

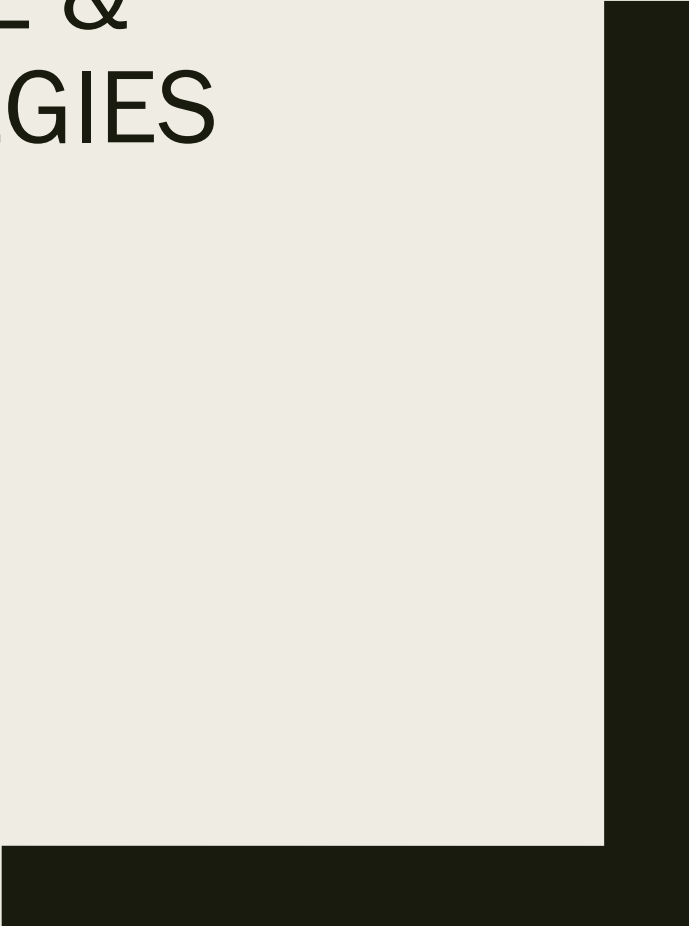


2020 AAI TAX UPDATE & INDIVIDUAL TAX STRATEGIES

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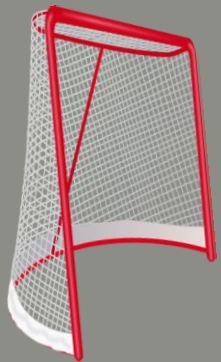


WELCOME TO OUR ANNUAL INDIVIDUAL TAX STRATEGIES SEMINAR



Before we begin, please take a moment to silence your cell phones – thank you!

Goal Of Today's Seminar



Review the Secure Act and
Provide strategies
to reduce taxes
for the short term
and the long term
based on opportunities
from 2018 Tax Act.

2020 Tax Brackets

2020 Tax Brackets			
	MFJ	S/MFS	HOH
10%	< 19,750	< 9,875	< 14,100
12%	< 80,250	< 40,125	< 53,700
22%	< 171,050	< 85,525	< 85,500
24%	< 326,600	< 163,300	< 163,300
32%	< 414,700	< 207,350	< 207,350
35%	< 622,050	< 518,400	< 518,400
37%	over 622,050	over 518,400	over 518,400

	MFJ	S/MFS	HOH
Standard Deduction	24,400	12,200	18,350
Over 65	Additional 1,300 per person		

Tax Credits for Dependents:	
Children under 17	\$2,000 per child and phases out starting at AGI of \$400,000 MFJ
Other Dependents	\$500 per person and phases out starting at AGI of \$400,000 MFJ

The image features two large, thick black L-shaped brackets. One is positioned in the top-left corner, and the other is in the bottom-right corner. They are oriented towards each other, framing the central text.

ADJUSTEMENTS MADE
BY THE SECURE ACT

What is the SECURE Act?

