the answer company™
THOMSON REUTERS®

Year-End Tax Planning for 2019

Special Report

Year-End Tax Planning for 2019

This special report provides two checklists of actions that can reduce tax liability.

Year-end planning for 2019 takes place against the backdrop of recent major changes in the rules for individuals and businesses. For individuals, these changes include lower income tax rates, a boosted standard deduction, severely limited itemized deductions, no personal exemptions, an increased child tax credit, and a watered-down alternative minimum tax (AMT). For businesses, the corporate tax rate has been reduced to 21%, there is no corporate AMT, there are limits on business interest deductions, and there are very generous expensing and depreciation rules. And, non-corporate taxpayers with qualified business income from passthrough entities may be entitled to a special deduction.

Despite these major changes, the time-tested approach of deferring income and accelerating deductions to minimize taxes still works for many taxpayers, along with the tactic of "bunching" expenses into this year or the next to get around deduction restrictions.

To assist you in developing year-end tax planning strategies for your clients, Checkpoint® expert editors have analyzed current tax rules to identify the unique opportunities and challenges facing taxpayers in 2019. This special report provides two checklists of actions that can reduce tax liability for this year and in the years to come — one for individuals and one for businesses and business owners.

Checklist of Tax-Planning Moves for Individuals

This checklist of actions may help individual taxpayers reduce their tax liability if they act before year-end.

The following is a checklist of actions based on current tax rules that may help individual taxpayers reduce their tax liability if they act before year-end.

- Higher-income earners must be wary of the 3.8% surtax on certain unearned income. The surtax is 3.8% of the lesser of: (1) net investment income (NII), or (2) the excess of modified adjusted gross income (MAGI) over a threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case). As year-end nears, a taxpayer's approach to minimizing or eliminating the 3.8% surtax will depend on his estimated MAGI and NII for the year. Some taxpayers should consider ways to minimize (e.g., through deferral) additional NII for the balance of the year, others should try to see if they can reduce MAGI other than NII, and still other individuals will need to consider ways to minimize both NII and other types of MAGI.
- The 0.9% additional Medicare tax also may require higher-income earners to take year-end actions. It applies to individuals for whom the sum of their wages received with respect to employment and their self-employment income is in excess of a threshold amount ($250,000 for joint filers, $125,000 for married couples filing separately, and $200,000 in any other case). Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income. Self-employed persons must take it into account in figuring estimated tax. There could be situations where an employee may need to have more withheld toward the end of the year to cover the tax. For example, if an individual earns $200,000 from one employer during the first half of the year and a like amount from another employer during the balance of the year, he or she would owe the additional Medicare tax, but there would be no withholding by either employer for the additional Medicare tax since wages from each employer don't exceed $200,000.
- Long-term capital gain from sales of assets held for over one year is taxed at 0%, 15%, or 20%, depending on the taxpayer's taxable income. The 0% rate generally applies to the excess of long-term capital gain over any short-term capital loss to the extent that it, when added to regular taxable income, is not more than the "maximum zero rate amount" (e.g., $78,750 for a married couple). If the 0% rate applies to long-term capital gains a taxpayer recognized earlier this year — for example, a joint filer who made a profit of $5,000 on the sale of stock bought in 2009, and other taxable income for 2019 is $70,000 — then before year-end, the taxpayer should try not to sell assets yielding a capital loss because the first $5,000 of such losses won't yield a benefit this year. And, if a taxpayer has assets that would yield long-term capital gains, they should consider selling enough of them to generate long-term capital gains sheltered by the 0% rate.
- Individuals should postpone income until 2020 and accelerate deductions into 2019 if doing so will enable the taxpayer to claim larger deductions, credits, and other tax breaks for 2019 that are phased out over varying levels of adjusted gross income (AGI). These include deductible IRA

contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2019. For example, that may be the case where a person will have a more favorable filing status this year than next (e.g., head of household versus single filing status), or expects to be in a higher tax bracket next year.

- Individuals interested converting a traditional IRA to a Roth IRA should consider converting traditional IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA in 2019 if eligible to do so. Keep in mind, however, that such a conversion will increase AGI for 2019, and possibly reduce tax benefits tied to AGI or MAGI.
- It may be advantageous to try to arrange with an employer to defer, until early 2020, a bonus that may be coming a client's way. This could cut as well as defer tax liability.

It may be advantageous to try to arrange with an employer to defer, until early 2020.

