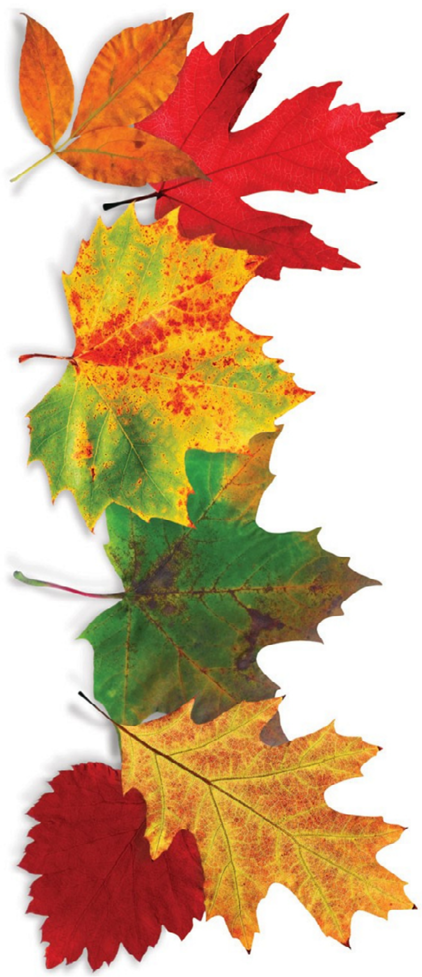
BRSW CPA'S – FALL 2019 NEWSLETTER



DEAR CLIENT,

Now is a good time to consider planning moves that may lower your tax bill for this year and possibly future years.

While year-end planning for 2019 is similar to 2018, marking the second year with the new tax law (the Tax Cuts and Jobs Act) and its major changes for individuals and businesses, there are some changes we want to bring to your attention.

This newsletter addresses those changes to help you plan for 2019 tax filing. Please contact us for more information if any of the suggestions may pertain to you and more planning would be beneficial in your situation.

For individuals, the federal tax rates are similar to last year. For Ohio, the income tax rates have decreased. A few strategies to consider to reduce taxes include retirement contributions, bunching charitable contributions, and making a qualified charitable distribution if over 70 ½ years old.

For businesses, the flat corporate tax rate remains at 21% while pass through businesses may qualify for the 20% qualified business income deduction. K-1's for S-Corporations and Partnerships are more complex for 2019. There are also new overtime rules for payroll and out-of-state sales tax to consider.

We have compiled a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you. In the meantime, please review the attached list, and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make.

We appreciate the opportunity to be of service to you!

Sincerely,

Your friends at Bashore Reineck Stoller & Waterman Inc

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YEAR-END TAX PLANNING-INDIVIDUALS

PITFALLS FOR THE UNWARY

- Higher-income earners must be wary of the 3.8% surtax on certain unearned income.
- The 0.9% additional Medicare tax also may require higher-income earners to take year-end actions. There could be situations where employees need to have additional withholding to cover this tax.
- If you do not have a Form 2848 completed and on file with the IRS, you cannot sign someone else's tax return as a power of attorney. If you need a Form 2848, please contact us to get it on file before the tax return is completed.

PLANNING OPPORTUNITIES

- Long-term capital gain from sale of assets held over one year is taxed at 0%, 15% or 20%, depending on taxable income. Planning for the timing of sales to capture gains or losses to maximize the 0% or 15% brackets can save significant tax dollars over time.
- Postpone income until 2020 and accelerate deductions into 2019 if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2019 that are phased out over varying levels of adjusted gross income. Some of these items include:
  - Deductible IRA contributions
  - Child tax credits
  - Higher education credits
  - Student loan interest deductions
  - ROTH IRA eligibility
  - Section 199A deduction in certain cases
  - Reduced health insurance payback if health insurance is purchased on the public exchange

  Taxpayers anticipating being in a lower tax bracket in future years can also benefit from this strategy.
- If you believe a ROTH IRA is better than a traditional IRA, consider converting traditional IRA money invested in beaten-down stocks (or mutual funds) into a ROTH IRA if eligible to do so, keeping in mind that this will increase your 2019 adjusted gross income.
- Some taxpayers may be able to work around the itemized deduction limits by applying a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the year where they will produce tax benefits. For example, make two years of charitable contributions in one year, instead of spreading them out over 2019 and 2020.
- Do not forget to take required minimum distributions (RMDs) from your IRA or 401(k) plan on a timely basis. Failure to do so can result in a penalty equal to 50% of the amount not withdrawn. If you turned or are turning 70 ½ during 2019, planning for the start of the RMD to manage tax brackets can often save significant taxes.

- ☐ If you are age 70 ½ or older by the end of 2019, you have the option to make charitable contributions via qualified charitable distributions directly from your IRA accounts. The amount of the contribution is not included in adjusted gross income, resulting in significant tax savings.
- ☐ Consider increasing the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year.
- ☐ Make sure you are taking maximum advantage of health savings account (HSA) contributions for 2019.
- ☐ If your place of business offers matching for a retirement plan, make sure you max out your contribution to take full advantage of this source of funding.
- ☐ If you change employers frequently, ensure that you properly roll over your retirement funds into a centralized account to avoid losing track of multiple small accounts.

ESTATE PLANNING

- ☐ Create a balance sheet and a record of all accounts, passwords, retirement savings, life insurance policies, and other financial information and review with your spouse, child, or executor regularly.
- ☐ The estate tax exemption has increased to $11,400,000 for 2019. While this may minimize or even eliminate the possibility of estate taxes, planning is still very important to take full advantage of cost basis step-up rules to minimize taxes for your heirs and for asset protection purposes.
- ☐ Keep in mind that effective 1-1-2026, the exemption returns to the old rules (approximately $5 million exemption). At the present time we do not know what, if any, "clawback" issues might be presented by this future reduction.
- ☐ The annual gift tax exclusion for 2019 is $15,000 per person.

