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Dear Tax Client:

It's that time of year again! As we approach the end of 2019, we wanted to remind you of actions you can take prior to December 31 to help reduce your federal tax bill.

INDIVIDUAL TAXES

- Filers who claim itemized deductions have flexibility in shifting write-offs. For example, if you make the January 2020 mortgage payment on your residence before year-end, you can deduct the interest portion in 2019. Accelerate donations planned for 2020 into 2019. And if your 2019 medical costs have topped the 10%-of-AGI threshold or are close to it, think about getting and paying for elective procedures this year.

- Make the most of your generosity when donating to charitable organizations. Contribute appreciated assets, such as stocks or shares in mutual funds. Provided you've owned the property for more than a year, you can deduct its full value in most cases if you itemize. Neither you nor the charity pays tax on the appreciation.

- Don't donate property that has declined in value since you acquired it. If you do, the capital loss is wasted. You're better off selling it, claiming the capital loss on your tax return, and then donating the proceeds to the charity of your choice.

- Use the annual gift tax exclusion. You can give up to $15,000 to each person in 2019 without paying gift tax or tapping your lifetime estate and gift tax exemption. Your spouse can also give $15,000 to the same donee in 2019...a $30,000 tax-free gift. Any unused amount is gone forever. You can't give extra next year to make up for it. Annual gifts over the exclusion amount will trigger filing of a gift tax return for the year. But no gift tax will be due unless your total lifetime gifts exceed $11,400,000.

- Contribute to 529 plans to help your kids or grandkids with their education. You can pay in up to $75,000 in a single year per beneficiary ($150,000 if your spouse joins in). If you put in the maximum, you're treated as gifting $15,000 (or $30,000) to that beneficiary in 2019 and in each of the next four years...2020 through 2023. Such contributions are excluded from your estate as long as you live through the fifth year.

- Heed the timing rules for charitable donations and other tax-deductible items. Put checks in the mail by year-end to lock in a 2019 deduction. For charges made with a bank credit card, you can claim the write-off in the year you charged the expense. The rules differ for nondeductible gifts. If making a gift by check, the recipient must deposit it by Dec. 31 for it to count as a 2019 gift for gift tax purposes.

- With regard to investments, think about selling some poor performers. Capital losses that you incur can offset your capital gains plus up to $3,000 of other income. Any excess losses are then carried over to the next year and can help offset future capital gains.
  - But don't run afoul of the wash-sale rule, which bars a capital loss write-off if you purchase substantially identical securities up to 30 days before or after a sale. Any suspended loss is added to the tax basis of the replacement securities or shares.
  - If you have capital loss carryforwards, cash in on some capital gains. Your net gains...up to the carryover amount...won't be taxed at all. This advantage doesn't apply for Pennsylvania taxes.

- See if you qualify for the 0% rate on long-term gains and qualified dividends. If taxable income other than gains or dividends does not exceed $39,375 for singles $78,750 for joint filers...then dividends and profits on the sales of assets owned for more than a year are taxed at 0% until they push you over the threshold amounts.
  - Some words of caution on the 0% rate: Zero-percent-rate gains and dividends might not be taxed at the federal level, but they do hike adjusted gross income. Also, your state income tax bill may rise, as many states tax gains as ordinary income.

Take steps to limit the sting of the 3.8% surtax on net investment income... taxable interest, dividends, gains, passive rents, annuities, royalties and the like. Singles with modified AGIs over $200,000...$250,000 for couples...could owe the tax. It's due on the lower of net income from investments or the excess of modified AGI over the thresholds. Buying municipal bonds can help keep the surtax at bay. Tax-free interest is exempt from the 3.8% bite and does not affect the owner's AGI

- Pay attention to the required minimum distribution rules for traditional IRAs. People age 70½ and older must take withdrawals by December 31 each year or pay a fine equal to 50% of the shortfall.

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- If you turned 70½ this year, you can delay 2019's payout until April 1, 2020. However, if you choose to delay your 2019 RMD, remember that your 2020 RMD must be taken by December 31, 2020 as well, inflating your 2020 taxable income.

