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Caring About Your Business... Is Our Business

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Fall Notes:

There's no doubt that 2019 has been our busiest year ever – we had a new tax bill that went into effect on January 1st, and it brought many changes to the tax code. Some changes were popular like the phasing out of the Alternative Minimum Tax and the Section 199(a) deduction. Others not so much, like the $10,000 cap on State and Local Income Taxes. More changes are sure to come in 2019, from the IRS, the courts and Congress. With the two parties holding differing views on taxes, it will be a very turbulent year. We'll keep you apprised of any new developments via our newsletter and updates on our web site.

The CPA's in our practice continue to shine. Jeff who's been with us for 28 years, is our resident individual and multi-state tax expert, quietly working behind the scenes ensuring the timely completion of your personal tax returns. Ellen has been here for 27 years and absolutely nails it on the corporate and entity tax side. In addition, she has developed a deep knowledge base when it comes to individual tax issues. Mike is our newest hire (about 5 years ago) and brings big firm experience to our local practice. Mike's knowledge of accounting software helps solve client issues before they can become problems. Finally Robin, is our bookkeeper extraordinaire. Robin is constantly visiting our client sites to help prepare up-to-date Quickbooks reports.

This issue of our summer newsletter address two topics that have drawn the most questions this year: Tax credits for educational spending and a myriad of tax changes taking place during 2019. We hope you enjoy reading and we welcome any of your questions.

Educational Credits:

There are two main tax credits available. The American Opportunity Tax Credit, primarily for the first four years of college, and The Lifetime Learning Credit, used primarily for post-graduate education.

➤ The American Opportunity Tax Credit

The American Opportunity Tax Credit (AOTC) is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. A maximum annual credit of $2,500 is available per student. The amount of the credit is 100% of the first $2,000 of qualified education expenses and 25% of the next $2,000. The student must be pursuing a degree and be enrolled at least half-time for the academic period, and is in their first four years. To claim the credit, your AGI must not be over $180,000 (joint), or $90,000 (single). Eligible expenses include: tuition & fees, room & board, books & computers. The AOTC cannot be combined with the Lifetime Learning Credit.

➤ The Lifetime Learning Credit

The Lifetime Learning Credit (LLC) is a tax credit for qualified tuition and related expenses paid for eligible students generally enrolled in graduate and professional degree courses. You can claim the credit for any post-secondary classes you take; you don't have to be working towards a degree. There is no limit on the number of years you can claim the credit. The maximum annual credit is $2,000 per year, per student. The amount of the credit is 20% of the first $10,000 of qualified educational expenses (or a maximum of $2,000 per year). To claim the credit your AGI must not exceed $136,000 (joint), or $68,000 (single).

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➤ 529 Plans

529 savings plans are state sponsored educational plans which let your earnings escape federal and state taxes completely if the proceeds are used for qualified college expenses. What are these qualified educational expenses? Tuition & fees, room & board, and computers & software. Most states also offer a tax deduction for contributions. There are no income limits on contributions to 529 plans and funding limits are very, very high.

You cannot claim the AOTC in the same year you claim the LLC. The IRS only allows one tax credit per student, per year. However, before claiming the LLC, you should determine whether you qualify to take the AOTC. For most students who are in one of their first four years of college, the AOTC can provide greater tax savings since the maximum credit is $2,500.

2019 Tax Law Changes:

- The threshold for deducting medical expenses as an itemized expense on Schedule A jumps from 7.5% of Adjusted Gross Income, to 10%.
- The 2019 standard deductions are higher. Married couples get $24,400, and an additional $1,300 for each spouse age 65 or older. Singles may claim $12,200, plus $1,650 for age 65 or older. Head of households get $18,350, plus $1,650 upon age 65 or older.
- Tax rates on long-term capital gains and qualified dividends have not changed. But please take note that the -0-% rate applies for individual taxpayers with taxable income up to $39,375 and couples with taxable income up to $78,750. One other item: the 3.8% surtax on investment income kicks in for single individuals with AGI over $200,000 and couples with over $250,000. A very stealthy tax indeed…
- Alimony paid under post-2018 divorce agreements is not deductible, and ex-spouses aren't taxed on alimony they get under post-2018 agreements.
- The gift tax exclusion rises to $15,000 during 2019.
- Many limits on retirement plans are higher for 2019. The 401(k) maximum deduction rises to $19,000.00. The catch-up adjustment for those age 50 or older is $6,000.00. These limits apply to 457 and 403(b) plans as well. The limit for SIMPLE plans rises to $13,000.00. Individuals 50 or over can contribute an additional $3,000.00. Maximum contributions to SEP plans have also increased, to $56,000.
- The income limitations for Roth IRA's rises as well. For couples, their contributions start to phase out at $193,000 and are gone at $203,000. For singles these phase outs are $122,000 to $137,000. Both traditional IRA's and Roth IRA's get a bump to $6,000. Individuals 50 or older can contribute an additional $1,000, for a total of $7,000.
- The Social Security wage base rises to $132,900 for 2019. This is an increase of $4,500 from 2018 levels.
- The 2019 business mileage rate rises to 58 cents per mile. The rate for medical travel rises to 20 cents per mile. Finally, the charitable mileage rate stays at 14 cents per mile.
- For Section 199(a) holders subject to limitations, the phase-out amount starts at $321,400 for marrieds, and $160,700 for others.

Closing:

Tax reform created new rules and regulations that were unfamiliar at best, and often poorly crafted, inconsistent, and confusing. Additionally, CPA's had to deliver a lot of bad news to their clients. Even though tax reform provided relief to some, it generally wasn't felt that way. Many people were paying less in overall taxes in 2018 – yet faced a tax bill or were looking at a much smaller refund when it was time to file, all because of drastic changes in the employer withholding tables. It was a reality check, and many taxpayers had ended up owning money for the first time. The withholding guidance, in most cases, proved to be futile, ultimately misguiding the very people who were accustomed to receiving refunds. In a time of tremendous change, the IRS remains woefully understaffed and underfunded, and was overwhelmed. Our staff spent many hours in continuing education and fully met the challenge. And next tax season promises to be even better…

I also wanted to thank everyone for the many referrals over the past several months – they are very much appreciated. Periodically we carry sports tickets for some of our local teams. Currently we have Maryland Terrapin basketball tickets available. Please let us know if you are interested in attending!!

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