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Summary of 2019 Tax Law Changes

The **TAX CUTS AND JOBS ACT** which was signed into law in January 2018 is not tax reform at all, despite all of the hype. It has really become known the "**TAX TINKERING ACT OF 2018"**.

Individuals

-Increased standard deductions – Good News: Single Filers -$12,000 versus $6,350 in prior year, Married filing jointly - $24,000 versus $12,700. Bad News: Itemized deductions, especially deductions for taxes, and business expenses have been greatly limited or eliminated altogether.

-Individual Tax Rates -have decreased- top tax rate for individuals (married filing jointly) in prior years was 39.6% of income of $480,050 or more; now its 37% of $600,000 or more.

-Prior rates were 10%, 15%, 25%, 28%, 33%, 35% **39.6%**.

-2019 rates are 10%, 12%, 22%, 24%, 32%, 35%, **37%.**

-Tax Brackets -The IRS recently announced the updated inflation-adjusted tax brackets for 2019 which are even more favorable by approximately 2%.

-Higher Standard Deduction- For 2019, the standard deduction is: Single $12,200; Married $24,400; Head of Household $18,350 (In 2018, the standard deduction was $12,000, $24,000 and $18,000; respectively)

-Child Tax Credit – has doubled to $2000 per qualifying child under 17. Furthermore, the income phase-out thresholds are significantly higher than the previous levels. Maximum adjusted gross income limits were Single and Head of Household- $200,000, (now $240,000) Married-$400,000 (now $440,000)

-Education Tax Credits -The Bipartisan Budget Act of 2018 made the tuition deduction of up to $4000 only available through 2017. This tuition deduction has been eliminated.

-Expanded Use of 529 savings plans – Can now use for children attending private high school, as well as college.

-Mortgage Interest Deduction – Has not essentially changed but look for this deduction to be amended down the road. There are still limitations for mortgages in excess of $750,000 of a qualified residence, adjusted down from $1 Million.

-Obama-Care Penalties – GONE! In past, individuals were penalized for not having health insurance coverage. Although Obamacare is still offered to those who require insurance, that requirement will no longer be mandatory in 2019.

-Eliminated Personal Exemptions- In prior years $4,050 per individual were allowed. Personal exemptions are now eliminated.

-IRA Contributions – For 2019, its $6,000 for each individual not covered under another retirement plan. For those over age 50, its $7,000.

-401K Contributions – For 2019, the contribution limit increases to $19,000.

-Spousal Maintenance (Alimony) -is no longer deductible by the payer of spousal maintenance for any divorce settlements made after December 31, 2018. Those grandfathered divorce settlements prior to that date are still deductible by the payer and included as income by the recipient.

-Deductible Tax Ceiling - The most effected deduction is the tax ceiling of $10,000, which has had a major effect on middle to higher income taxpayers. This tax limitation basically punishes property owners and was the most adverse change affecting the most taxpayers. However, real estate taxes on rental property are **NOT** limited and are **NOT** subject to the tax ceiling.

-<u>Alternative Minimum Tax</u> - The computation amount has been raised by an additional 30%, so less business owners are subjected to the AMT tax in 2018.

-<u>Business Loss Limitations (NOL's)</u> – Business losses in not in excess of $250,000 (Individual) or $500,000 (Married) are now only carried forward to subsequent years. There is no longer a loss carryback for either individuals or C-Corp's.

-<u>Home Office Deduction</u>- is now even more limited. In past, if you were an employee working from home, you could deduct a portion of your home as an office deduction. It is now restricted only to entrepreneurs who are bold enough to take the home office expense deduction, and who do not have an office elsewhere.

-<u>Charitable Contributions</u> – no real changes, except there is a mandatory requirement of written proof of ALL cash or check donations that are made to a qualified charity. Additionally, any donations made in exchange for the right to purchase athletic tickets are no longer deductible.

-<u>Medical Expense Deduction</u> – lowered threshold from 10% to 7.5% of adjusted gross income for **2017 & 2018 ONLY**. For 2019 tax years and beyond, it goes back to 10%.

-<u>Moving Expenses</u> – No longer deductible, except for active military service individuals.

-<u>Casualty and Theft Losses</u> – Limited to federally declared disasters ONLY.

-<u>Miscellaneous Deductions Category</u> – Unreimbursed employee business expenses, tax preparation costs, business auto mileage included within a long list of legitimate deductions in excess of the 2% AGI are **no longer deductible**.

-<u>Tax Breaks That Haven't Changed for 2019</u>-

Capital Gains & Qualified Dividend Taxes
Child & Dependent Care Credits
Education Credits (American Opportunity & Lifetime Learning)
Student Loan Interest Deduction

<u>Corporations</u>

-<u>Pass-Thru Entities</u> - include sole proprietorships, partnerships, LLC's and S-corps – these entities are eligible for the 20% deduction against their personal income from their taxable income. In other words, if a pass-thru entity will only be taxes on 80% of their pass-thru income.

