The Kiplinger Tax Letter

CIRCULATED BIWEEKLY TO BUSINESS CLIENTS SINCE 1925

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SPECIAL

NEW TAX RULES FOR 2019

THIS IS YOUR LAST ISSUE

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Dear Client: Washington, May 2019

HIGHLIGHTS
Tax Brackets Updated tables
Minimum Tax Higher exemptions
Alimony Tax change kicks in
Preparers Due diligence rules
Retirement IRA contribution limit
Business Taxes Mileage rates

Many tax changes went into effect on Jan. 1. Most reflect prior-year inflation. Others are new rules. But one thing is certain...all taxpayers are affected.

This Letter will focus on what's new for 2019.

HEALTH CARE

Start with key provisions under Obamacare. The legality of the health law is in doubt. A federal court in Texas ruled it invalid last Dec., and the law's supporters have appealed the decision.

But most provisions will still apply for 2019 or until the litigation is final. The case will be heard next by the U.S. Court of Appeals for the 5th Circuit and then possibly the Supreme Court. Meanwhile, expect more political posturing from congressional Democrats and President Trump on the law's fate, especially now that the Trump administration says it agrees with the lower court's decision.

We'll now turn to key Obamacare tax changes that are in place for 2019.

People who forgo health insurance in 2019 won't have to pay a penalty.

The new tax law repealed the fines under Obamacare's individual mandate for post-2018 years. Note that this relief doesn't apply for 2018 returns filed in 2019.

The income levels to qualify for the health premium credit in 2019 go up. 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...who buy health insurance through one of the exchanges. These threshold amounts are even higher for people living in Alaska or Hawaii. Individuals eligible for Medicare or other federal insurance don't qualify for a credit. Nor do people who can get affordable health coverage through their employers.

MEDICALS

The annual cap on deductible contributions to HSAs rises in 2019 to $3,500 for self-only coverage and $7,000 for account owners with family coverage. Qualifying policies must limit out-of-pocket costs for deductibles and copayments to $13,500 for family health plans and $6,750 for people with individual coverage. Minimum policy deductibles stay at $2,700 for families and $1,350 for individuals.

The threshold for deducting medical expenses on Schedule A jumps from 7.5% of adjusted gross income to 10%, starting with 2019 returns filed in 2020.

Limits on deducting long-term-care premiums are generally higher in 2019. Taxpayers who are age 71 or older can write off as much as $5,270 per person. Filers age 61 to 70...$4,220. Those who are 51 to 60 can deduct up to $1,580. Individuals who are 41 to 50 can take $790. And people age 40 and younger...$420. For most, long-term-care premiums are medical expenses deductible only by itemizers and only to the extent that total medical expenses exceed 10% of adjusted gross income. Self-employeds can deduct long-term-care premiums, subject to the dollar limits, on Schedule 1 of the 1040 form without regard to the 10%-of-AGI threshold.

TAX BRACKETS The income tax brackets for 2019 are somewhat wider than for 2018 because of inflation during the 12-month period...from Sept. 2017 through Aug. 2018...used to figure the adjustments. Tax rates do not change.

Marrieds: If taxable income is	**The tax is**
Not more than $19,400	10% of taxable income
Over $19,400 but not more than $78,950	$1,940.00 + 12% of excess over $19,400
Over $78,950 but not more than $168,400	$9,086.00 + 22% of excess over $78,950
Over $168,400 but not more than $321,450	$28,765.00 + 24% of excess over $168,400
Over $321,450 but not more than $408,200	$65,497.00 + 32% of excess over $321,450
Over $408,200 but not more than $612,350	$93,257.00 + 35% of excess over $408,200
Over $612,350	$164,709.50 + 37% of excess over $612,350

Singles: If taxable income is	**The tax is**
Not more than $9,700	10% of taxable income
Over $9,700 but not more than $39,475	$970.00 + 12% of excess over $9,700
Over $39,475 but not more than $84,200	$4,543.00 + 22% of excess over $39,475
Over $84,200 but not more than $160,725	$14,382.50 + 24% of excess over $84,200
Over $160,725 but not more than $204,100	$32,748.50 + 32% of excess over $160,725
Over $204,100 but not more than $510,300	$46,628.50 + 35% of excess over $204,100
Over $510,300	$153,798.50 + 37% of excess over $510,300

