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# 2019 Tax letter

Helping Our Clients Navigate the  
Complexities of Tax



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## IN THIS ISSUE

TCJA Tax Reform  
Report Card

Understanding Virtual  
Currency & Taxes

Rental Real Estate & QBI

Year-end Planning

IRS In the News –  
Scam Alert

Tax Season  
Important Matters

## 2020 Office Hours

Please drop off your tax  
paperwork during the  
following hours:

Monday-Thursday 9:00am – 6:00pm  
Friday **closed to foot traffic**  
Saturday 9:00am – 1:00pm

## DROP OFF DEADLINE



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Saugus, MA 01906  
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## The Tax Cuts & Jobs Act (TCJA) – Good or Bad for Taxpayers?



2018 was the first tax filing year under the new tax law so how did taxpayers do?

### Ease of Filing



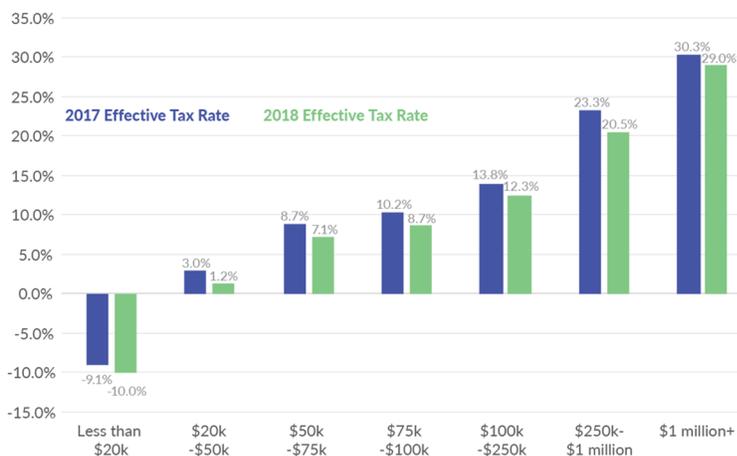
Remember when the Trump Administration claimed your return would **fit on a postcard**? This didn't happen. The new Form 1040 did shrink, but much of the information that was on the old 1040 shifted to endless support schedules, meaning that most taxpayers just ended up filling out MORE pages.

### Did TCJA Result in a Lower Tax Bill?



**Overall, a vast majority of Americans did receive a tax cut.** Approximately, 65% paid less; 6 percent paid more; and the remaining 29% paid roughly the same.<sup>1</sup> The impact of the TCJA on individual taxpayers differed depending on their income sources, marital status, family composition, and other characteristics that affect eligibility for certain income tax provisions. On average, every tax bracket paid less tax in 2018. With a majority of Americans paying the same or less in taxes, why were so many upset at tax filing time? For many taxpayers, their refunds were significantly lower and some even owed money for the first time...

Effective Tax Rates, 2017 vs 2018



Source: IRS, "Late-May Filing Season Statistics by AGI," 2019, <https://www.irs.gov/statistics/filing-season-statistics>.

TAX FOUNDATION

@TaxFoundation

1. Source: Tax Policy Center & Brookings Institute and as reported by The Washington Post, Forbes and H&R Block.

# TCJA Report Card, continued...

## About Those Refunds



On average, taxpayer tax liability dropped 25% or \$1,300 under TCJA, however, refunds were roughly flat. **So, where did the money go?** Nearly 80 percent of Americans did not update their Form W-4 withholdings last year, resulting in a bump in their paychecks throughout the year. **In essence, more money went into their pocket during the year and less was refunded at tax time.**

As we communicated earlier this year, the IRS adjusted the withholding tables to reflect the new tax law in 2018. Many employers, however, did not switch to the new tables until part way through 2018. As a result, the impact will be amplified in 2019 because the lower withholding tables will be in effect for all 12 months of the year.