- Many taxpayers won't be able to itemize because of the high basic standard deduction amounts that apply for 2019 ($24,400 for joint filers, $12,200 for singles and for marrieds filing separately, $18,350 for heads of household), and because many itemized deductions have been reduced or abolished. No more than $10,000 of state and local taxes may be deducted; miscellaneous itemized deductions (e.g., tax preparation fees and unreimbursed employee expenses) are not deductible; and personal casualty and theft losses are deductible only if they're attributable to a federally declared disaster and only to the extent the $100-per-casualty and 10%-of-AGI limits are met. Taxpayers can still itemize: medical expenses, but only to the extent they exceed 10% of adjusted gross income; state and local taxes up to $10,000; charitable contributions; and interest deductions on a restricted amount of qualifying residence debt. These deductions won't reduce tax liability if they don't cumulatively exceed the standard deduction amount that applies to your client's filing status.

  Some taxpayers may be able to work around these deduction restrictions by applying a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, if a taxpayer knows they will be able to itemize deductions this year but not next year, the taxpayer could benefit by making two years' worth of charitable contributions this year, instead of spreading out donations over 2019 and 2020.
- Individuals could consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase 2019 deductions even if the credit card bill is paid in 2020.

Individuals could consider using a credit card to pay deductible expenses before the end of the year.

- If your client expects to underwithhold state and local income taxes and will be itemizing in 2019, consider increasing withholding of these taxes (or making estimated payments) before year-end to pull the deduction of those taxes into 2019. But remember - state and local tax deductions are limited to $10,000 per year, so this strategy is not a good one to the extent it causes a client's 2019 state and local tax payments to exceed $10,000.
- Individuals should be sure to take required minimum distributions (RMDs) from their IRA or 401(k) plans (or other employer-sponsored retirement plans). RMDs from IRAs must begin by April 1 of the year following the year an individual reaches age 70½. (That start date also applies to company plans, but non-5% company owners who continue working may defer RMDs until April 1 following the year they retire.) Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Thus, if your client will turn age 70½ in 2019, they can delay the first required distribution to 2020, but if they do, they will have to take a double distribution in 2020 — the amount required for 2019 plus the amount required for 2020. Think twice before delaying 2019 distributions to 2020, as bunching income into 2020 might push a taxpayer into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2020 if the taxpayer will be in a substantially lower bracket that year.
- Clients that are age 70½ or older by the end of 2019, have traditional IRAs, and particularly those that can't itemize deductions, should consider making 2019 charitable donations via qualified charitable distributions from their IRAs. Such distributions are made directly to charities from the IRAs, and the amount of the contribution is neither included in gross income nor deductible on Schedule A, Form 1040. But the amount of the qualified charitable distribution reduces the amount of the taxpayer's required minimum distribution, which can result in tax savings.

- Clients that are younger than age 70½ at the end of 2019 and do not have a traditional IRA, should establish and contribute as much as they can to one or more traditional IRAs in 2019, if they anticipate that in the year that they turn 70½ and/or in later years they will not itemize deductions. Clients that already have one or more traditional IRAs, should consider making maximum contributions to one or more traditional IRAs in 2019. Then, when those clients reach age 70½, they can make charitable donations by way of qualified charitable distributions from the IRA, as described above. Doing all of this will allow the client to, in effect, convert nondeductible charitable contributions made in the year they turn 70½ and later years, into deductible-in-2019 IRA contributions and reductions of gross income from distributions from the IRAs in those later years.
- Individuals who are facing a penalty for underpayment of estimated tax and do not have the option of an employer increase withholding can take an eligible rollover distribution from a qualified retirement plan before the end of 2019. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2019. The taxpayer can then timely roll over the gross amount of the distribution, i.e., the net amount received plus the amount of withheld tax, to a traditional IRA. No part of the distribution will be includible in income for 2019, but the withheld tax will be applied pro rata over the full 2019 tax year to reduce previous underpayments of estimated tax.
- Review with your clients the amount set aside for next year in their employer's health flexible spending account (FSA) to ensure they're able to fully utilize these amounts in 2020.
- A taxpayer that becomes eligible in December 2019 to make health savings account (HSA) contributions can make a full year's worth of deductible HSA contributions for 2019.
- The annual gift tax exclusion applies to gifts of up to $15,000 made in 2019 to each of an unlimited number of individuals. Taxpayers can't carry over unused exclusions from one year to the next. Making gifts sheltered by the annual gift tax exclusion before the end of the year may save gift taxes and avoid having to file a gift tax return. Such transfers may also reduce overall family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.
- Clients in a federally declared disaster area who suffered uninsured or unreimbursed disaster-related losses, can choose to claim these losses either on the return for the year the loss occurred (in this instance, the 2019 return normally filed next year), or on the return for the prior year (2018).
- Clients in a federally declared disaster area may want to settle an insurance or damage claim in 2019 in order to maximize this year's casualty loss deduction.
- To reduce 2019 taxable income, taxpayers can consider deferring a debt-cancellation event until 2020 if possible.

