Tax News & TIPS

A Publication of Tax News & Tips™ Fall 2019

The Tax Man

If You Want to Pay Too Much in Taxes,
That's Your Business.
If you Don't, That's Our Business

Randy and Cathy Warshawsky
Enrolled to practice before the Internal Revenue Service
Income Taxes – Audits – Payroll – Bookkeeping
(408) 445-1151
www.4Taxman.com

What's On The Horizon?

A bill being promoted as an enhancement for owners of IRAs and retirement plans has been introduced by the House of Representatives. If passed by the Senate and signed into law, this bill would have significant effects on retirement options in these plans.

The House bill, named Setting Every Community Up for Retirement Enhancement, or the SECURE Act, would expand the options available to retirees and extend the age requirement for taking withdrawals and making contributions. A similar bill, titled the Retirement Enhancement and Savings Act (RESA) is in the Senate Finance Committee.

The law would allow eligible taxpayers to make contributions beyond the current age limit of 70 1/2, and it would also increase the age at which participants would be required to take withdrawals to age 72, up from the current 70 ½ age. Legislators believe that some people may not begin saving until later and that coupled with increasing life expectancy may make these extensions necessary.

Another important feature of the bill is that 401(k)s may start offering annuities, which guarantee the account holder regular income for as long as that person lives. This may be an attractive option for retirees who desire the security of guaranteed payouts, safe from market fluctuations.

401(k)s May Start Offering Annuities For Guaranteed Regular Income

Additionally, a provision in the bill is a new benefit for part-time workers. The bill would allow employers to offer longtime part-time workers access to 401(k) plans. It would also allow small businesses to band together more easily to offer plans under a single administrator, which is intended to lead to more 401(k) plans for workers at small businesses where it hadn't been offered previously.

The bill also has allowances for parents to be able to withdraw up to $5,000 from a 401(k) plan after the birth or adoption of a child and would also allow withdrawals of $10,000 from 529 plans without penalty in order to repay student loans. Regular taxes would be owed on the distribution amount.

Finally, the law also eliminates the kiddie tax, in which children

See "Horizon" on Page 2 >

Health Premium Tax Credit... Still Available For 2019 Returns Filed In 2020

You May Be Allowed A Premium Tax Credit If:

- ✔ You or a tax family member enrolled in health insurance coverage through the Marketplace or Exchange for at least one month of a calendar year in which he or she was not eligible for affordable coverage through an eligible employer-sponsored plan that provides minimum value or eligible to enroll in government health coverage – like Medicare, Medicaid, or TRICARE;
- ✔ Your health insurance premiums for at least one of those same months are paid by the original due date of your return. They can be paid either through advance credit payments, by you, or by someone else;
- ✔ You are within certain income limits. The credit is available for people with household incomes ranging from 100% to 400% of the federal poverty level…$12,140 to $48,560 for singles and $25,100 to $100,400 for a family of four.
- ✔ You cannot file a married filing separately tax return;
- ✔ There are exceptions for certain victims of domestic abuse and spousal abandonment.
- ✔ You cannot be claimed as a dependent by another person and,
- ✔ You are not eligible for the premium tax credit for coverage purchased outside the Marketplace.

INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

• What's On The Horizon 1
• Retirement Ages / Rules..............2
• Truth vs. Myth..............3
• Ask Me About?..............3
• Tax Tips For You... *Now!* 4
• Tax Calendar 4

Retirement – 401(k)s & IRAs: Different Ages, Different Rules

Below are the current rules:
There is legislation pending currently, the Setting Every Community Up for Retirement Enhancement, or the SECURE Act that could change some of these ages. This legislation is discussed at length in this Issue and could become law affecting distributions in 2019. Please check with me before making any distribution decisions.

Setting Every Community Up for Retirement Enhancement

401(k)s:

Before Age 55
Penalty free withdrawal is permitted if:
Employment is terminated no earlier than the year in which you turn 55 AND you leave the funds in the 401(k) plan to access them penalty-free.

