Norwalk Business Service, Inc.

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*****Year-End Tax Planning*****

Dear Client:

We hope 2019 was a good year for you and your family. Now is a good time to think of planning moves that will help lower your tax bill for this year and possibly the next.

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 to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make:

Year-End Tax Planning Moves for Individuals

... *Long-term capital gain* from sales of assets held for over one year is taxed at 0%, 15% or 20%, depending on the taxpayer's taxable income. The 0% rate generally applies to the excess of long-term capital gain over any short-term capital loss to the extent that it, when added to regular taxable income, is not more than the “maximum zero rate amount” (e.g., $78,750 for a married couple). If the 0% rate applies to long-term capital gains you took earlier this year—for example, you are a joint filer who made a profit of $5,000 on the sale of stock bought in 2009, and other taxable income for 2019 is $70,000—then before year-end, try not to sell assets yielding a capital loss because the first $5,000 of such losses won't yield a benefit this year. And if you hold long-term appreciated-in-value assets, consider selling enough of them to generate long-term capital gains sheltered by the 0% rate.

... *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 (AGI). These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2019. For example, that may be the case where a person will have a more favorable filing status this year than next (e.g., head of household versus individual filing status), or expects to be in a higher tax bracket next year.

... *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. Keep in mind, however, that such a conversion will increase your AGI for 2019, and possibly reduce tax breaks geared to AGI (or modified AGI).

... *It may be advantageous to try to arrange with your employer to defer, until early 2020, a bonus* that may be coming your way. This could cut as well as defer your tax.

... *Like last year, many taxpayers who claimed itemized deductions before the recent tax changes, will no longer be able to do so*. That's because the basic standard deduction has been increased (to $24,400 for joint filers, $12,200 for singles, $18,350 for heads of household, and $12,200 for marrieds filing separately), and many itemized deductions have been cut back or abolished. No more than $10,000 of state and local taxes may be deducted; miscellaneous itemized deductions (e.g., tax preparation fees) and unreimbursed employee expenses are no longer deductible; and personal casualty and theft losses are deductible only if they're attributable to a federally declared disaster and only to the extent the $100-per-casualty and 10%-of-AGI limits are met. You can still itemize medical expenses to the extent they exceed 10% of your adjusted gross income, state and local taxes up to $10,000, your charitable contributions, plus interest deductions on a restricted amount of qualifying residence debt, but payments of those items won't save taxes if they don't cumulatively exceed the new, higher standard deduction.

... *Some taxpayers may be able to work around the new reality by applying a "bunching strategy"* to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, if a taxpayer knows he or she will be able to itemize deductions this year but not next year, the taxpayer may be able to make two years' worth of charitable contributions this year, instead of spreading out donations over 2019 and 2020.

... *Consider using a credit card to pay deductible expenses before the end of the year*. Doing so will increase your 2019 deductions even if you don't pay your credit card bill until after the end of the year.

... *If you expect to owe state income taxes when you file your return next year* and you will be itemizing in 2019, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2019. But remember that state and local tax deduction, which include property tax and state withholding, are limited to $10,000 per year, so this strategy is not a good one to the extent it causes your 2019 state and local tax payments to exceed $10,000.

... *Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan).* RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-½. (That start date also applies to company plans, but non-5% company owners who continue working may defer RMDs until April 1 following the year they retire.) Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Thus, if you turn age 70-½ in 2019, you can delay the first required distribution to 2020, but if you do, you will have to take a double distribution in 2020—the amount required for 2019 plus the amount required for 2020. Think twice before delaying 2019 distributions to 2020, as bunching income into 2020 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2020 if you will be in a substantially lower bracket that year.

... *If you are age 70-½ or older by the end of 2019*, have traditional IRAs, and particularly if you can't itemize your deductions, consider making 2019 charitable donations via qualified charitable distributions from your IRAs. Such distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040. But the amount of the qualified charitable distribution reduces the amount of your required minimum distribution, resulting in tax savings.

If you were younger than age 70-½ at the end of 2019, you anticipate that in the year that you turn 70-½ and/or in later years you will not itemize your deductions, and you don't have any traditional IRAs, establish and contribute as much as you can to one or more traditional IRAs in 2019. If the immediately previous sentence applies to you, except that you already have one or more traditional IRAs, make maximum contributions to one or more traditional IRAs in 2019. Then, when you reach age 70-½, do the steps in the immediately paragraph. Doing all of this will allow you to, in effect, convert nondeductible charitable contributions that you make in the year you turn 70-½ and later years, into deductible-in-2019 IRA contributions and reductions of gross income from age 70-½ and later year distributions from the IRAs.