- Charitable donations made directly from a traditional IRA can save taxes. People 70½ and older can transfer up to $100,000 yearly from IRAs directly to charity. If married, you and your spouse can give up to $100,000 each from your separate IRAs. Qualified charitable distributions (QCD) can count as required minimum distributions, but they are not taxable. Because they are not added to your adjusted gross income, they won't trigger a Medicare premium surcharge. Remember, you CANNOT deduct the donation. The IRA-to-charity strategy can be a good way to get tax savings from charitable gifts for taxpayers not able to itemize deductions.

    - The money from the IRA must go directly to a charitable organization. Transfers to a donor-advised fund, charitable gift annuity, charitable remainder trust or any other life-income or split-interest gift arrangement are NOT treated as QCD.

    - You must be at least 70½ on the date of the gift. If you turn 70½ on Dec. 5, for example, you must wait until that day or later to make the transfer to get the break. Make sure you get a receipt from the charity to substantiate the donation.

- Consider whether it's the right time to convert a traditional IRA to a Roth IRA. You will have to pay tax on the converted funds, but once the money is in the Roth, future earnings are tax-free. Present and future tax rates are key in your decision on whether a Roth conversion makes sense. If you expect the tax rate you will pay in retirement to be the same as or higher than the rate on the conversion, then switching to a Roth can pay off taxwise. If your tax rate in retirement will be lower, then tax-free Roth distributions later on could turn out to be less advantageous.

    - You don't need to convert the entire amount to a Roth in one swoop. You can transfer the money in increments over time, and space out the tax hit.

- Think about contributing all or part of your year-end bonus to your 401(k) or another workplace retirement plan if you haven't yet put in the maximum. The 401(k) contribution limit for 2019 is $19,000 ($25,000 if you're age 50 or older). Contributions are pretax (unless Roth contributions), meaning they're not hit with federal income tax or payroll taxes. If you want the extra contribution to count for 2019, it must be done by year-end.

BUSINESS TAXES

- 100% bonus depreciation. Firms can deduct the full cost of qualifying assets, new or used, with lives of 20 years or less, that they buy and place in service this year.

- Expensing is also available. Businesses can expense up to $1,020,000 of new or used business assets. This limit phases out once more than $2,550,000 of assets are placed in service during 2019. Note that the amount expensed can't exceed the business's taxable income. Bonus depreciation doesn't have this rule.

- Buying a new or used passenger auto for your business can lead to tax breaks. If bonus depreciation is claimed, the first-year depreciation cap is $18,100 for vehicles bought after Sept. 27, 2017 and put in use this year. The second- and third-year caps are $16,100 and $9,700. After that…$5,760. If no bonus depreciation is taken, the first-year regular depreciation ceiling ends up falling sharply to $10,100.

- Buyers of heavy SUVs used solely for business can write off the full cost, thanks to bonus depreciation. SUVs must have a gross weight rating over 6,000 pounds. Additionally, up to 100% of the cost of a big pickup truck can be expensed.

- Don't forget about the new 20% deduction for pass-through income. The self-employed and owners of LLCs, S corporations and other pass-through entities can deduct 20% of their qualified business income, subject to limitations for individuals with taxable incomes in excess of $321,400 for couples and $160,700 for others. If you're close to or just above the income limits, consider accelerating deductions or deferring income so that you come in under the dollar thresholds for the year.

- Business owners can shift income and expenses between 2019 and 2020. Professionals can postpone their year-end billings to collect less revenue in 2019, or they can speed them up if they expect to be in a higher tax bracket next year. Firms can juggle their income by shifting some expenses from one year to another. It's easier for cash-method firms to shift income and expenses between years than for taxpayers who've adopted the more complex accrual method of accounting.

Hopefully this letter has provided you with valuable insights to assist in your year-end tax considerations. We at Kotzan CPA & Associates wish you and yours a healthy and safe holiday season. We appreciate the opportunity to serve your tax and accounting needs, and look forward to seeing you soon!

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