Checklist of Tax-Planning Moves for Businesses and Business Owners

Taxpayers may be able to achieve significant savings with various deductions.

- Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2019, if taxable income exceeds $321,400 for a married couple filing jointly, $160,700 for singles and heads of household, and $160,725 for marrieds filing separately, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased in–for example, the phase-in applies to joint filers with taxable income between $321,400 and $421,400 and to single taxpayers with taxable income between $160,700 and $210,700.

  Taxpayers may be able to achieve significant savings with respect to this deduction, by deferring income or accelerating deductions to be below these thresholds (or be subject to a smaller phaseout of the deduction) for 2019. Depending on their business model, a taxpayer also may be able increase the new deduction by increasing W-2 wages before year-end. The rules are quite complex, so tax advisors play a significant role in year-end tax planning for those business owners looking to claim this deduction.

- More small businesses can use the cash (as opposed to accrual) method of accounting in than were allowed to do so in earlier years. To qualify as a "small business" for this purpose a taxpayer must, among other things, satisfy a gross receipts test. For 2019, the gross-receipts test is satisfied if, during a three-year testing period, average annual gross receipts don't exceed $26 million (the dollar amount was $25 million for 2018, and for earlier years it was $5 million). Cash method taxpayers may find it a lot easier to shift income, for example by deferring invoice payment deadlines until next year or by accelerating expenses, for example, paying bills early or by making certain prepayments.
- Businesses should consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2019, the expensing limit is $1,020,000, and the investment ceiling limit is $2,550,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. The generous dollar ceilings that apply this year mean that many small and medium-sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full (if the taxpayer is otherwise eligible to take it) regardless of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2019, rather than at the beginning of 2020, can result in a full expensing deduction for 2019.
- Businesses also can claim a 100% first-year bonus depreciation deduction for machinery and equipment — bought used (with some exceptions) or new—if purchased and placed in service this year. The 100% deduction is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the deduction is available even if qualifying assets are in service for only a few days in 2019.

Businesses can claim a 100% first-year bonus depreciation deduction for some machinery and equipment.

- Businesses may be able to take advantage of the de minimis safe harbor election (also known as the book-tax conformity election) to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500. Where the UNICAP rules aren't an issue, consider advising clients to purchase such qualifying items before the end of 2019.
- A corporation (other than a "large" corporation) that anticipates a small net operating loss (NOL) for 2019 (and substantial net income in 2020) may find it worthwhile to accelerate just enough of its 2020 income (or to defer just enough of its 2019 deductions) to create a small amount of net income for 2019. This will permit the corporation to base its 2020 estimated tax installments on the relatively small amount of income shown on its 2019 return, rather than having to pay estimated taxes based on 100% of its much larger 2020 taxable income.
- To reduce 2019 taxable income, review each client's passive activity portfolio and consider whether disposing of a passive activity in 2019 will allow the client to deduct suspended passive activity losses.

For more tax savings tips, order the full report at

https://store.tax.thomsonreuters.com/accounting/c/Tax-Saving-Moves-For-The-Rest-of-2019/p/100211087.

Thomson Reuters

Thomson Reuters is a leading provider of business information services. Our products include highly specialized information-enabled software and tools for legal, tax, accounting, and compliance professionals combined with the world's most global news service – Reuters. For more information on Thomson Reuters, visit **tr.com** and for the latest world news, **reuters.com**.

Checkpoint Edge™

Checkpoint Edge is the next generation of our Checkpoint research and guidance tool for tax and accounting professionals. It delivers the latest in artificial intelligence, cognitive computing, and machine learning technologies, combined with the tax and accounting expertise of our editorial staff. It enables you to find fast, accurate answers with a more fluid and intuitive user experience. Learn more at **tax.tr.com/en/checkpoint/edge**.

UltraTax CS®

Thomson Reuters UltraTax CS professional tax software automates your entire business or individual tax workflow and delivers powerful, timesaving tools. You'll access a full line of federal, state, and local tax programs including 1040 individual, 1120 corporate, 1065 partnership, 1041 estates and trusts, multi-state returns, and more. UltraTax CS seamlessly integrates with other Thomson Reuters solutions, including CS Professional Suite® and Onvio® cloud software so you never lose any billable hours to manual processing. Meet all of your tax workflow needs with a customized, end-to-end solution built on cloud computing, advanced data sharing, and paperless processing. To learn more, visit **tax.tr.com/ultrataxcs**.

Contact us today: http://thomsonreuters.com/contact-us/

The intelligence, technology and human expertise you need to find trusted answers.

the answer company™
THOMSON REUTERS®

TR894885_10/2019_DGM