OTHER CHANGES TO BE AWARE OF

- ☐ For 2019, Ohio income tax rates see a reduction of 4% with the top bracket now being 4.797%. All Ohio taxable non-business income of $21,750 or less now has no Ohio income tax.
- ☐ Ohio campaign contribution credit is no longer available beginning in tax year 2020.
- ☐ The Ohio business income deduction of up to $250,000 is still available in 2019.

These are just a few highlights of things to consider for your year-end tax planning. If you would like more information on any of these points, please reach out to your accountant. If you have had major life changes, now would also be a good time to reach out to your accountant to discuss tax strategies.

YEAR-END TAX PLANNING-BUSINESSES

PITFALLS FOR THE UNWARY

- Beginning in 2020, the salary thresholds for determining whether an employee is eligible for overtime have increased to $684 per week ($35,568 per year) for a full-time worker. Farmhands, commissioned sales employees and seasonal employees among others are still exempt if conditions are met.
- New employee documents should be retained for each employee. Do not wait for an audit to get into compliance. For the I-9, a copy for each employee should be kept for the later of three years after the hire date or one year after the employment ends. For the W-4, a copy for each employee should be kept for at least 4 years from the later of the date the employment tax is due or is paid.
- The deduction for business meals is more difficult to qualify for, and the deduction for entertainment expenses is eliminated. In addition, employee achievement awards (previously tax-free under the de minimis rules) are now prohibited unless the value is included in the employee's W-2.
- Research and experimentation expenses will be required to be amortized over 60 months (as opposed to immediate write off that we enjoy now) effective with tax years beginning after 12/31/2021.

PLANNING OPPORTUNITIES

- Taxpayers other than C corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2019, if taxable income exceeds $321,400 for a married couple filing jointly, or $160,700 for other taxpayers, the deduction may be limited based on whether the taxpayer is engaged in a specified service trade or business, the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property held by the trade or business. The limitations are phased in for joint filers with taxable income between $321,400 and $421,400 and for other taxpayers with taxable income between $160,700 and $210,700. If you are a farmer doing business with an agricultural cooperative, the computation becomes even more complex. Careful planning is needed to maximize the benefit over multiple years.
- For rental properties to qualify for the 20% deduction, they must now meet certain guidelines. This includes maintaining separate books, must have 250 hours of rental services (rental services include advertising, lease negotiating and execution, rent collection, verifying tenant applications, daily operation and maintenance, real estate management, and supervision of employees and independent contractors), and **contemporaneous documentation** of time spent.
- For 2019, you no longer can take advantage of the 20% deduction on rent from a C Corporation under common ownership. If you meet the rental property eligibility as specified above, then the 20% deduction is available.
- With the interesting 2019 farm year, there may be some helpful crop insurance deferral options. To qualify, the farmer must be on the cash method of accounting; historically sell at least 50% of the crops the year following harvest; and receive the crop insurance proceeds for **damage** to the crops (strictly revenue protection proceeds cannot be deferred). Prevent plant payments are classified under damage of crops, satisfying this requirement for eligible deferral. If the proceeds are received in the year after the damage, it cannot be deferred further. Government payments cannot be deferred.

- First year bonus depreciation deduction is 100% of basis for 2019, begins phasing out in 2023, and will be fully phased out by 2027. The bonus can now be taken on not only new, but **used** equipment under the new bill, unless purchased from a related party.
- The annual limit for Section 179 expensing for asset purchases is $1,000,000 (except SUV's which remain at $25,000). This includes qualified real property and qualified rental property as eligible assets.
- For 2019 there is a credit for providing paid family and medical leave equal to at least 12.5% of wages paid.

OTHER CHANGES TO BE AWARE OF

- S-corporations and partnerships have significant additional requirements for information reported on their K-1 forms, increasing the complexity. Among such changes include more information for the qualified business income deduction, wage breakdown data, guaranteed payment breakdown information (partnerships only), and others. Tax return preparation for these entities will be more difficult.
- Sales tax collection and remittance for out-of-state sales has changed. You may be required to pay sales tax to states where you do not have a physical presence. Each state has different thresholds that trigger sales tax collection and remittance.
- Starting in 2020, employers that do not offer group coverage plan health insurance can fund an individual coverage health reimbursement arrangement (ICHRA). Employees can use employer-funded money in the ICHRA to buy individual-market insurance, including insurance purchased on the public exchange.
- Investing in designated Ohio opportunity zones now allows for a non-refundable credit on the Ohio tax return known as the Ohio Opportunity Zone credit. There are also federal benefits for the opportunity zone including deferral of capital gains and permanent forgiveness of capital gains, if those funds are invested in a qualified opportunity zone fund.
- In Ohio, the financial institutions tax credit is no longer available beginning in 2020.
- Beginning in 2019, Ohio will use a modified adjusted gross income (MAGI) to determine whether taxpayers using the business income deduction meet thresholds of eligibility concerning the child and dependent care credit, the joint filing credit, retirement income and lump sum retirement income credits, senior citizen and lump sum distribution credits, and Ohio exemption credit. This means that credits you received in the past may be limited as business income is included in MAGI. The MAGI is now the limiting factor for school districts under the earned income tax base.

These are just a few highlights of things to consider for your year-end tax planning. If you would like more information on any of these points, please reach out to your accountant. If you have had major changes in the business, now would also be a good time to reach out to your accountant to discuss tax strategies.