The Tax Cuts and Jobs Act (TCJA) was the most sweeping tax reform in over 30 years and brought about many changes, and barring legislative changes, will be with us through the year 2025. Major tax reform and legislative uncertainty complicates tax planning strategies for 2019. Tax law is vast and too complex to cover in one letter. This letter provides you a broad overview of areas that may present tax planning opportunities and potential pitfalls.

Tax Rates and Brackets

Tax brackets remain as 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Income ranges, which apply to each bracket, have been adjusted for inflation and are too numerous to detail.

Capital Gain Rates and Net Investment Income Tax (NIIT)

Capital gain rates and NIIT remain unchanged. The maximum capital gain rates are 0%, 15%, and 20%. NIIT is 3.8%.

Standard Deduction

The standard deduction amounts for 2019 are $24,400 (MFJ), $18,350 (HOH) and $12,200 (Single/MFS). The additional standard deduction amounts for elderly/blind in 2019 are $1,300 (MFJ/MFS, same as 2018) and $1,650 (Single/HOH, up from $1,600 for 2018).

Child Tax Credit & Credit for Other Dependents

The child tax credit remains at $2,000 ($1,400 refundable) for each qualifying child under the age of 17, and $500 for certain other dependents, such as children age 17 or older, students age 19 to 23, children under the age of 17 who have an ITIN or ATIN, or qualifying relatives of any age who can be claimed as your dependent. The income level at which the credits begin to phase out remains at $200,000 ($400,000 MFJ) for 2019.

ABLE Account

The contribution limitation to ABLE accounts remains at $15,000. Certain employed ABLE account beneficiaries can make an additional contribution of the smaller of 1) your compensation or 2) the poverty line amount. In addition, the beneficiary can claim the saver's credit. Distributions from qualified tuition plans (QTPs, 529) can be rolled over to the ABLE account without penalty by the designated beneficiary of the 529 account, or a member of such beneficiary's family.

Roth Conversion Recharacterization

A trustee to trustee transfer of Roth IRA conversion back to a traditional IRA is no longer allowed.

Kiddie Tax

The child's net unearned income continues to be taxed at the capital gain and ordinary income rates that apply to trusts and estates. Parents may still elect to report their child's interest, ordinary dividends, and capital gain distributions on their return. When the election is made, the child does not file a return. However, the federal income tax on the combined income, including the child's unearned income, may be higher if this election is made.

Alimony

For post-2018 divorce decrees and separation agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse. Pre-2019 decrees and agreements will continue to follow pre-TCJA law by including alimony received in taxable income and allowing a deduction for alimony paid. The law does allow pre-2019 agreements to be legally modified to expressly apply the act rules.

Health Care "Individual Mandate"

Starting in 2019, there will no longer be a penalty for individuals who fail to obtain minimum essential health coverage.

Alternative minimum Tax (AMT) exemption

AMT exemptions have been increased to $111,700 for joint filers ($55,850 for married taxpayers filing separately), and $71,700 for unmarried taxpayers. The exemption is phased out for taxpayers with alternative minimum taxable income over $1,020,600 for joint filers, and over $510,300 for all others.

State and Local Taxes (SALT)

For 2019, state and local taxes deducted on Schedule A remain subject to a $10,000 limit ($5,000 for married taxpayers filing separately). SALT includes real & personal property taxes, income taxes and sales taxes.

Mortgage Interest Deduction

For taxpayers who can itemize deductions in 2019, mortgage interest on loans used to acquire a principal and second home is only deductible on debt up to $750,000 (MFJ)/$375,000 (MFS). Loans taken out prior to 12/16/17 remain grandfathered, thus not subject to the revised limits. Interest paid on home equity loans remain non-deductible, unless the loan proceeds are used to buy, build or improve a qualifying home.

Qualified Business Income Deduction

The QBI deduction is equal to 20 percent of "qualified business income". Qualified business income is also known as "pass-through" income and includes income from partnerships, S corporations, LLCs, and sole proprietorships. The deduction is available to both itemizers and nonitemizers. The restrictions and limitation rules are complicated. The rules for taxpayers with taxable income at or below $160,725 ($321,400/MFJ) are less restrictive and simpler than those above the thresholds.

Bonus Depreciation Deduction

Bonus depreciation allows businesses to deduct 100% of the cost of qualifying property in the year placed in service. Used property qualifies for bonus depreciation with some restrictions. Bonus depreciation will be reduced after 2022.

Section 179 Expensing

The Section 179 deduction increases to $1,020,000 and the phase-out threshold is increased to $2,550,000.

Given the broad nature of the tax reform, this letter barely scratches the surface of TCJA. Effective tax planning requires a year-round effort each year as your overall financial position changes and especially within the uncertain tax environment we face. If you wish to discuss the provisions affecting you as well as the available tax strategies that would be appropriate to minimize your tax liability and maximize your tax savings, please give us a call to set up an appointment.