TAX TIME 2019

What's New for Filing 2018 Taxes?

Huge Changes to 2018 Returns from "Tax Cuts and Jobs Act"

Most taxpayers will experience a lower federal tax rate and will have a lower federal tax liability. Note that these changes were not adopted by California nor many other states so we will likely need the same information from you that we have always needed. The standard deduction has been almost doubled but the personal exemption has been eliminated. The new law increases the child tax credit to $2,000 per qualifying child from the previous credit of $1,000 per qualifying child. The law also provides a $500 nonrefundable credit for qualifying dependents other than qualifying children. Under the new law, $1,400 of the child tax credit is refundable. The adjusted gross income (AGI) levels at which this credit is subject to phase-out increases from $110,000 to $400,000 for joint filers, and from $75,000 to $200,000 for single filers. Additionally, the earned income threshold for the refundable child tax credit is lowered from $3,000 under current law to $2,500. The deduction for state and local taxes has been capped at $10,000 per year.

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California Earned Income Credit

A credit of as much as $2,879 is now available for wage earners with three children and income as high as $24,950. Smaller credits are available to wage earners without children.

More Than Just Taxes

In addition to preparing tax returns, Gandrud Financial Services offers general bookkeeping, bill-paying, payroll, budgeting, debt-reduction, financial planning, QuickBooks setup, and business consulting services.

We welcome the opportunity to discuss how changes in tax laws impact you and how to minimize your tax liability. Gregory Gandrud graduated with honors in 1982 from the U.S.C. School of Business and is licensed, registered, and bonded. He's been in Carpinteria for over thirty years.

The Affordable Care Act Meets Your Tax Return

Your tax return must show whether you and your dependents were covered by minimum essential health coverage. If you purchased insurance through a Health Insurance Marketplace, you will need a Form 1095-A so that we can reconcile any advance premium credits with your actual credit which is based upon your actual income and household size. Form 1095-B or C from employers is helpful in determining for which months a taxpayer had coverage during the year. A single taxpayer earning up to $48,560 could qualify for a premium tax credit. Taxpayers with larger household sizes could earn more and still receive the credit. failure to maintain appropriate coverage may result in a shared responsibility payment of the higher of the total annual premium of the national average price of the bronze plan sold through the marketplace, 2.5% of your yearly "Household Income", or $695 per adult (maximum $2085 per family). For 2019 returns, the Tax Cut and Jobs Act repealed this payment.

California Renter's Credit

California provides up to $120 credit for people earning less than $83,282 ($60 for singles earning less than $41,641).

Mileage Rate Accelerates

The standard business mileage rate rose to 54.5 cents/ mile. The charitable rate stayed at 14 cents/mile. The medical and moving rates rose to 18 cents/mile.

Long-Term Gains and Dividends

The maximum capital gains rate for higher-income people is 20%. These individuals can also face the 3.8% Medicare surtax on investment income, which can result in a maximum 23.8% Federal tax rate on long-term gains and dividends.

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Checklist of Itemized Deductions

Please scan this partial list for overlooked deductions:

Medical & dental costs which, in total, exceed 7.5% of Adjusted Gross Income including:

- Prescription Medicines
- Insulin
- Doctor and dentist fees
- Nursing fees
- Hospital expenses
- Dentures
- Eyeglasses
- Medical insurance premiums
- Weight loss programs

State & local taxes (income OR sales)*

Real estate taxes*

Taxes paid for property held as investment*

Personal property taxes*

Home mortgage interest

Points paid on the purchase of residence

Estate tax on income of a decedent

Gambling losses to the extent of winnings

Investment interest

Charitable contributions

Impairment-related work expenses of a disabled person

Casualty & theft losses only in a federal disaster area

*Limited to $10k combined on federal returns

<u>None of the following will be allowed for employees on federal returns but will be allowed by California and some other state returns:</u>

Employment-related education

Subscriptions to professional magazines

Investment advice and management fees

IRA or Keogh fees paid out of pocket

Cost of looking for a new job

Legal fees related to employment

Employee's malpractice insurance premiums

Medical exams required by employer

Tools and supplies used in employee's work

Hobby expenses to the extent of hobby income

Convenience fees for paying income taxes

Unrecovered investment in a retirement plan or annuity

Tax return preparation fees

Work clothes not suitable for normal wear

Uniforms

Dues to work-related professional societies

Union dues

Appraisal fees for casualty losses

Appraisal fees for charitable contributions

Looking Ahead

Medical costs must exceed 10% of AGI to be deductible as itemized deductions in 2019.

Mileage rates in 2019 will increase to 58 cents/mile for business and to 20 cents/mile for medical or moving. Charitable mileage will remain at 14 cents.

Starting with agreements entered into after 2018, alimony will no longer be deductible by the payer and it will not be includible in the income of the recipient.

New Tax Law Impacts

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The deduction for mortgage interest is limited to the interest on $750,000 of acquisition indebtedness for debt incurred after December 15, 2017. The limit on deducting interest on acquisition indebtedness for debt incurred prior to December 15, 2017 remains at $1,000,000. The new law repeals the deduction related to interest incurred on home equity debt unless the debt is within the limits and is used to buy or improve the home.

There is no longer any deduction for job-related moving expenses.

There is no longer any deduction for "Job Expenses and Certain Miscellaneous Deductions" on Schedule A - Itemized Deductions on federal returns.

Casualty and theft losses will only be allowed for federal disaster areas.

The new law repeals the overall limitation on itemized deductions.

The Alternative Minimum Tax will apply to far fewer taxpayers.

The "Kiddie Tax" has been simplified effectively applying the ordinary and capital gains rates applicable to trusts and estates (rather than using the parents' rate) to the net unearned income of a child.

There is a new 20% deduction for certain individuals, trusts, and estates with respect to “domestic qualified business income” of pass-through entities and sole proprietorships.

Businesses can no longer deduct entertainment expenses. Business food and beverage deductions are limited to 50% even if served on premises.

Bonus depreciation is increased from 50% to 100%. The new law increases the depreciation limitations for passenger automobiles placed in service after 2017. If bonus depreciation is not claimed, allowable depreciation is limited to $10,000 in year one; $16,000 in year two; $9,600 in year three; and $5,760 in all subsequent years. Computers and peripheral equipment placed in service after 2017 would no longer be considered “listed property,” and thus would not be required to be depreciated using the straight-line method if their business use falls below 50%.

There will no longer be a carry back deduction for Net Operating Losses in most situations.

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