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Tax News and Industry Updates

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2019 Tax Highlights

There have not been many changes to the federal tax law since the passage of the Tax Cuts and Jobs Act (TCJA) at the end of 2017. We are still hearing rumblings from Washington that some of the provisions that expired at the end of 2017 might be extended (e.g. the above-the-line deduction for higher education tuition and fees, or the itemized deduction for mortgage insurance premiums) but as of the date this was written, nothing has been passed. This letter is to update you on some changes that might affect you and other things to be aware of.

If you have any questions or want to know how any of this impacts you, please do not hesitate to contact us.

Divorce and alimony. One thing that changed under the TCJA, but did not come into play until 2019, is the taxability of alimony. If your divorce or separation was finalized (or modified) after December 31, 2018 and the decree stipulates that you receive alimony, you will not include the amount received as taxable income. Along the same lines, if you are the one paying alimony, you are not able to deduct the amount paid from your income.

For divorces and separations that were finalized before January 1, 2019, and have not been modified since December 31, 2018, nothing has changed (alimony is taxable to the recipient and deductible by the payer). However, the date of the original divorce or separation agreement must now be included on the tax return next to the line where the income or deduction is being reported.

Penalty for not having health insurance. Another change under the TCJA, that did not take effect until 2019, is the elimination of the penalty for not having health insurance. Even though the penalty has been removed, if you received health insurance through the marketplace, Form 1095-A, *Health Insurance Marketplace Statement,* along with any Forms 1095-C, *Employer-Provided Health Insurance Offer and Coverage,* you may have received will be needed to reconcile any Advance Premium Tax Credit received and/or compute any Premium Tax Credit allowed.

Things to do in 2020 that can affect 2019 taxes. There is very little that you can do to impact your 2019 taxes after December 31, 2019. However, two things that can be done, if you qualify, is making a contribution to your traditional IRA and/or your health savings account (HSA).

IRA deduction. For 2019, you may be able to contribute up to $6,000 ($7,000 if you are at least 50 years old) to an IRA. Contributions for 2019 can be made up until April 15, 2020. If the contribution is made to a traditional IRA, you may qualify for a deduction on your 2019 return. In addition, contributions to any type of IRA (traditional or ROTH), might qualify you for the Retirement Savings Contribution Credit.

HSA deduction. Similar to the IRA, you can make 2019 contributions to your HSA up until April 15, 2020. The total amount that can be contributed between you and your employer ranges from $3,500 to $9,000 based on whether you have self-only or family HSA qualifying coverage and your age.

IRS hot items. There always seems to be a number of items that the IRS is focusing on. Some of the current topics the IRS is focused on are foreign assets, cryptocurrency transactions, and unreported income.

Foreign assets. The IRS has been focused on the reporting of foreign assets for some time now and the penalties for not reporting can be severe. There are enhanced reporting requirements if you have any type of foreign asset, be it a foreign bank account, pension plan, rental property, ownership of a foreign company, etc. The income derived from these assets is includable on your U.S. tax return and the value of each of these assets might need to be reported, either with your tax return and/or separately to the IRS or Treasury Department.

Cryptocurrency transactions. Cryptocurrency (i.e. Bitcoin, Ethereum, etc.) is becoming more and more common. Transactions involving cryptocurrency have tax implications and for 2019, the IRS has included the following question on Schedule 1, *Additional Income and Adjustments to Income:* "At any time during 2019, did you receive, sell, send, exchange, or other acquire any financial interest in any virtual currency?"

Unreported income. If you are making extra money by doing side jobs, be it driving for a ridesharing company such as Uber or Lyft, selling crafts on Etsy, delivering meals with Grubhub or DoorDash, renting out a room in your house via Airbnb, or any other way, it needs to be included on your tax return. Unless specifically excluded under the Internal Revenue Code, all income is taxable. This includes income that is not reported to you on one of the various Forms 1099, foreign income, and barter income.

New Form W-4. If you start a new job in 2020, or want to make changes to the amount of taxes being withheld from your paycheck, be aware that there is a new Form W-4, *Employee's Withholding Certificate,* for 2020. Previously, you would indicate whether you were single or married and claim a certain number of "allowances." Instead of using allowances, the new Form W-4 tries to do a better job at estimating your tax liability by utilizing your filing status, the number of dependents you have, as well as other income or deductions you might have.

Federal and state differences. When it comes to taxes, most of what you read and hear from the media has to do with federal tax law. Remember that each state has its own tax law and just because something is not allowed for federal taxes (or you do not qualify) does not mean that you are not able to include it on your state tax return. For example, with the increase of the standard deduction under the TCJA, you may no longer claim itemized deductions on your federal return. However, based on state tax law, you may still end up itemizing on the state return. Another example is 529 plans (college savings accounts). Even though there is no federal deduction for contributions made to a 529 plan, more than half of the states allow either a deduction and/or a credit.

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