If you haven't reviewed your 2019 withholdings PLEASE do so immediately using the IRS tool ... [www.irs.gov/individuals/tax-withholding-estimator](http://www.irs.gov/individuals/tax-withholding-estimator)

## NEW Form W-4 Coming for 2020

The IRS is expected to release its final version of the 2020 Form W-4 that workers are to use to calculate their federal income tax withholding. The new form is intended to reflect fully the dramatic changes in the 2017 Tax Cuts and Jobs Act (TCJA), and make it easier for employees to calculate accurately how much income tax they should have set aside with each paycheck.

*The draft version currently available appears to be anything but easy. Stay tuned for the release of the final W-4 form. Go to our website at [www.APL2CPA.com](http://www.APL2CPA.com) in January for available updated information.*

## HOT TOPICS

### Virtual Currency- What Transactions are Taxable?

**Bitcoin, Litecoin, Ethereum**, and other cryptocurrencies have gained significant popularity in recent years, but most taxpayers are confused about the tax consequence of transactions involving these currencies. As such, the IRS has issued new guidance intended to help taxpayers better understand reporting obligations for specific transactions involving these virtual currencies. Here are the basics...

- Virtual currency is to be treated as a capital asset if it can be converted to cash. This means that capital gains rules apply to any gains or losses on the **sale or transfer** of virtual currency, and must be reported on Schedule D. However, if you transfer virtual currency from a wallet, address, or account belonging to you, to another wallet, address, or account that also belongs to you, then the transfer is a non-taxable (but reportable) event, even if you receive an information return (like a Form 1099) from the exchange.
- Receipt of virtual currency in exchange for performing services, whether or not you perform the services as an employee, results in taxable income. Additionally, virtual currency received by an independent contractor for performing services constitutes self-employment income, measured in U.S. dollars as of the date of receipt, and is subject to self-employment tax.
- If you pay for goods or services using virtual currency, you will have a capital gain or loss. Your gain or loss is the difference between the fair market value of the services you received and your adjusted basis in the virtual currency exchanged.

The IRS is targeting non-compliance through a variety of efforts, including taxpayer education, audits, and criminal investigations. In July of this year, the IRS began mailing letters to taxpayers who may have failed to report or misreported transactions involving virtual currency. Those taxpayers may be liable for tax, penalties, and interest. In some cases, taxpayers could be subject to criminal prosecution.

### Rental Income, TCJA & the 20% Qualified Business Income Deduction (QBI)

Is a rental real estate activity considered a trade or business for tax purposes, or merely an investment? This question was much debated by the tax community because the answer determined whether landlords and other real estate professionals would be eligible to take the 20% QBI tax deduction under TCJA. Due to this uncertainty the IRS issued a "Safe Harbor" ruling requiring:

- separate books and records for each rental activity.
- at least 250 hours or more of rental services performed by owners, employees, agents, and/or independent contractors.
- contemporaneous records of services performed must be maintained for tax years beginning on or after January 1, 2019. This means keeping a time log of all services performed, description of service, date of service, and who performed said service.

**NOTE: a rental that is a triple net lease NEVER qualifies for QBI.**

If you do not qualify for safe harbor, you may still be considered a trade or business if you have a profit motive, participate on a regular and continuous basis, and you follow the reporting rules of a trade or business.

**THIS MEANS ISSUING FORM 1099-MISC TO YOUR SERVICE PROVIDERS, CONTRACTORS, LANDSCAPERS, ROOFERS, ETC THAT YOU PAID \$600 OR MORE IN 2019.** As such, we **STRONGLY** recommend all our clients with rental income to issue 1099's. **Form W-9 should be used to obtain vendor names, addresses and federal ID numbers and can be found at:**

[www.irs.gov/pub/irs-pdf/fw9.pdf](http://www.irs.gov/pub/irs-pdf/fw9.pdf)

# Tax Planning for 2019 Year-end

## TCJA Tips & Reminders

With a year behind us to digest and understand the **Tax Cuts and Job Act**, it makes sense to review what tax planning techniques work and which do not...

