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Dear Clients and Friends,

As you are aware, there were a historic number of changes to the tax laws beginning in 2018. The changes in 2019 are significantly less in number but the IRS has provided additional guidance and clarification allowing a better understanding of some of the 2018 law changes. There are still steps to take in late 2019 to boost your refund or reduce the amount to tax due. Contact us to help you do so.

We thank both our new and returning clients for continuing to use us for their tax, consulting, and accounting needs. We value working with each of you. We strive to provide the best professional services to you in a timely manner. We wanted to let you know how much we appreciate your confidence in us. Thank you so much!

Changes for 2019

Most of these changes were part of the Tax Cuts and Jobs Act (TCJA) which took effect in 2018 but were delayed until 2019.

- The standard deduction increases for all taxpayers. It is $24,400 for those married filing jointly, $12,200 for a single individual and those married filing separately, and $18,350 for head of household. For those taxpayers over age 65 or blind, there is an additional standard deduction of $1,300 each if married or $1,600 if single. This means the standard deduction for a married couple who are both over age 65 is $27,000.
- For those that still itemize, the threshold for deducting medical expenses jumps to 10% of adjusted gross income from 7.5%.
- The deduction for IRA contributions increases to $6,000 annually (previously $5,500).
- There is no longer a penalty for failing to have health insurance coverage under the Affordable Care Act.
- The health premium tax credit for those on the health care exchanges is still in effect. No credit is available (or you will have to pay back any credit received) if your household income exceeds $48,560 if single or $100,400 for a family of four.
- For divorce and separation agreements entered into after December 31, 2018, alimony or separate maintenance payments are no longer deductible by the payor nor includible in the income of the payee. This change does not affect those agreements entered into before 2019 as they are grandfathered to retain prior tax law treatment of deduction to the payor and income to the payee. If your pre-2019 divorce agreement has been modified, it may change the tax consequences to both parties.

Reviewing most important 2018 Tax Law changes

- The itemized deduction for taxes paid is limited to $10,000 annually.
- The itemized deduction for miscellaneous expenses such as unreimbursed employee business expenses for office in the home and mileage, investment expenses, and professional dues and licenses is eliminated.
- Casualty losses are no longer deductible unless attributable to a federally declared disaster area.
- Increase in the child tax credit to $2,000 for qualified dependents under the age of 17. The phase-out income limitation (previously $110,000 for joint filers and $75,000 for others) increased to $400,000 for joint filers and $200,000 for others resulting in more taxpayers qualifying for the credit.
- A $500 credit for dependents other than qualifying children, such as relatives and other dependents.
- Section 529 plans can distribute up to $10,000 annually to fund public, private, or religious elementary or secondary school tuition.
- A deduction for the self-employed and pass-through businesses. See below.
- Entertainment expenses are no longer deductible. Business meals are still deductible at 50%.
- Immediate write-off of the total cost of business assets other than real estate and most vehicles (some vehicles can qualify).
- The IRS projects that some taxpayers will have insufficient tax withholdings due to changes in their tax situation.

Traditional Year-End Considerations

A number of traditional year-end tax planning strategies may be helpful in maximizing tax savings, depending upon your overall tax situation anticipated for the rest of 2019 and estimated for 2020. These include:

1. Take full advantage of retirement plan deductions including 401(k) plan, 403(b), IRA, and SEP contributions.
2. For those that are close to the standard deduction amount (as described earlier in this letter), consider bunching itemized deductions into 2019 (see items 3-5 below) and taking the standard deduction in 2020 or vice versa. Itemizing every other year can reap tax benefits. This is known as a "bunching strategy".
3. Donate to charity before the year end if you will itemize deductions. Utilizing a 'donor advised fund' is gaining popularity. A donor advised fund allows you to make a large donation to the fund in one year and obtain that deduction in that year. In subsequent years, you choose to make your charitable contributions out of the fund (there is no deduction in the subsequent year as you obtained a deduction in a prior year). Remember, donations to individuals, social clubs, political groups, or foreign organizations are not deductible.
4. Donate non cash goods before year end. If the total is over $500, special reporting requirements are required (see our website for assistance with valuation of these items).
5. Accelerate payment of other itemized deductions.
    a. If a property tax payment is not due until early next year consider paying before year end (most escrow accounts do this for you).
    b. Make January state estimated tax payments in December.
    c. Making your January mortgage payment in December accelerates the mortgage interest deduction. Make it early enough so that your mortgage lender reports it in the 2019 Form 1098.
    d. If you have high medical and dental expenses, pay any bills before the end of the year. This only applies if your total medical expenses will be more than 10% of your adjusted gross income and you itemize. If you have nursing home or assisted living costs, consider prepaying some of the 2020 amount.
6. Payment by credit card of expenses including those items listed in items 3-5 above results in the deduction at the time of the credit card charge, not the later payment of the credit card bill.
7. If you have capital gains, consider selling stocks that have losses to offset capital gains if it is economically prudent to do so.
8. Defer income (including bonuses, consulting income, and self-employment income) into the next year if possible. Especially if you anticipate being in a lower tax bracket in 2020.
9. Accelerate business deductions if you want to reduce net income.
10. Pay college tuition before year end if you have not reached the maximum allowed for deductions and credits.
11. Make sure you have taken any required minimum distributions (RMDs) from retirement plans if you are over 70½. The penalty is onerous.
12. If you are over 70½, consider making a qualified charitable contribution (QCD) from your IRA of all or a portion of your RMD. It allows a tax-free distribution of up to $100,000 per individual and can result in other federal and state tax benefits.
13. If you believe a Roth IRA is better than a traditional IRA, consider Roth conversions.
14. Consider additional contributions to your Health Savings Account if you have a high deductible health plan. Married couples who both are over age 55 may each make an additional $1,000 contribution to their separate HSAs.
15. If you have a gifting strategy, make sure all gifts are made before the year end. An individual can gift $15,000 tax free to each recipient annually.
16. **Consult us**. Many of these strategies can be complicated.
    a. Selling losing stocks may not be a good strategy depending upon numerous other factors. Some of these factors are your capital gains tax rate, expectations for the stock in the future, etc.
    b. If you expect to earn more next year, accelerating deductions and postponing income may not save you money depending upon your tax bracket and more. You may want to do the opposite.
    c. See number 10. Depending upon your income you may not qualify for education credits or deductions.