Age 55 – 59 ½
Distributions before age 59 ½ are subject to a 10% additional tax (penalty) plus the tax on the amount of the distribution that is included in your income. The 10% tax will not apply if you qualify for certain exceptions. Call me for details on these exceptions before requesting the distribution.

Age 59 ½ - 70 ½
Normal distributions that are not subject to the 10% additional tax (penalty).

Age 70 ½
Distribution is required to begin by April 1 after the later of:
Calendar year in which you reach age 70 ½ or,
Calendar year in which you retire. However, your plan may require you to begin receiving distributions by April 1 of the year after you reach age 70 ½, even if you have not retired. Check with your company's plan administrator for the details of your plan.

IRAs

Before Age 59 ½
A 10% additional tax (penalty) generally applies if you withdraw from your IRA. There are limited exceptions that could eliminate the 10% additional tax (penalty). Check with me on these exceptions before requesting a distribution.

Age 59 ½ - 70 ½ Normal distributions that are not subject to the 10% additional tax (penalty).

Age 70 ½
Required Minimum Distribution (RMD) by April 1 of the year following the calendar year in which you reach age 70 ½. Then by December 31 of each year, including the first year.

Example:
You turn 70 ½ on July 15, 2019. You must take your first RMD for 2019 by April 1, 2020. You must take your second RMD for 2020 by December 31, 2020, and your third by December 31, 2021 for 2021.

What is the RMD? Your RMD is generally determined by dividing the adjusted market value of all of your IRAs as of December 31 of the preceding year by the distribution period that corresponds with your age in the IRS Uniform Lifetime Table.

Example:
Let's say you are 73 years old and all your IRAs had a value of $100,000 last December 31. The IRS Uniform Table lists 24.7 for a 73-year-old. You would divide the $100,000 by 24.7. The result $4,048.58 is your RMD!

What happens if I don't take my RMD?
If the distributions to you in any year are less than the RMD for that year, you will be subject to additional tax equal to 50% of the undistributed RMD!

"Horizon" from Page 1 >

from low and middle-income families are hit with unexpected taxes after inheriting 401(k) plans.

When Will This Bill Become Law?

The bill is widely expected to pass the Senate and be signed into law by the President. One hurdle may be the provision by which the plan pays for itself. It contains provisions that those who inherit retirement accounts after the death of a parent withdraw funds at a faster pace – within 10 years – and pay the associated tax. Previously, inheritors of these plans could stretch out withdrawals over their lifetimes. There are exceptions for surviving spouses and minor child beneficiaries of the account holder.

While lawmakers are often hesitant to pass increased taxes on those who inherit wealth, given the overwhelming majority by which the House bill passed, it's reasonable to expect most of these provisions will eventually become law.

Tax-Free EE Bond Interest Used For Education

Savings bonds, Series EE and I redeemed to help pay for college, graduate school or vocational school tuition and fees for the taxpayer, spouse or dependent(s) escape Federal taxes. The exclusion starts phasing out above $121,600 of Modified Adjusted Gross Income for couples and $81,100 for singles.

The bonds must have been purchased after 1989 by taxpayers who are at least 24 years old in the month before buying the bonds. The bonds must be in the name of the taxpayer, not in the child's name. Gift bonds are not eligible.

Extensions Expire October 15

A few of you may not have filed for 2018. Please make every effort to find remaining missing forms or information. We have little time remaining to file your return. ***Contact me as soon as possible.***

IRA & 401(k) Contribution Limits Increased

Traditional & Roth IRA contributions jump to $6,000 and individuals who are age 50 or older can contribute an additional $1,000.

401(k), 403(b) and 457 Plans now rise to $19,000 while taxpayers 50 years old or older can contribute an extra $6,000.

SIMPLE IRA participants can contribute $13,000 plus $3,000 for those age 50 and over.