- Given the nearly **doubled standard deduction (\$12,200 Single / \$24,400 MFJ)**, you should consider whether you will EVER be able to itemize. If the answer is always going to be “No”, you would no longer need to provide us with your real estate tax bills, charity, medical bills, etc. If you are unsure, however, continue to provide your receipts, and we will determine the best method.
- If you are charitably inclined, **consider doubling-up charitable contributions every other year** to get over the itemizing threshold. By bunching in one year and taking the standard deduction in an adjacent year, the total deductions over a two year period could be maximized.
- If you itemize **DO NOT accelerate payment of property taxes**. With the \$10,000 cap on state and local taxes (SALT) this strategy no longer works for most taxpayers.
- **2% Miscellaneous Itemized Deductions were eliminated**, including employee business expenses, union dues, tax prep fees, etc.
- **Those without qualified health insurance will NOT be penalized in 2019**. TCJA eliminated the healthcare penalty for federal tax purposes.



There ARE still state penalties assessed by Massachusetts for not having health insurance (MA residents, only).

## The Tried & True Year-end Tax Strategies

### • MAX OUT YOUR PRE-TAX RETIREMENT SAVINGS

As the year comes to a close, try to squeeze a little more money from each paycheck for your retirement savings. **You can contribute up to \$19,000 to a 401(k), 403(b) or federal Thrift Savings Plan in 2019, plus \$6,000 in catch-up contributions if you're 50 or older.** Review your paystub or contact your 401(k) administrator ASAP to ask about the steps you need to take to boost your contributions.

### • WATCH FOR CAPITAL GAIN DISTRIBUTIONS

Review your brokerage statement for any “surprise” capital gain distributions. These are realized gains on stock or bond sales within a mutual fund and are taxable to you even if gains are reinvested. Many taxpayers are surprised by these gains because they did not initiate a sale of stock. You can ask your broker what your capital gain distributions are or visit your mutual fund company website as they typically publish an estimate in November or early December. If you have a gain, one strategy is to **harvest losses**. Go through your portfolio for holdings that have declined in value (unrealized loss) and sell them (realized loss) before year-end to offset any gains. If you want to buy back the holding you MUST wait 31 days to avoid **wash sale rules** which would disallow the original loss.

### • TRANSFER IRA MONEY TO CHARITY (Don't forget to take you RMD, *Required Minimum Distribution*)

Taxpayers who are 70½ or older can transfer up to \$100,000 from a traditional IRA tax-free to charity each year, as long as the custodian transfers the money to the charity directly. The **qualified charitable distribution** will count towards your RMD without being added to your adjusted gross income, which can be a boon if you were going to take the standard deduction instead of itemizing. The transfer could also help keep your income below the threshold at which you're subject to the Medicare high-income surcharge as well as hold down the percentage of your Social Security benefits subject to tax. **Make a QCD well in advance of New Year's Eve because the money has to be out of the account and the check needs to be cashed by the charity by December 31<sup>st</sup>.**

### • HEALTH SAVINGS AND FLEXIBLE SPENDING ACCOUNTS

If you are in a high-deductible health plan, **make sure you have maxed out your HSA contributions** of \$3,500 (Single) and \$7,000 (Family). If you have a Flexible Spending Account (FSA) and have money left in the plan, visit the doctor and the dentist before year end because an FSA is a **“use-it-or-lose-it”** plan.

## IRS retirement savings contribution limits

Account	2019 Limit	2020 Limit
401(k), 403(b), Thrift Savings Plan, most 457 plans	\$19,000	\$19,500
Catch up contributions for those accounts for those 50 and over	\$6,000	\$6,500
SIMPLE retirement accounts	\$13,000	\$13,500
IRAs	\$6,000	\$6,000
Catch up contributions for IRAs for those 50 and over	\$1,000	\$1,000

SOURCE: IRS



## Year-end Tax Strategies, continued...

### • SELF EMPLOYED INCOME OR PASS-THRU INCOME FROM AN S-CORP, PARTNERSHIP OR TRUST

Business owners should review year-to-date financial results. How are the financials trending through November? Is your profit higher or lower than expected? If it is higher, then there are some decisions you can make in December to minimize your tax liability.

