Hettick
Accounting & Tax, LLC

# 2019 Year-End Tax Planning for Individuals

Dear Client:

As the end of 2019 approaches, more and more information and guidance is released by the IRS relating to the Tax Cuts and Jobs Act, as well as guidance relating to a number of different areas not impacted by the landmark tax reform act. While one of the claimed benefits of tax reform was the simplification of filing and the lowering of income tax rates, there are still many steps that individuals can take that can lower their tax bills. Planning during the final weeks and months of this year involves much more –both in terms of traditional year-end strategies and strategies developed in response to developments that have taken place over the last couple of years. Here are some points to consider:

**Data gathering.** Year-end planning should start with data collection and a review of prior year returns. This includes information on losses or other carryovers, estimated tax installments, and items that were unusual. Conversations regarding next year should include discussions of any plans for significant purchases or dispositions, as well as any possible life cycle events.

**Income tax rates.** One of the most significant factors in tax planning for individuals is their tax bracket. The most direct control taxpayers have over their tax bracket rests in their ability to control the timing of income and deductible expenses. For example, taxpayers who expect to be in a lower tax bracket in 2020 should consider deferring income to 2020 and accelerating deductions into 2019. While tax brackets seem as though they will be relatively stable for the next few years, individual circumstances could mean a shift in brackets from year to year.

**Investments.** Taxpayers holding investments, whether in the form of securities, real estate, collectibles, or other assets, often have an opportunity to reduce their overall tax bill by some strategic buying and selling toward the end of the year, as well as, exchanging appreciated assets for like-kind property in order to defer gains. Tax rates on investments are also impacted by the total amount of your income, so a determination should be made of the best time to sell investments. Balancing tax considerations with other factors is part of the challenge in dealing with investments, including: the ordinary income tax rates, the net investment income tax rate, the capital gain rates, and the alternative minimum tax (AMT).

**Income caps on benefits.** Monitoring adjusted gross income (AGI) at year-end can also pay dividends in qualifying for a number of tax benefits. Often tax savings can be realized by lowering income in one year at the expense of realizing a bit more in another year.

**Life events.** The biggest variables for many taxpayers impacting their year-end tax planning surrounds life events such as marriage, divorce, birth or adoption of a child, a new job or the loss of a job, and retirement. These life events may, for instance, result in a change in filing status that will affect tax liability. The possibility of significant changes and/or significant or unusual items of income or loss should also be part of a year-end tax strategy. Additionally, taxpayers need to take a look into the future and predict, if possible, any events that could trigger significant income, losses, or deductions.

**2019 tax law changes.** Nearly all of the provisions of TCJA came into effect during 2018. However, there are many new tax laws that came into effect in 2019 that individuals should be aware of.

- ***Alimony.*** One very significant change that came into effect January 1, 2019, is the treatment of alimony. Beginning with divorces 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 divorce or separation agreements entered into before 2019, nor those altered after 2018 where the changed method of taxation is not expressly stated to apply.

- ***Medical expenses.*** The floor for claiming deductions for medical expenses increased to 10 percent for 2019 after TCJA lowered it to 7.5 percent for all taxpayers for two years.

Remember that the below significant changes came into effect in 2018 under TCJA:

- ***State and local taxes.*** TCJA limits the deduction for state and local taxes to $10,000 per year.
- ***Increased standard deduction.*** One of the most broadly impactful provisions of TCJA was the near doubling of the standard deduction for all taxpayers. For 2019, the standard deduction amounts are $24,400 for joint filers, $18,350 for heads of households, and $12,200 for all other individual filers. This increased amount makes it less likely that it is more advantageous for individuals to itemize deductions.
- ***Miscellaneous itemized deductions.*** TCJA eliminated miscellaneous itemized deductions for individuals. This includes deductions for unreimbursed employee expenses.

There are still actions that can be taken with regard to all of these new rules, many of which can still be completed before the end of the year.

**Withholding.** TCJA significantly impacted employee withholding, and taxpayers who didn't adjust it in 2018 found themselves with a large tax bill when filing returns in 2019. The IRS gave some relief from penalties for not withholding enough during 2018, but it is unlikely to do so again for 2019. There is still time at the end of 2019 to check withholding status and correct it, but only if action is taken quickly.

**Timing rules.** Timing, and the skilled use of timing rules to accelerate and defer certain income or deductions, is the linchpin of year-end tax planning. For example, timing year-end bonuses or year-end tax payments, or timing sales of investment properties to maximize capital gains benefits should be considered. So, too, sometimes fairly sophisticated "like-kind exchange," "installment sale" or "placed in service" rules for business or investment properties come into play. In other situations, however, implementation of more basic concepts is just as useful.

For example, taxpayers can write a check or can charge an item by credit card and treat these actions as payments. It often does not matter for tax purposes when the recipient receives a check mailed by the payor, when a bank honors the check, or when the taxpayer pays the credit card bill, as long as done or delivered "in due course."

Please feel free to call our offices if you have any questions about how year-end tax planning might help you save taxes. Our tax laws operate largely within the confines of "the tax year." Once 2019 is over, tax savings that are specific to this year may be gone forever.

Sincerely,

Hettick Accounting & Tax LLC