25114

Mileage Deductions For 2019

Standard mileage rate increases to 58 cents per mile, up from 54.5 cents for 2018. The rate for medical and moving mileage increases to 20 cents per mile, up from 18 cents. The charitable mileage rate remains at 14 cents per mile. It is important to note that under the Tax Cuts and Jobs Act, taxpayers cannot claim a miscellaneous itemized deduction for unreimbursed employee travel expenses. Taxpayers also cannot claim a deduction for moving expenses, except members of the Armed Forces on active duty moving under orders to a permanent change of station.

© 2019 TAX NEWS & TIPS
This publication has been sent to you by your tax advisor for informational purposes only.
The tax opinions are generalizations and may not apply to all taxpayers.

- Are you thinking of taking a distribution from an IRA or 401k? Are you older than 59 ½?
- Do you have stocks or mutual funds that you are planning to sell that have greatly increased in value? Have you owned those assets longer than one year?
- Are you planning on retiring and collecting social security before the current full retirement age of 66?
- Starting distributions from a retirement plan? Lump-sum distribution possibilities? What are the tax consequences?
- Does your employer offer a medical saving plan? What should you know?

Tax Rates On Long-Term Capital Gains and Qualified Dividends Unchanged

But, Qualifying Income Levels Are Increased

The 0% capital gains rate applies to single taxpayers with taxable income up to $39,375, $78,750 for joint return filers and $52,750 for those filing as head-of-household.

"Tax Tips" from Page 4 >

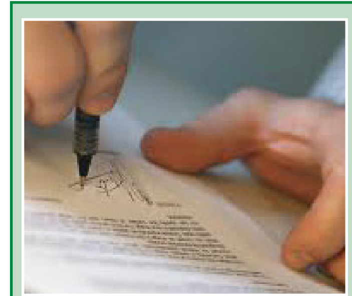
2019 Standard Deduction To Increase

Married couples and Qualifying widow(er) will now get $24,400 as the standard deduction. Singles claim $12,200 Head of Household filers will get $18,350. For 2019, the additional standard deduction for Married Filing Jointly amount for the aged (65 and older) or blind is $1,300. That amount is increased to $1,650 for unmarried taxpayers.

The standard deduction amount for a dependent cannot exceed the greater of $1,100 or the sum of $350 and the individual's earned income (not to exceed the regular standard deduction amount as listed above).

Threshold for Medical Deduction Schedule A Increases

The threshold increases from 7.5% to 10% for 2019 returns filed next year.



Wills, Living Wills & Advance Directives

It is important to not only have a will and medical directive for estate planning tax issues but, also revisit the terms and conditions as well as the beneficiary designations and make revisions at regular intervals to keep pace with changing situations.

Truth vs. Myth Associated with Health Savings Accounts (HSAs):

There are basically three requirements for HSA eligibility:

The account owner must be enrolled in a High Deductible Qualified Health Plan (QHDHP)

The account holder cannot be taken as a dependent on someone else's tax return.

The account holder cannot have, participate in or be eligible for claims under any other public or private health benefit. This includes benefits such as (non-QHDHP) commercial insurance, Flexible Spending Account (FSA) or Health Reimbursement Arrangement (HRA) or Medicare.

Myth: An HSA is directly related or tied to a health insurance plan.
Truth: While an HSA holder must be enrolled in a High Deductible Qualified Health Plan (QHDHP), the HSA has no other relation to a health insurance plan. The HSA is simply a type of tax-favored investment or savings account independent of any QHDHP.

Myth: HSAs are joint accounts owned by an individual and their spouse.
Truth: HSAs are never owned by more than one person, even though the money in an individual's HSA may be used to pay for the qualified expenses of the HSA holder's legal dependents or spouse. Those dependents or spouse do not need to be enrolled in the HSA holder's QHDHP.

Myth: Money in an HSA can only be used for medical expenses.
Truth: HSA dollars may be used for more than just medical expenses. Current regulations allow HSA dollars that remain in the account at age 65, to be used for absolutely anything, just like an IRA or 401(k). Distributions after age 65 are subject to ordinary income taxes – again, just like an IRA or 401(k) – but the HSA holder may take distributions any time after the account is established for most medical, dental and vision-related expenses that were incurred after the HSA was opened. This could include things like eyeglasses or contact lenses, orthodontia for children, or deductible, co-pay, or coinsurance expenses under the QHDHP. Qualified distributions may also include some insurance premiums like COBRA, Medicare and Long-Term Care. Distributions for qualifying expenses are not taxed.

