

# Tax Cuts and Jobs Act

## **2019 Personal Taxes**

American Association of Individual Investors

Portland Chapter

November 9, 2019

# **TCJA Items starting in 2019**

- **Individual health care mandate penalty tax eliminated**
- **Alimony in divorce decrees signed after January 1, 2019**
  - **Not income to recipient**
  - **Not deductible by payer**

# Other Items in 2019

- **Social Security increase = 2.8%**
- **Medicare Part B basic premium increased to \$135.50**
  - **Upper income 2017 AGI limits**
    - **Single \$85,000**
    - **Married \$170,000**
    - **Premium \$189.60 to \$460.50**

# Pension Plan Changes for 2020

- **401(k) / 403(b) plan contributions:**
  - **Maximum \$19,500**
  - **Catch-up \$6,500 for over age 50**
- **Traditional IRA and Roth IRA plan contributions: (no change)**
  - **Maximum \$6,000**
  - **Catch-up \$1,000 for over age 50**

# **Roth IRA Income Limits Up:**

## **–Single:**

- MAGI \$124,000 to \$139,000**

## **–Married:**

- Joint MAGI \$196,000 to \$206,000**

**–Conversions to a Roth have no  
income limit**

# **Traditional IRA Income Limits:**

**–Single w/work retirement plan:**

- MAGI \$65,000 to \$75,000**

**–Joint w/work retirement plan:**

- MAGI \$104,000 to \$124,000**

**–Joint, spouse w/work retirement plan:**

- Joint MAGI \$196,000 to \$206,000**

# **TCJA Items – Start in 2018**

**All of the following information refers to  
Personal Taxes :**

**January 1, 2018**

**To**

**December 31, 2025**

**Unless otherwise noted**

## *Itemized Deductions*

- **Medical threshold - 10% AGI**
- **Mortgage interest incurred on or after December 15, 2017 limited to total of \$750,000 basis i.e. 1<sup>st</sup> + 2<sup>nd</sup> + HELOC**
  - **HELOC – Purchase, build or improve your main or second home**
  - **Pre December 15, 2017 Mortgage \$1,000,000 basis grandfathered**



- **SALT deduction limited to total of \$10,000 – can be a mix of real estate and state/local income or sales taxes**
- **Charitable – Cash up to 60% AGI**
- **Miscellaneous deductions - Gone**
  - **Casualty losses allowed if suffered in a Presidentially designated area**
  - **Moving miles and expenses only allowed for active duty military**

# What are the Pluses & Minuses?

- **Total itemized deductions limit gone**
- **Investment interest deduction still available with Form 4952**
- **All investment deductions subject to 2% AGI gone**
  - **Tax return preparation (TurboTax)**
  - **Estate tax planning, Investment fees**
  - **Investment newsletters, etc.**

- **Personal Exemption – Set to Zero**
- **Child Tax Credit**
  - \$2,000 for dependents under age 17
  - \$1,400 refundable – phases out for:
    - Joint returns at \$400,000 AGI
    - All others at \$200,000 AGI
- **Non-refundable \$500 credit for dependents not qualifying as child**
  - Phases out same as Child Tax Credit

# Standard Deduction - 2019

- **Single \$12,200**
- **Married \$24,400**
- **Married Separate \$12,200**
- **Head of Household \$18,350**
- **Blind and/or age 65 or older add:**
  - **\$1,300 per person (no change)**
  - **\$1,650 if unmarried**

# Tax Brackets - 2019

	<b>Over</b>	<b>Single</b>	<b>Joint</b>
\$	<u>- 0 -</u>	<u>10 %</u>	<u>10 %</u>
	9,700	12 %	
	<u>19,400</u>		<u>12 %</u>
	39,475	22 %	
	<u>78,950</u>		<u>22 %</u>
	84,200	24 %	
	<u>168,400</u>		<u>24 %</u>

	<b>Over</b>	<b>Single</b>	<b>Joint</b>
\$	<b>160,725</b>	<b>32 %</b>	
	<b><u>321,450</u></b>		<b><u>32 %</u></b>
	<b>204,100</b>	<b>35 %</b>	
	<b><u>408,200</u></b>		<b><u>35 %</u></b>
	<b>510,300</b>	<b>37 %</b>	
	<b><u>612,350</u></b>		<b><u>37 %</u></b>

**Inflation annual adjustments will use  
chained consumer price index**

# L-T Capital Gain Rates - 2019

- LTCG rates by set income thresholds  
not taxable income bracket
- Taxable income thresholds:
  - 15% - Single     \$39,375
  - Joint        \$78,750
  - 20% - Single     \$434,550
  - Joint        \$488,850

# Alternative Minimum Tax - 2019

- **Exemption for AMT raised:**
  - Single, HH \$71,700
  - Married Joint \$111,700
  - Married Separate \$55,850
- **Exemption phase-outs raised:**
  - Single, HH, M/S \$510,300
  - Joint \$1,020,600



# Qualified Dividend Rate

- All filers – Tax rate applied same as long-term capital gains
- The “*Qualified Dividends and Capital Gain Tax Worksheet*” combines the net long-term capital gains and qualified dividends together to calculate the tax

# Pass-Through Income

- **Self-employed and owners of LLC's, partnerships and S corporations can deduct 20% of qualified business income - allocable income less business deductions**
- **QBI does not include capital gain or loss, dividends, nonbusiness interest income, compensation paid to owner or partnership guaranteed payments**