-<u>Sub Chapter S Elections</u> - Is it still worth it to remain an S-Corporation (or any other pass-thru entity)? -Have made corporate elections disavowing the Sub-S Corporation status to C-Corp for entities with taxable income of $165,000 or more. The straight tax rate of 21% is less than the pass-thru individual rates of 22% up to 37%. Any high-income Sub-S corps or LLC's may do far better as fiscal year C-Corporations.

<u>-20% Taxable Business Income</u>- Can qualify for a 20% deduction on business income, not including professional services (athletics, financial services, brokerage services, consulting, health & law). If income is more than $157,500 (single) and $315,000 (joint), there are limits as to the amount of this 20% deduction.

-<u>Reasonable Compensation Rules</u> - S-Corporations still need to disclose "reasonable compensation" paid to owner-employees of S-Corp. While it would seem like an obvious reaction by S-Corp owners to reduce their W-2 wages to create more pass-through income and take advantage of the 20% deduction allowance, they still need to pay themselves "reasonable compensation".

<u>-New Corporate Tax Rates</u> -for C-Corps are now lower, to a straight tax rate of 21%. This is in contrast to the graduated corporate rates that started at 15% up to 35% of taxable income in prior years.

-<u>Partnerships, LLC's and Sole Proprietorships</u>- now do not have "reasonable compensation" or "guaranteed payment" rules. Although partnerships and LLC's are not required to pay self-employment taxes, sole proprietorships still are.

-<u>Net Operating Loss Changes (NOL)</u> – Net operating losses can no longer be carried back two years but can be applied for an INDEFINITE period. The old law was to carry-back two years of losses against prior year taxable income and apply for tax refunds on prior year taxes, then carry forward up to 15 years.

-New Strategy in Corporate Tax Planning - Calendar Year Corporations, LLC's and S-Corps – may do far better as a FISCAL year end entity (ex: March 31, June 30) versus a calendar year (December 31) entity.

-Entertainment Expenses -sporting events, shows and other forms of entertainment are no longer deductible. "Wining and Dining" expenses however, are still deductible up to 50% of **business-related** expenses.

-Transportation Expenses -Form 2106 where the business miles on a vehicle could be deducted on a Form 1040, are no longer deductible. However, business vehicle miles or expenses not deducted on a business pass-thru entity ***can*** still be deducted on their 1040 against their K-1 income, with proper documentation and contemporaneous tax records.

-Real Estate Deductions for Equipment – HVAC units, Roofs, Fire Alarms, Etc. that are attached to the property can now be expenses up to $250,000 under the Section 179 rules, and can be fully deducted when purchased, rather than depreciated.

-Corporations on the Cash Basis – The limitation has been raised from $5 Million dollars to $25 Million of cash receipts. Corporations with under $25 Million in deposits can take advantage of the cash basis of accounting, rather than the accrual basis (which recognizes accounts receivable and accounts payable).

-Automobile Depreciation – encourages business owners to purchase rather than lease their vehicles. Under the new tax law, automobiles other than SUV's and trucks over 6000 lbs get a depreciation deduction for $10,000 first year, $16,000 second year, $9,600 third year, $5,760 every year thereafter.

-Equipment Depreciation Accelerated – Under the new law, you can now deduct up to one million dollars in the very first year of purchase and usage. In prior years, the Section 179 deduction was limited to $250,000.

-Limits on Business Interest Expense Deductions – subject to some restrictions and exceptions, prior law generally allowed full deductions for interest expense incurred by a business. Now, businesses cannot deduct interest expense in excess of 30% of the 'adjusted taxable income' in tax years after 2017. The amount of interest expense that is disallowed can be carried forward to the next year.

Estates

-Estate Tax Exemption – Individual estates of less than $11.4 Millions are excluded from the estate tax rate of **37**%, with the annual gift exclusion of $15,000 still remaining for 2019.

Illinois Tax Law Changes

-Mandatory Retirement Coverage-applicable for all business with employees of 25 or more. This includes ALL businesses who have issued 25 or more W-2's over the last two years. Misconception is that it applies to all employers with 25 current full-time employees. NOT THE CASE! Must offer some type of retirement plan to employees and must make that election (or opt out) before November 1, 2019. Union companies are exempt from this state requirement.

-Illinois Tax Rates for 2019 – Effective July 1, 2017, the marginal tax rate for individuals in Illinois for 2019 is **4.95%**. The Illinois income tax rate increased from 3.75% to 4.95%. For corporations, its 7% of net income and for trusts and estates, 4.95% of net income.