Household Heads: If taxable income is	**The tax is**
Not more than $13,850	10% of taxable income
Over $13,850 but not more than $52,850	$1,385.00 +12% of excess over $13,850
Over $52,850 but not more than $84,200	$6,065.00 + 22% of excess over $52,850
Over $84,200 but not more than $160,700	$12,962.00 + 24% of excess over $84,200
Over $160,700 but not more than $204,100	$31,322.00 + 32% of excess over $160,700
Over $204,100 but not more than $510,300	$45,210.00 + 35% of excess over $204,100
Over $510,300	$152,380.00 + 37% of excess over $510,300

STANDARD DEDUCTION The 2019 standard deductions go up a bit. Married couples get $24,400 plus $1,300 for each spouse age 65 or older. Singles claim $12,200...$13,850 if 65 or up. Household heads get $18,350 plus $1,650 once they reach age 65. Blind people receive $1,300 more ($1,650 if unmarried and not a surviving spouse).

CAPITAL GAINS Tax rates on long-term capital gains and qualified dividends do not change. But the income thresholds to qualify for the various rates go up for 2019. The 0% rate applies for individual taxpayers with taxable incomes up to $39,375 on single returns, $78,750 for joint returns and $52,750 for head-of-household filers. The 20% rate starts at $434,550 for singles, $461,700 for heads of household and $488,850 for couples filing jointly. The 15% rate is for filers with taxable incomes between the 0% and 20% break points. The 3.8% surtax on net investment income kicks in for single people with modified AGI over $200,000...$250,000 for marrieds.

MINIMUM TAX AMT exemptions climb for 2019. They increase to $111,700 for couples and $71,700 for both singles and heads of household. The phaseout zones for the exemptions start at higher income levels as well...above $1,020,600 for couples and $510,300 for single filers and household heads. Also, the 28% AMT tax rate kicks in a bit later in 2019...above $194,800 of alternative minimum taxable income.

ADOPTION The adoption credit can be taken on up to $14,080 of qualified expenses. The full credit is available for a special-needs adoption, even if it costs less. The credit phases out for folks with modified AGIs over $211,160 and ends at $251,160.

The exclusion for company-paid adoption aid also increases to $14,080.

ALIMONY Alimony paid under post-2018 divorce agreements is not deductible, and ex-spouses aren't taxed on alimony they get under post-2018 agreements. Older divorce pacts can be modified to follow the new tax rules if both parties concur and they modify the agreement in 2019 or later to specifically adopt the tax changes.

ESTATES & TRUSTS The lifetime estate and gift tax exemption for 2019 rises to $11,400,000... $22,800,000 for couples if portability is elected by timely filing Form 706 after the death of the first-to-die spouse. The estate tax rate remains steady at 40%.

You can give up to $15,000 each to a child, grandchild or any other person in 2019 without having to pay gift tax or tap your lifetime estate and gift tax exemption.

More estate tax liability qualifies for an installment payment tax break. If one or more closely held businesses make up greater than 35% of an estate, as much as $620,000 of tax can be deferred and IRS will charge only 2% interest.

The income tax brackets for trusts and estates are somewhat wider in 2019:

If income of an estate or trust is	The income tax is
Not over $2,600	10% of taxable income
Over $2,600 but not more than $9,300	$260 plus 24% of excess over $2,600
Over $9,300 but not more than $12,750	$1,868 plus 35% of excess over $9,300
Over $12,750	$3,075.50 plus 37% of excess over $12,750

More capital gains of trusts and estates will be taxed at favorable rates. For 2019, the 0% rate applies for trusts and estates with taxable incomes up to $2,650. The 20% rate begins at $12,951. The rate on income between these amounts...15%.

The 3.8% surtax on net investment income hits income over $12,750 in 2019.

KIDDIE TAX Note the kiddie tax. The first $1,100 of net unearned income of a child... someone under age 19, or under age 24 if a full-time student...is tax-free. The next $1,100 is taxed at the child's rate. Any unearned income exceeding $2,200 is taxed at the ordinary income and capital gains rates above that apply for trusts. Earned income of children is taxed at the individual tax rates for single filers.