- S – Setting
- E – Every
- C – Community
- U – Up for
- R – Retirement
- E – Enhancement

- Secure Act (H.R. Bill 1994)
- Signed into Law 12/20/2019
- Largest Retirement Planning Bill
Since Pension Protection
Act of 2006

Main Changes by Secure Act that affect investors

- Changes Affecting IRAs
- Changes Affecting 529 Plans
- Other Tax Law Changes

➤ Changes Affecting IRAs



IRA Considerations

- RMD age raised from 70 ½ to 72 starting in 2020
- Repealed of maximum age restrictions for traditional IRA contributions so long as you have earned income
 - *Benefit* – If you have earned income then you could offset your RMD's with contributions to a Deductible IRA
 - *Potential Pitfalls* – Permissible QCD's are reduced by the amount contributed to a Traditional IRA
- Modified the RMD terms for inherited IRAs
 - *Stretch IRA's are eliminated for lifetime of beneficiary and now must be taken within 10 years of death of the owner except for the following:*
 - *Spouse* – RMD begins when deceased would have reached age 72
 - *Minor Child* – may take over lifetime until reach 18 and then must be taken out by age 27
 - *Disabled Beneficiary*
 - *Chronically Ill Beneficiary*
 - *Beneficiary within 10 years of the age of the deceased*

➤ Changes Affecting 529 Plans



Changes Affecting 529 Plans

- Expand 529 plans to be used to cover vocational/apprenticeship training.
- Expand 529 Plans to repay certain student loan debt.
 - *Up to \$10,000 of qualified education loan repayments can be considered qualified 529 account distributions.*

➤ Other Tax Law Changes



Other Tax Law Changes

- **Casualty losses**

- *Losses incurred during 2018 or 2019 in a “Qualified Disaster Area”, the deduction may be taken without exceeding the 10% gross income threshold that normally applies to casualty deductions. In addition, the deduction can be taken whether one itemizes their deductions or chooses the standard deduction. A flat \$500 threshold applies in lieu of the 10% threshold.*

- **Changing Kiddie Tax Rates**

- *Investment income of children can no longer be taxed at trust return rates and now is back to being taxed at their parents’ tax rates.*
 - Kids under age 19 at the close of the tax year or is a full-time student under age 24, has more than \$2k of unearned income, does not file a joint return and has one living parent.
 - Effective for tax years after 2017, which means 2018 filings can amend their return if they benefit from applying the new rules to the 2018 return.

- **Medical Deductions**

- *The threshold to deduct medical expenses is back to 7.5% of adjusted gross income.*

Other Tax Law Changes (continued)

- **Worker Opportunity Tax Credit**
 - *Extended through 2020.*
 - *These are tax credits for businesses hiring and retaining workers from certain groups like veterans, ex-felons etc.*
- **Discharge of Indebtedness on Primary Home.**
 - *The disaster act extends the discharge of indebtedness on your primary home for up to \$2M limit for MFJ and or \$1M for MFS to be excluded from gross income if discharged before 1/1/2021.*
- **Mortgage Insurance Premiums.**
 - *The disaster act extends the deductibility of mortgage insurance premiums paid or accrued on qualified residence through 2020. The deduction is phased out by 10% for every \$1000 the taxpayer's AGI exceeds \$100,000 (\$500 and \$50,000 for MFS respectively). It is phased out if AGI exceeds \$110,000 MFJ or \$55,000 if MFS.*
- **Qualified Tuition and Related Expenses Deduction.**
 - *The Act extends the deduction of qualified tuition and related expenses. The deduction is capped at \$4,000 for individuals whose AGI does not exceed \$65,000 (\$130,000 for MFJ) OR \$2,000 for individuals whose AGI does not exceed \$80,000 (\$160,000 for MFJ).*

➤ **EVALUATE RETIREMENT FUNDING UNDER NEW TAX ACT**



EVALUATE RETIREMENT FUNDING UNDER THE NEW TAX ACT

If Tax Bracket is greater than 24% then should max out:

- 401k – limit is \$19,000 for 2019 & \$19,500 for 2020
- SEP IRA – limit is \$56,000 for 2019 & \$57,000 for 2020
- Simple IRA – limit is \$13,000 for 2019 & \$13,500 for 2020
- Traditional IRA – limit is \$6,000 for 2019 & 2020

If Tax Bracket is 24% or less, consider the following instead:

- Roth 401k – same limits as traditional 401k
- Roth IRA Contribution – same limits as Traditional IRA
- Roth IRA Conversion
- Roth 401k Conversion

For those 50 & older, retirement plan catch up contributions are:

- \$6,000 for 2019 & \$6,500 for 2020 for 401k, Roth 401k & Simple IRA
- \$1,000 for Traditional & Roth IRA's

➤ MOST COMMON QUESTION:

Can I still itemize?

SCHEDULE A
(Form 1040)

Department of the Treasury
Internal Revenue Service (IRS)

Itemized Deductions

Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.
Attach to Form 1040.

Name(s) shown on Form 1040: _____

Caution: Do not include expenses reimbursed or paid by others.