- **Investors with REIT shares or publicly traded partnerships can deduct 20% of their “qualified” REIT dividends and “qualified” PTP income**
- **Appears to not apply to mutual or open/closed end funds and ETFs**
- **1099 and K-1 have been redesigned to display the 199A amount**
- **Can be deducted w/standard deduction**
- **Does not reduce AGI**

- **Deduction is lesser of 20% of 199A or 20% of taxable income minus net capital gains**
- **REIT 199A dividends must be combined with 199A distributions from MLPs – frequently negative**
- **If combined amount is negative it is carried forward and used in future 199A calculations**

# New Normal Ideas

- **Charitable transfer from IRA for those age 70 1/2 to replace RMD**
  - Must be from IRA Trustee directly to Charity
- **Concentrate deductible expenses in alternating years**
  - Mortgage payments
  - State and real estate taxes

- **Donor Advised Fund Account**
  - Control year donation/deduction is made
  - Control year charity receives donation
  - Eliminate capital gains

# Standard Deduction - 2020

- **Single \$12,400**
- **Married \$24,800**
- **Married Separate \$12,400**
- **Head of Household \$18,650**
- **Blind and/or age 65 or older add:**
  - **\$1,300 per person (no change)**
  - **\$1,650 if unmarried (no change)**

# Tax Brackets - 2020

	<b>Over</b>	<b>Single</b>	<b>Joint</b>
\$	<u>- 0 -</u>	<b>10 %</b>	<b>10 %</b>
	<b>9,875</b>	<b>12 %</b>	
	<u><b>19,750</b></u>		<b>12 %</b>
	<b>40,125</b>	<b>22 %</b>	
	<u><b>80,250</b></u>		<b>22 %</b>
	<b>85,525</b>	<b>24 %</b>	
	<u><b>171,050</b></u>		<b>24 %</b>



	<b>Over</b>	<b>Single</b>	<b>Joint</b>
\$	<b>163,300</b>	<b>32 %</b>	
	<b><u>326,600</u></b>		<b><u>32 %</u></b>
	<b>207,350</b>	<b>35 %</b>	
	<b><u>414,700</u></b>		<b><u>35 %</u></b>
	<b>518,400</b>	<b>37 %</b>	
	<b><u>622,050</u></b>		<b><u>37 %</u></b>

# L-T Capital Gain Rates - 2020

- LTCG rates by set income thresholds  
not taxable income bracket
- Taxable income thresholds:
  - 15% - Single     \$40,000
  - Joint        \$80,000
  - 20% - Single     \$441,450
  - Joint        \$496,600

# Alternative Minimum Tax - 2020

- **Exemption for AMT raised:**
  - Single, HH \$72,900
  - Married Joint \$113,400
  - Married Separate \$56,700
- **Exemption phase-outs raised:**
  - Single, HH, M/S \$518,400
  - Joint \$1,036,800

# Annual Gift Tax Exclusion

	2019	2020
Anyone	15,000	15,000
Spouse:		
U.S. Citizen	Unlimited	Unlimited
Non-Citizen	155,000	157,000

**Net Investment Income Tax  
and  
Additional Medicare Tax on Earnings  
follow**

# 3.8 % Net Investment Income Tax Individuals, Estates, Trusts

- **Modified Adjusted Gross Income**
  - **AGI + Net Foreign Earned Income**
- **Single, HH \$200,000**
- **Married Joint \$250,000**
- **Married Separate \$125,000**
- ***No provision for inflation adjustment***

# Net Investment Income:

- **Taxable Interest, Dividends, Royalties**
- **Commercial Annuities, Rents**
- **Capital Gains from sale of:**
  - **Securities, Mutual Funds, Investment RE**
- **Capital Gain Distributions from Funds**
- **Passive Income from Partnerships, S Corps and Sale of Interest in either**

# **Not Net Investment Income:**

- **Distributions from Qualified Annuities and Retirement Plans including:**
  - **Traditional IRA, Roth IRA, 401(k), 403(b)**
- **Tax-Exempt Interest, Social Security**
- **Life Insurance, Alimony, Nontaxable Veterans Benefits**
- **Business Income including Non-Passive Partnerships and S Corps**



# Sale of Personal Residence

- Portion of gain from sale which is excluded is not subject to NIIT
  - Single \$250,000
  - Married Joint \$500,000
- Gain above the exclusion limit is subject to NIIT

# Form 8960 - “*Net Investment Income Tax - Individuals, Estates, and Trusts*”

- NIIT is 3.8% of the lesser of:
  - Net Investment Income less:
    - Investment interest expense
    - State income tax
    - Miscellaneous investment expenses
  - Excess MAGI over the threshold

# **0.9 % Medicare Tax on Earnings**

- **Earnings thresholds same as NIIT**
  - **Single, HH \$200,000**
  - **Married Joint \$250,000**
  - **Married Separate \$125,000**
- **Includes wages, net earnings from self employment and other employee compensation**

# Form 8959 - *“Additional Medicare Tax”*

- **Calculates the tax on:**
  - Medicare Wages
  - Self-Employment Income
  - Railroad Retirement Tax Act (RRTA) Compensation
- **Calculates excess Medicare withholding on Medicare wages**