EDUCATION The 2019 income caps are higher for tax-free EE bonds used for education. The exclusion starts phasing out above $121,600 of modified AGI for couples and $81,100 for others. It ends at modified AGI of $151,600 and $96,100, respectively. Remember, the limits apply in the year the bonds are cashed, not when they're bought. Also, the savings bonds must be redeemed to help pay for college, graduate school or vocational school tuition and fees for the taxpayer, spouse or dependent.

The lifetime learning credit phases out at higher modified AGI amounts for couples...$116,000 to $136,000. The AGI range for singles is $58,000 to $68,000.

FRINGE BENEFITS U.S. taxpayers working abroad have a larger income exclusion...$105,900.

The cap on employer-provided tax-free parking goes up to $265 a month. The exclusion for mass transit passes and commuter vans matches that amount.

Employees covered by health flexible savings plans can defer up to $2,700.

PREPARERS Tighter rules apply to preparers of returns for head-of-household filers, starting with 2018 tax returns due in 2019. Preparers will have to document how they determined that a taxpayer's head-of-household filing status was valid... similar to the rules that apply to returns claiming the earned income credit, the child credit and the American Opportunity Tax Credit. IRS revised Form 8867 to include a due diligence checklist for the credits and head-of-household filing status. Preparers who don't attach the form to 2018 returns are subject to a penalty of $520 for each failure. The fine, which is indexed to inflation, rises to $530 for 2019 returns.

RETIREMENT

Many key dollar limits on IRAs and retirement plans are higher for 2019. The maximum 401(k) contribution rises to $19,000. People born before 1970 can contribute an extra $6,000. These limits apply to 403(b) and 457 plans as well. The cap on SIMPLEs climbs to $13,000. People age 50 and up can put in $3,000 more.

Retirement plan contributions can be based on up to $280,000 of salary. Anyone making over $125,000 is highly paid for plan discrimination testing.

The 2019 payin limit for traditional IRAs and Roth IRAs jumps to $6,000. Individuals who are age 50 and older next year can contribute an additional $1,000.

The income ceilings on Roth IRA payins go up. Contributions phase out at AGIs of $193,000 to $203,000 for couples and $122,000 to $137,000 for individuals.

Deduction phaseouts for traditional IRAs start at larger amounts for 2019, from AGIs of $103,000 to $123,000 for couples and $64,000 to $74,000 for singles. If only one spouse is covered by a plan, the phaseout zone for deducting a contribution for the uncovered spouse will start at $193,000 of AGI and top out at $203,000.

And the partial credit for retirement plan payins ends at higher AGI levels. For marrieds...at AGIs over $64,000. Household heads...$48,000. Singles...$32,000.

PAYROLL TAXES

The Social Security annual wage base is $132,900 for 2019, up $4,500 from 2018's cap. The Social Security tax rate on employers and employees remains at 6.2%. The employer's share of Medicare tax stays at 1.45% of all pay. The employee's share is 1.45%, too, but employees also pay the 0.9% Medicare surtax on wages that exceed $200,000 for singles and $250,000 for married couples. This extra levy doesn't hit employers. Self-employeds are also subject to the surtax.

BUSINESS TAXES

The 2019 standard mileage rate for business driving rises to 58¢ a mile, up 3.5¢ from 2018. Businesses with four or fewer vehicles can use this rate, but each vehicle's basis must be reduced by the depreciation component...26¢ a mile.

The rate for medical travel and military moves is going up 2¢, to 20¢ per mile. But the charitable driving rate will stay put at 14¢ a mile. It's fixed by law.

$1,020,000 of assets can be expensed in 2019, and this amount phases out dollar for dollar once over $2,550,000 of assets are put into service during 2019.

A key dollar threshold on the 20% deduction for pass-through income rises. The self-employed and owners of LLCs, S corporations and other pass-through entities can deduct 20% of their qualified business income, subject to limitations for individuals with taxable incomes in excess of $321,400 for couples and $160,700 for others.

More changes are sure to come in 2019...from IRS, the courts and Congress. With the two parties holding divergent views on taxes, it will be a very turbulent year. As always, we'll be here to keep you up to date on all of the tax developments.

Yours very truly,

The Kiplinger Editors

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