Myth: I earn too much or own my own business, so I may not have an HSA.
Truth: There are no income limits for HSA eligibility, and anyone who meets the other criteria for having an HSA may have all the benefits, even business owners.

529A ABLE Accounts

The Achieving a Better Life Experience (ABLE) Act allows states to create tax-advantaged savings programs for eligible people with disabilities (designated beneficiaries). Funds from these 529A ABLE accounts can help designated beneficiaries pay for qualified disability expenses. Distributions are tax-free if used for qualified disability expenses.

ABLE account's designated beneficiary may claim the saver's credit for contributions to the account.

Rollovers in limited amounts can be made from a 529 qualified tuition program account of the designated beneficiary to the ABLE account of the designated beneficiary or his or her family member.

In addition to the annual limit of $15,000 (the gift tax exclusion amount for 2019), a designated beneficiary who works may also contribute his or her compensation up to the poverty line amount for a one-person household. A designated beneficiary can't contribute this additional amount if his or her employer made a contribution for him or her to a:

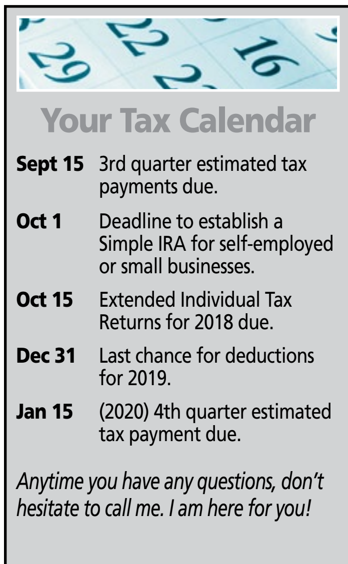
- 401(a) defined contribution plan or 403(a) annuity contracts;
- 403(b) annuity contract or
- 457(b) eligible deferred compensation plans.

Check with me to find your state's specific requirements.

The Tax Man

1800 Hamilton Ave., Ste. 220
San Jose, CA 95125-5635

RETURN SERVICE REQUESTED



Your Tax Calendar

Sept 15	3rd quarter estimated tax payments due.
Oct 1	Deadline to establish a Simple IRA for self-employed or small businesses.
Oct 15	Extended Individual Tax Returns for 2018 due.
Dec 31	Last chance for deductions for 2019.
Jan 15	(2020) 4th quarter estimated tax payment due.

Anytime you have any questions, don't hesitate to call me. I am here for you!

Tax Tips For You... *Now!*

✔ *New Section 199A Qualified Business Income 20% Tax Cut*

The owners of pass-through businesses like sole proprietors, partnerships, S corporations and some real estate investors may now qualify for a deduction equal to 20% of qualified business income (QBI). If you have $100,000 of qualified business income, for example, you potentially get up to a $20,000 deduction. This also applies to Schedule C sole-proprietors.

Qualified Business Income Tax Cut Rules Can Be Tricky

The Section 199A qualified business income deduction gets limited in a couple of situations.

Not every pass-through entity gets to use the Section 199A Qualified Business Income deduction.

This law, for example, disqualifies "specified service trades and businesses" including most of the traditional white-collar professions (medicine, law, accounting, actuarial science, financial services and consulting) and then also performing artists and athletics unless personal taxable income is below applicable thresholds.

Another limitation applies if you're single and earn more than $160,700 or you're married and earn more than $321,400. However, if you are below these income limitations then the "specified service trades and businesses" limitation mentioned above does not apply.

These rules and the qualifications are tricky…call me if you have income from a sole proprietorship, partnership, S Corporation or rental income to see if you qualify.

See "Tax Tips" on Page 3 >