Medical and Dental Expenses	1 Medical and dental expenses (see instructions)	1		
	2 Enter amount from Form 1040, line 35 2	2		
	3 Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead	3		
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4		
Taxes You Paid	5 State and local (check only one box): a <input type="checkbox"/> Income taxes, or b <input type="checkbox"/> General sales taxes	5		
	6 Real estate taxes (see instructions)	6		
	7 Personal property taxes	7		
	8 Other taxes. List type and amount ►	8		
	9 Add lines 5 through 8	9		

CAN I STILL ITEMIZE?

In order to itemize, the following expenses combined must exceed the Standard Deduction:

- **Medical**
 - Limit is now 10% of AGI
- **State Income Tax, Property Taxes:**
 - Limited to \$10,000 combined
 - Loophole – Investment Property Tax is not limited
- **Mortgage Interest:**
 - Interest on New Acquisition Debt acquired after 12/15/18 is limited to \$750k. Pre 12/15/18 Debt limit is \$1,000,000
 - Home Equity Loans qualify if considered New Acquisition Debt (upgrades to house included)
- **Charitable Donations:**
 - Planning opportunities:
 - Bundle Donations every other year to exceed Standard Deduction
 - Use a Donor Advised Fund
 - If cannot itemize and over 70 ½, consider donating directly from IRA in satisfaction of RMD's
 - Lowers AGI for other deductions and credits
 - Allows use of Charitable Donations and benefit from Higher Standard Deduction

➤ **MAXIMIZE QUALIFIED BUSINESS INCOME DEDUCTION
(QBI)**



MAXIMIZE QUALIFIED BUSINESS INCOME DEDUCTION (QBI)

Definition – 20% Deduction on Qualified Business Income from:

- Sole Proprietorship
- Rental Activities Treated as Business
- K-1 Business income (does not include Interest, Dividends or Capital Gains)

Pitfalls & Limits

- Does *not* include Salaries or Guaranteed Payments!!!!
- If TI exceeds \$321,400/\$160,700, then potentially limited:
 - *50% of W-2 wages plus 2.5% of Qualified Depreciable value of Fixed Assets*
 - *Specified Service Trade or Business*

Benefits of Maximizing

- Lowers TI such that some Credits and IRA deductions would be allowed based on phase out limits
- Reduces MAGI to help lower Net Investment Income Tax
- Reduces TI to help with Premium Tax Credit Income limits

➤ **QUALIFYING A RENTAL ACTIVITY FOR QBID**



QUALIFYING A RENTAL ACTIVITY FOR QBID

Rentals that are considered a Business are eligible for QBID.

- **Safe Harbor Rule:**
 - Must have 250 hours between owner, employees & independent contractors
 - Must have records to support time spent
 - Not eligible for Vacation Home rentals or Triple Net Leases
- **If Safe Harbor rules are not met - may still qualify:**
 - Should Issue 1099's
 - Must show operating for profit
 - Cannot have a Triple Net Lease. Should be responsible for at least common areas
 - Vacation Home or isolated rental properties usually won't qualify
- **Rental Warning – Be aware of rentals to SSTB's.**
 - If Taxpayer is part of 50% common ownership with SSTB then rental is treated as an SSTB

➤ OTHER COMMON QUESTIONS



COMMON QUESTIONS

Is sale of house taxable?

- Potential \$250k/\$500k exclusion
- Vacation Homes turned into Primary Home can partially exclude gain



Is my inheritance taxable?

- Generally no.
- Cash and Investments are not Taxable on Receipt
- Retirement accounts are Taxable when Disbursed
- All Property received at FMV



➤ OTHER TAX SAVING OPPORTUNITIES



Take it
to the
MAX!



OTHER SAVINGS OPPORTUNITIES

- Max out use of 0% Capital Gain Rates on LT Gains and Qualified Dividends
 - Must have Taxable Income less than \$78,750 MFJ/ \$39,375 for S/MFS
- Max out HSA or FSA
 - HSA contribution limits:

	Family	Single
2019	\$ 7,000	\$ 3,500
2020	\$ 7,100	\$ 3,550

- Additional \$1,000 allowed if 55 and older
- Know your tax bracket when it comes to evaluating Business Income.
 - Delay billings
 - Accelerate Expenses

➤ **TAX BREAKS THAT WENT AWAY IN 2018
AND HAVE NOT COME BACK**



TAX BREAKS THAT WENT AWAY IN 2018

- Deduction for Alimony paid under a divorce decree or settlement after 2018
- Deduction for Moving Expenses
- Deduction for unreimbursed Employee expenses
- Deduction for Investment Fees
- Deduction for Entertainment Expenses



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THANK YOU FOR ATTENDING!

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