion of $15,000 per donee for 2019 (the same as in 2018), with no limit to the number of donees. These gifts are not deductible by the giver nor are they taxable to the donee. Gifts in excess of the exclusion must be reported on a gift tax return. Gifts in excess of the exclusion are taxable but are offset with the Unified Estate and Gift Tax Credit until that credit is used up. Any amounts used to offset the gift tax will reduce the amount of credit available for the giver's estate tax.

2019 INCOME TAX RATE SCHEDULE - INDIVIDUAL

MARRIED TAXPAYERS* – JOINT/SURVIVING SPOUSE (SS)

Over	But Not Over	Pay	Plus	Of the Amount Over
0	$19,400	0	10%	0
$19,400	$78,950	$1,940.00	12%	$19,400
$78,950	$168,400	$9,086.00	22%	$78,950
$168,400	$321,450	$28,765.00	24%	$168,400
$321,450	$408,200	$65,497.00	32%	$321,450
$408,200	$612,350	$93,257.00	35%	$408,200
$612,350		$164,709.50	37%	$612,350

* Married separate (MS) use 1/2 of the joint dollar amounts.

SINGLE TAXPAYERS

Taxable Income				
Over	But Not Over	Pay	Plus	Of the Amount Over
0	$9,700	0	10%	0
$9,700	$39,475	$970.00	12%	$9,700
$39,475	$84,200	$4,543.00	22%	$39,475
$84,200	$160,725	$14,382.50	24%	$84,200
$160,725	$204,100	$32,748.50	32%	$160,725
$204,100	$510,300	$46,628.50	35%	$204,100
$510,300		$153,798.50	37%	$510,300

HEAD OF HOUSEHOLD

Taxable Income				
Over	But Not Over	Pay	Plus	Of the Amount Over
0	$13,850	0	10%	0
$13,850	$52,850	$1,385.00	12%	$13,850
$52,850	$84,200	$6,065.00	22%	$52,850
$84,200	$160,700	$12,962.00	24%	$84,200
$160,700	$204,100	$31,322.00	32%	$160,700
$204,100	$510,300	$45,210.00	35%	$204,100
$510,300		$152,380.00	37%	$510,300

ALTERNATIVE MINIMUM TAX (AMT) - INDIVIDUALS

The Tax Cuts & Jobs Act substantially increased both the AMT exemptions and the exemption phase out threshold which will substantially reduce the number of taxpayers affected by the AMT in 2019.

Tax Rate 26% of AMT income to........$194,800*
28% of AMT income over......$194,800*

*** $97,400 for married taxpayers filing separately**

Filing Status	Exemption Amount (Reduced as AMT income exceeds threshold amount)	Phase-Out Threshold
Joint Return	$111,700	$1,020,600
Single and HH	$ 71,700	$ 510,300
Married Separate	$ 55,850	$ 510,300

ESTIMATED TAX PAYMENTS

To avoid possible underpayment penalties, taxpayer is required to deposit by withholding or estimated tax payments an amount equal to the lesser of:

1. 90% of current year tax liability, OR

2. One of the following amounts:

a. If the taxpayer's prior year AGI exceeds $150,000*, 110% of the prior year's tax liability.

b. Otherwise, 100% of the prior year's tax liability.

*$75,000 for taxpayers filing married separate.