Deduction for Self-employed and Pass-through Businesses (Qualified Business Income Deduction – QBID)

Beginning in 2018, the TCJA creates a deduction for owners of sole-proprietorships (those filing a schedule C or F) and pass-through entities such as partnerships, S corporations, qualifying limited liability companies, and a rental real estate enterprise. The deduction generally equals 20% of qualified business income. There is no deduction if the combination of these activities result in a loss for the year. A rental real estate enterprise is defined as an interest in real property held for production of rents. It may consist of a single or multiple properties. Residential and commercial real estate cannot be part of the same enterprise. The owner must keep separate books and records, perform 250 or more hours of rental services, and maintain contemporaneous records for each enterprise. There are very specific requirements to qualify and not all tasks performed count as "rental services". Generally, triple net leases cannot qualify for this deduction.

There are several limitations to this deduction if you have certain circumstances:

- The deduction cannot exceed 20% of taxable income.
- The deduction can be reduced if taxable income exceeds $321,400 on a joint return and $160,700 on other returns.
- The deduction is eliminated for professional practices (other than engineering and architecture) and investment-type services if taxable income exceeds $421,400 on a joint return and $210,700 on other returns.

Identity Theft and IRS Issues

While not as big of a concern as recent years due to implemented verification procedures, identity theft is still a concern. Please protect your identity in all aspects of your life and contact us immediately if you believe there is an issue with your returns or you believe you are a victim of identity theft. **Remember, the IRS does not contact taxpayers by email or telephone. Emails and phone calls purportedly from the IRS are scams. If in doubt, contact us.** That being said, Congress has authorized collection agencies to contact taxpayers, which most of the time will be by phone. You are not required to provide them with any information. If you receive correspondence from the IRS or your state taxing agency, please open it immediately and contact us. Don't put it aside. The requested response time can be anywhere from 10-30 days. Our experience is that many times the information that the IRS or state has obtained independently is incorrect. We can generally respond on your behalf with no additional tax due.

Our office continues to implement up to date measures for security and identity theft protections.

Capital Gains/Dividends, AMT, Net Investment Income Tax and More

The tax rate on net capital gain is no higher than 15% for most taxpayers. Net capital gain may be taxed at 0% for taxpayers in the 10% or 12% ordinary income tax brackets (taxable income less than $39,375 for single and married filing separately; $78,750 for married filing jointly or qualifying widow(er); and $52,750 for head of household). Consequently, taxpayers in this situation can sell stock at a gain and buy the same stock back immediately with no tax due as long as the gain does not push them into the higher tax bracket. However, a 20% rate on net capital gain applies to the extent that a taxpayer's taxable income exceeds $434,550 for single; $488,850 for married filing jointly; $461,700 for head of household, and $244,425 for married filing separately). The 3.8% net investment income tax may also apply for some taxpayers.

Keep in mind the "wash sale rules" when reviewing year-end capital gains and dividends. Wash sales are sales of stock or securities in which losses are realized, but not recognized for tax purposes, because the seller acquires substantially identical stock or securities within 30 days before or after the sale. Nonrecognition, however, applies only to losses; gains are recognized in full.

The Net Investment Income Tax (NIIT) is a 3.8% tax that is applied to investment income (dividends, interest, rental income, etc.) and capital gains for earners above certain threshold amounts ($200,000 for single filers and $250,000 for married taxpayers filing jointly). Business income is not considered subject to the NIIT provided the individual business owner materially participates in the business. Perhaps there is planning here to avoid or mitigate the tax.