- ✓ Complete any needed repairs and maintenance before year end.
- ✓ Purchase any vital equipment, including company vehicles, AND **place them in service before year-end**. Under TCJA a business can benefit from two accelerated depreciation methods: Section 179 and/or “bonus” depreciation.
- ✓ Stock up on supplies; purchases made on a MC, VISA, AMEX or Discover can be deducted even if not paid until 2020.
- ✓ Review shareholder compensation (S-Corporation owners).
- ✓ Establish a tax-favored retirement plan, such as a SEP-IRA.

**Be aware that moves designed to reduce this year's taxable income will reduce your 20% Qualified Business Income (QBI) deduction. It is important that you consult with us before making any significant year-end tax decisions.**

Other considerations include ...

- ✓ Review your estimated tax payments. Did you make all your payments as instructed? Is your profit higher or lower than the original projection? We can modify your Quarter 4 payment due on January 15, 2020 to reflect any changes..
- ✓ Start gathering information on non-corporate vendors you paid \$600 or more so that 1099-MISC forms can be issued by the due date of January 31, 2020. A W-9 form, *Request for Taxpayer Identification*, is available on the IRS website at [www.irs.gov/pub/irs-pdf/fw9.pdf](http://www.irs.gov/pub/irs-pdf/fw9.pdf)

**We encourage you to call our office to discuss your specific situation in order to optimize your 2019 tax return results.**

**\*\*PLEASE VISIT OUR WEBSITE AT [www.APL2CPA.com](http://www.APL2CPA.com) FOR MORE TAX PLANNING INFORMATION AND ADVICE\*\***

## The IRS in the News

The IRS agenda for year-end 2019 includes rolling out the **Taxpayer First Act of 2019** designed to strengthen taxpayers rights, including improved customer service, an increased focus on cyber security, and identity theft.



As such, the IRS is planning an extensive cyber awareness campaign beginning immediately after Thanksgiving that will emphasize the phishing scams consumers face during the holiday shopping season. In addition, they will be updating their YouTube videos for the latest tax scams, identity theft traps, and other cyber-crimes.

The latest scam involves real estate; the buyer receives legitimate wire instructions from the bank, realtor or attorney. The buyer then receives an email with updated wire instructions containing a new recipient and bank account number. The email appears real, but it is actually from a hacker trying to redirect and “steal” your funds. If the money is wired to the fraudulent account, in most cases, the buyer cannot recover the funds. BEWARE of last minute changes to wire transfer instructions. To avoid this trap verbally confirm ALL wire instructions with your trusted contact. Also, **do not use** any phone number in the email but instead use a number you know to be valid based on prior interactions.

Other noteworthy provisions of the **Taxpayer First Act** (of which there are 45) include the expansion of the identity protection PIN program, overall improvement in customer service, establishing an independent Office of Appeals, and a provision to exempt low-income taxpayers from IRS private debt collection.

## Important Tax Season Matters

- ❖ Please refer to the cover page of this newsletter for our **2020 office hours**. We ask that you drop your tax documents off during these hours, only. **The drop off deadline is March 23<sup>rd</sup>**. Tax paperwork received after this date will result in your return being placed on extension. For your convenience, we have the following alternate ways of submitting your tax documents:
  - a locked mailbox by the front door to drop off documents outside office hours and,
  - **ShareFile Client Portal** to submit documents electronically. Send us an email and we will provide you with a link to securely upload your documents. Please, please, please DO NOT email personal tax information without first requesting a secure link.
- ❖ We will be sending **e-Organizers** in January to select clients. The organizer is provided to make your life easier, and its use is entirely optional. If you do not receive an email from us and would like to utilize this option, please let us know.
- ❖ Post-tax preparation appointments worked very well last year so we will continue this practice. As such, there will be **no appointments at drop-off** UNLESS you have a special tax situation that requires an upfront meeting. If you do, please call the office to schedule an appointment.