... *Take an eligible rollover distribution from a qualified retirement plan before the end of 2019* if you are facing a penalty for underpayment of estimated tax and having your employer increase your withholding is unavailable or won't sufficiently address the problem. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2019. You can then timely roll over the gross amount of the distribution, i.e., the net amount you received plus the amount of withheld tax, to a traditional IRA. No part of the distribution will be includible in income for 2019, but the withheld tax will be applied pro rata over the full 2019 tax year to reduce previous underpayments of estimated tax.

... *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.

... *If you become eligible in December of 2019 to make health savings account* (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2019.

... *Make gifts sheltered by the annual gift tax exclusion before the end of the year* and thereby save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2019 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next. Such transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

… *Make sure you have health insurance coverage by the year end if you live in California*. Starting January 01, 2020, California will charge an individual who fails to secure coverage an annual penalty of $695 or more when they file their 2020 return. Medicare counts as having health insurance.

… *If you have rental properties, consider sending 1099s* to individuals who you paid for doing work on the rental that are not corporations. The IRS has indicated that they will consider whether or not a taxpayer issues a 1099 when determining if the rental activity qualifies for the 20% deduction.

…*The Solar Credits are phasing out!* The 30% credit for installing solar property on your personal use properties is reduced to 26% for property installed after December 31, 2019. The credit drops to 22% for property installed after December 31, 2020 and no credit is available after December 31,2021.

Year-End Tax-Planning Moves for Businesses & Business Owners

... *For tax years beginning after 2017, taxpayers may be entitled to a deduction of up to 20%* of their qualified business income. For 2019, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) 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 all other taxpayers with taxable income between $160,700 and $210,700. Taxpayers may be able to achieve significant savings by deferring income or accelerating deductions so as to come under the dollar thresholds (or be subject to a smaller phaseout of the deduction) for 2019. Depending on their business model, taxpayers also may be able increase their 20% deduction by increasing W-2 wages before year-end. The rules are quite complex, so don't make a move in this area without consulting your tax adviser.

... *More "small businesses" are able to use the cash* (as opposed to accrual) method of accounting in 2018 and later years than were allowed to do so in earlier years. To qualify as a "small business" a taxpayer must, among other things, satisfy a gross receipts test. Effective for tax years beginning after Dec. 31, 2017, the gross-receipts test is satisfied if, during a three-year testing period, average annual gross receipts don't exceed $25 million (the dollar amount used to be $5 million). Cash method taxpayers may find it a lot easier to shift income, for example by holding off billings till next year or by accelerating expenses, for example, paying bills early or by making certain prepayments.

... *Businesses should consider making expenditures* that qualify for the liberalized business property expensing option. For tax years beginning in 2018, the expensing limit is $1,020,000, and the investment ceiling limit is $2,550,000. Expensing is generally available for most depreciable property (other than buildings), and off-the-shelf computer software. For property placed in service in tax years beginning after Dec. 31, 2017, expensing also is available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full (if you are otherwise eligible to take it) regardless of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2019, rather than at the beginning of 2020, can result in a full expensing deduction for 2019.

... *Businesses also can claim a 100% bonus first year depreciation deductio*n for machinery and equipment—bought used (with some exceptions) or new—if purchased and placed in service this year. The 100% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2019.

... *Businesses may be able to take advantage of the de minimis safe harbor election* (also known as the book-tax conformity election) to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500. Where the UNICAP rules aren't an issue, consider purchasing such qualifying items before the end of 2019.

... *A corporation (other than a "large" corporation) that anticipates a small net operating loss* (NOL) for 2019 (and substantial net income in 2020) may find it worthwhile to accelerate just enough of its 2020 income (or to defer just enough of its 2019 deductions) to create a small amount of net income for 2019. This will permit the corporation to base its 2019 estimated tax installments on the relatively small amount of income shown on its 2019 return, rather than having to pay estimated taxes based on 100% of its much larger 2020 taxable income.

... To reduce 2019 taxable income, consider deferring a debt-cancellation event until 2020.

... *To reduce 2019 taxable income, consider disposing of a passive activity in 2019* if doing so will allow you to deduct suspended passive activity losses.

These are just some of the year-end steps that can be taken to save Federal taxes. Your state may have different rules for your individual situation. For example, California does not fully comply with the new tax law and is still using many of the older rules for calculating your tax liability. Again, by contacting us, we can tailor a particular plan that will work best for you.

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