JS Associates

## Tax And Bookkeeping

## What's new this year in Tax? Lot's of reinstatements of lost benefits

Whatever we were doing on your return for California before, we will still be doing. Please note that I am only covering those items that are most likely to affect my client base.

## Federal Changes Only-Non Business Related (business related will follow the California section)

Multi and Current Year Changes: Many of these are for 2018. Amended returns can be filed!

*Virtual Currencies- 2019 Fwd: I have had this issue on my organizer for many years. The IRS now has a required to answer check off box to indicate whether or not you have dabbled in this stuff. FYI, the IRS does not see these as transactions in money. Each transaction is considered a tax reportable event. Just like buying and selling stock.

*Required Minimum Distribution Age-Next Year Fwd: The age of forced distribution is increasing to age 72 in 2020. Any one who reached 70 1/2 in 2019 or earlier will still go forward under the old rules. However, Charitable Contributions can still come out of IRA's as of 70 1/2 even if account holder is not subject to RMD's. For Federal. Calif. has not conformed so these would be taxable to California if the account holder was not under RMD requirements.

I think that this Federal loophole might be closed later so that only those who are subject to RMD's can use this to make tax free charitable distributions.

*Medical Deduction % of AGI-2019 Fwd: The % was slated to go to 10% for 2019. Instead a last minute Tax Act repealed this and it will remain at 7.5%

*Medical Deductions for CBD derived from Hemp-2019 Fwd: If purchased at a licensed dispensary under a prescription, it is now a deductible medical expense for 2019 Fwd. Not any other form of marijuana.

*Energy Efficient Improvements other than Solar, Wind & Geothermal-2018 through 2020: This sunsetted at end of 2017. It has been revived for 2018 through 2020. Amended returns can be filed for 2018 if applicable.

*Vehicle Credits for Fuel Cell and 2 wheel plug ins- 2018 through 2020: This sunsetted at end of 2017. It has been revived for 2018 through 2020. Amended returns can be filed for 2018 if applicable.

*Tax Free Cancellation of Principal Residence Debt-2018 through 2020: This sunsetted at end of 2017. It has been revived for 2018 through 2020. Amended returns can be filed for 2018 if applicable.

*Mortgage Insurance Premium Deduction- 2018 through 2020: This sunsetted at end of 2017. It has been revived for 2018 through 2020. Amended returns can be filed for 2018 if applicable.

*Tuition and Fees Deduction- 2018 through 2020: This sunsetted at end of 2017. It has been revived for 2018 through 2020. Amended returns can be filed for 2018 if applicable.

Reminder-Health Insurance Documents: If you have your insurance through Covered Calif., I absolutely have to have the forms before filing to determine if you got the right amount of assistance. No exceptions! If you didn't have health insurance through Covered Calif, I don't need your proof of insurance as there is no longer a Federal Penalty for not having. However, there will be one for California in 2020 so if you don't have insurance yet, you need to. See the California section for more details.

## Federal Changes Continued

Reminder-Preparer Due Diligence Requirements: Tax professionals must ask questions about and potentially request additional documentation to establish eligibility to use Head of Household, Earned Income Credit, American Opportunity Credit, and other child/dependent related credits or face stiff penalties.

Itemized Deduction Reminders: Again-Federal Only!

* Casualty and Theft Losses are only available for Federally Declared Disaster Areas. This means that if your house burns down, you will get no help on your Federal taxes if you have a loss. Check your insurance people! Of course if you have a casualty "gain", it will still be taxable!

* Any expenses that were subject to the 2% "hair cut" are no longer deductible (with certain very special exceptions). The means employee expenses, investment expenses, tax preparation fees and a few others.

* State and Local Taxes paid including property taxes on your non business property are limited to a total of $10,000. This is the single biggest reason why you may not be itemizing for Federal.

* Home equity interest will no longer be deductible unless that debt was used to buy or improve your main home. That includes debt that is inside your first mortgage if you have a "rollover" mortgage. Prior to 2018, you could deduct non home related equity debt interest on balances up to $100,000. For homes purchased after 12/15/17, The total acquisition and home improvement debt limit is now $750,000 not the $1,100,000 it was before. After 2025, all home debt will be subject to this limitation regardless of when incurred.

* Refinanced Home Acquisition debt now has time limits on how long you can take an interest deduction for. Example: Your loan was originally a 30 year loan and 15 years later you refinanced it for 20 years. You can only take interest deductions for the next 15 years. Not the 5 extra you are spreading out the payments over. Two exceptions, if additional funds added to the original were used for home improvement then you get the full time limit of the new loan or if the original loan had a balloon payment. Then your original loan is treated as if it was a 30 year loan originally.

Alimony Changes: For divorces after 2018, alimony paid is not deductible by the payor and alimony received is not taxable by the recipient. Alimony agreements prior to 2019 are not affected unless they are specifically modified to conform to the new rules.

Solar Energy Credits: will be available through 2021 but the credit % will be 30% in 2019, 26% in 2020 and 22% in 2021. Effective in 2019, the credit applies to solar tiles and shingles that act as both energy collection and as roofing. As in the past, any energy credits are only applicable in the year the product is placed in service regardless of when it was paid for.

## California

California has not conformed to much more than it had as of last year. However, there are some big changes coming up for 2020 for just California.