Other

Life Events: Marriage, death of a spouse, the birth or adoption of a child, retirement, a new job, loss of a job, the purchase of a new residence, a change in filing status, and other life events impact year-end tax planning. Sometimes timing matters.

We urge everyone to review their IRA beneficiary forms to make sure that they are up-to-date. Please be aware that upon your death the IRA beneficiary form controls where the IRA goes, not your will or trust, so making sure these forms are accurate is essential. We have seen instances after death where the IRA funds went to the unintended divorced spouse or an undeserving family member because these forms were not changed. The result was not the one intended by the deceased. In order to "stretch" your IRA payouts, your IRA needs to have a designated beneficiary. Beneficiary forms for all retirement plans and life insurance policies should also be reviewed.

IRAs: There are strict restrictions on moving money between IRA accounts. Account-to-account transfers are unlimited. Taking distributions yourself and redepositing the funds (known as rollovers) can only be done once in a 12-month period no matter how many IRAs that you have.

Underpaid taxes: If you believe that you are underpaid in federal or state income taxes, consider increasing your withholdings for the rest of the year to avoid or lessen any potential underpayment penalties. If you are not subject to withholdings, increase your remaining estimated tax payments.

Michigan: The Michigan exemption amount increased to $4,400 for 2019 and will be $4,750 in 2020.

Charitable deductions: As we head into the holiday giving season, please know that all cash donations to charity must be documented – no exceptions. You do not necessarily have to provide all supporting documents to us, but you must have them in your files. You are no longer allowed any write-offs for contributions of cash or other monetary gifts unless you retain either a bank record such as a canceled check, or a written statement from the charity. For donations of over $250, the canceled check is not enough – you must have the statement from the charity prior to the filing of your tax return. Also, for clothing and household item donations to Goodwill, Salvation Army, and other charities, please create an itemized list and value each item. This is the documentation the IRS requires. We can provide guidance on values (visit our website for assistance with these values). Items donated to charity must be in "good or better" condition.

Mileage Rates: The 2019 standard mileage rate for business miles is $.58 per mile. The medical mileage rate for 2019 is $.20 and for charitable miles it is $.14. The IRS requires good records to substantiate your mileage deductions. There is no substitute for a mileage log to prove business miles driven. The simplest log is to record your miles on your calendar or utilize a phone app. Charitable mileage is also deductible including those trips to volunteer at church, school, food pantry, thrift store, or a non-profit organization. Medical miles to the doctor or pharmacy are also deductible, if you qualify for a medical deduction.

Office in home deduction: There are two methods to choose from. Under the simplified method, the taxpayer can deduct $5 per square foot annually for no more than 300 square feet for a maximum deduction of $1,500 under this method. You can use the deduction of tracking actual expenses if that method is more advantageous for you.

Businesses: *Meals*– make sure to document time, place, amount, business purpose, and who you met with for each expense. Meals provided to employees for the convenience of employer (such as when they work overtime) are 50% deductible. The IRS always reviews these expenses in an audit. *Inventory* – You must count the inventory once a year – as of December 31 if that is your year-end. It is an IRS requirement. *Assets* – Immediate write-off of total cost of most non-real estate assets. *Vehicles* – If you deduct actual vehicle expenses rather than the cents-per-mile method and you are contemplating the purchase of a vehicle before year-end, depending on the size of the vehicle, you may be able to deduct the entire amount in 2019 for certain large vehicles.

Foreign Bank and Brokerage Accounts: This does not apply to foreign investments held in US brokerage accounts. If you have any foreign trust, bank and/or brokerage accounts with a combined value greater than $10,000 on **any day of the year**, or you hold specific foreign financial assets (excluding land) greater than $50,000 at the end of the tax year, you are required to report them. The IRS concentrates resources in this area, and the penalty for failure to file the form can be the greater of $100,000 or 50% of the account balance. Also, be sure to tell us about any income generated by these accounts, even if you did not receive a 1099.

Social Security Earnings Statements: We recommend that every year or two you review the earnings that Social Security has on file for you. It is much easier to correct any errors now rather than many years later at retirement. Go to www.ssa.gov and set up an account. It will allow you to verify your earnings and get an estimate of your future benefits (and much more).

Conclusion

This letter is meant to summarize the most common tax law changes and planning items, but it cannot cover everything. If you are aware of a provision that affects you, please contact our office to discuss the effects on your personal tax and financial situation. Sometimes tax planning involves avoiding surprises when taxes are due in April. If you have unusual transactions to report for 2019, give us a call soon so that we can make sure you are prepared and have done all you can in 2019 to help your tax situation.

Our 2019 tax organizer will arrive in January. Returning clients will receive a personalized organizer which will contain information from last year's return. We hope the organizer will make it easier to collect this year's information. New clients will receive a generic organizer for their use.

For more details about the year-end planning ideas we have discussed, and to review other strategies, please contact our office. Together, we can create a customized 2019 year-end tax strategy tailored to you.

In the meantime, have a wonderful Holiday Season! We look forward to hearing from you soon.

Doug and associates