Medical Insurance Required for Calif. in 2020: The penalties for not having insurance in 2020 are stiff. Minimum of $695 for individuals & $2,085 for Families of 4 or more. Up to 2.5% of household income. However, like Federal, Calif. provides subsidies. These are provided to anyone whose income is at or under 600% of Federal Poverty levels for their family size. How this will work in conjunction with Federal subsidies is unclear since both of these will be under the Covered California program. There will also be hardship exemptions from having insurance available much like under the Federal program. See the Covered California website.

California Earned Income Credit: The allowed income level to qualify has increased by $5,000 to $30,000.

## California Continued

Young Child Tax Credit: This is a brand new credit of up to $1,000 available to those who have a child under 6 and who also qualifies for the Calif. Earned Income Credit.

Reminder- Use Tax: Since 2017 Taxpayers must certify (under penalty of perjury) on their California returns whether or not they purchased property out of state that was brought into California. This includes going on vacation and bringing home trinkets as well as online shopping. There is a table in the tax return that can be used to calculate use tax due if all of the purchases were less than $1,000 each. If any were above $1,000, then another worksheet applies. A return can also be filed at CDTFA.com

## Federal Changes Only-Business Related Reminders

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Entertainment Expenses: These deductions took a big hit. Entertainment expenses are not allowed at all. You can pay for the hot dogs at the ball game if there is a separately stated charge if the taxpayer or taxpayer's employee is present and is for the purpose of having a business discussion.

C Corporation Tax Rate: This is no longer a progressive rate but a flat 21%.

Bonus Depreciation: Can now be used to write off 100% of newly purchased assets and it now applies to new-to-you (used) property as well as new property. This is a better deal than the Safe Harbor expense method as any gain on sale of assets is treated as capital in nature which is not subject to Self Employment tax. Better than section 179 because there is no income limitation or depreciation recapture due to drop in business use.

Deduction for Qualified Business Income-Rental Real Estate:

The biggest information gap for preparers when the rules came out for 2018 was where did Rental Real Estate fit in. Particularly real estate not owned through a corporate entity.

Traditionally this has not been treated like a "business" under the code except for short term rental activities like AirBNB or Hotels etc. That being said, it has always been clear that rentals can rise to the level of a business for some because of the number of rentals and the fact that the rentals were a substantial or the main source of income for unincorporated owners.

The IRS has come out with regulations that basically say that if Real Estate Rentals rise to the level of a business, they too are eligible for QBI deduction treatment. Unfortunately, like many other issues, there is no bright line test. It's a fact and circumstances test. Which means that if they don't agree that you have a "business" for this purpose, your choices will be to pay additional tax plus penalty and interest or go to Appeals or court to argue your case. Such a deal.

They have also come out with safe harbor rules that offer more assurance in that if you meet those rules, you are automatically deemed to be a business for the QBI 20% deduction. Assuming you meet all the other rules that govern your ability to take the deduction as in your income level as pertains to your filing status.

However, the safe harbor rules require you keep lots and lots of written records. You must be able to show by way of detailed time logs that at least 250 hours a year was spent on each "Real Estate Enterprise" (which can be one or multiple like kind properties) in total by you and anyone you hired to assist you with managing the "Enterprise" including property managers and anyone they hired to work on your Enterprise as well as anyone you hired directly such as repair persons.

"Enterprises" may contain multiple properties as long as they are all commercial or all residential. This will help with the 250 hour limit. But only if the combined properties generate a profit. If not, you get nothing. However, you can combine some but not all if you have multiple properties. Once combined for this purpose, they cannot be separated. Of course, I am making this sound easier than it is. If you have rentals we can schedule a planning discussion for 2020 when you come in for 2019.

**<u>ID Theft</u>**-An annual reminder

There are many fraudsters out there pretending to be from the IRS, Franchise Tax Board and now Social Security or some bogus charity. Both by phone and e-mail. Those pretending to be from the Govt. are very aggressive and threatening.

If you get any E-mail's or any calls from any source saying you owe money and you should pay it now, don’t do anything until you talk to me no matter how threatening the call or how official looking the e-mail. Never, ever give anybody your banking, credit card or social security information over the phone or through e-mail no matter how much they already seem to know about you. The Government certainly does not take Gift Cards in payment as one scam has. You may lose hundreds if not thousands of dollars because once one fraudster has it, they will sell it to others.

There are many other scams out there as well. People even pretending to be relatives in need of money. The famous quote from the old “X-files” TV show is appropriate here “Trust No One”. At the very least, verify with an independent source. Please, please don't open e-mails unless you know it is from someone you know or a reputable company. If the subject matter seems suspicious look at the "raw data" in the message for the real source. "From" names can be faked!

Both the IRS and FTB do send Identity Verification letters. Forms 5071C and FTB 4734D. If you get one, bring it in anyway. The fraudsters are very good at producing documents that look like the real thing. Confusing the matter is the fact that the IRS is now using 3rd party collection agencies next year for some old tax debts. Taxpayers will be notified by IRS letter of the assignment of their case. The collection agencies sole responsibility will be negotiation. Any payments on account will be remitted to the US Treasury/IRS using normal methods, checks, credit cards etc. to the normal IRS addresses (check with me).