

ANDES, ERNST & BLACKMER INCOME TAX

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Tax year 2019

We hope you have all had a wonderful summer and Holiday Season. This newsletter serves to help you prepare for the upcoming tax filing season and be informed of any changes.

First, we want to thank you so much for the confidence you have all shown by your many referrals of new clients, and we would greatly appreciate your continued referrals.

Please remember to check our website at “aebtax.com” for helpful worksheets, updates, and news.

Scheduling your appointment

Clients are seen by appointment only. Call our main phone number, 816-795-9882 and press 0 when prompted for the receptionist.

When bringing in more than one return (children, parents, etc.) or adding a business or rental etc. please let the receptionist know when you schedule your appointment. Or if you need extra time, they can schedule that accordingly. We do not charge by the hour, and it is OK if you don't end up needing the time.

As always you may drop off or mail your information. If you prefer to email, we can send you a secure link to do so. We will call you at a later time to address any questions.

2019 Tax Law Highlights

Health Insurance Mandate Penalty Eliminated

The penalty for failing to obtain health insurance expired at the end of 2018. If you obtained health insurance through the healthcare marketplace, please bring your 1095-A.

Medical Expense Deduction Threshold Remains at 7.5 Percent

For tax years 2017 and 2018 the medical expense deduction threshold was rolled back to 7.5 percent of adjusted gross income (AGI). In 2019 it was scheduled to revert to 10 percent; however, the 7.5 percent threshold was extended through 2020 (including tax year 2019).

Mortgage Insurance Premiums

Mortgage insurance premiums, PMI, is deductible again. The deduction is available for payments for a principal residence and one other home, like a vacation home.

Alimony

Starting on January 1st, 2019, alimony payments are no longer deductible, and alimony received is no longer taxable. This does not apply for divorces prior to January 1, 2019. The date of the divorce decree is now required on the return.

Standard Mileage Rates

For 2020, standard mileage rates for the use of cars, vans, pickups or panel trucks will be:

- 57.5 cents per mile driven for business use, down from 58 cents in 2019.
- 17 cents per mile driven for medical or moving purposes, down from 20 cents.
- 14 cents per mile driven in service of charitable organizations, which is unchanged.

Section 529 Plans

Distributions of up to \$10,000 per student can be used for tuition expenses for public, private, or religious elementary or secondary school. Effective January 1st, 2019, distributions of up to \$10,000 from 529 plans can now be used to pay student loans for the beneficiary or a sibling. This is a lifetime limit per student.

Mortgage debt forgiveness

Discharge of qualified mortgage debt may be excluded from federal income tax, up to a limit of \$2 million. The tax exclusion is only available for debt on a principal residence.

Cryptocurrency

In 2019 the Internal Revenue Service issued a statement that it would be sending letters to more than 10,000 taxpayers that the Service has deemed to own or have owned cryptocurrency accounts. This action is the Service's latest attempt in the ongoing battle to capture untaxed cryptocurrency transactions. The intent of these letters is to educate taxpayers about the tax filing requirements for reporting virtual currency transactions (such as Bitcoin) and to provide information about correcting errors made on previous tax returns.

In addition, a line has been added to the tax return where you will have to affirmatively state that you either did or did not have cryptocurrency transactions. So, it is very important that you track and report all cryptocurrency sales. If any of the cryptocurrency exchanges that you invest in are on a foreign exchange, you must report the assets on the foreign reporting forms.

The SECURE Act, “Setting Every Community Up for Retirement Enhancement” was recently passed and takes effect on January 1st, 2020. Some of the more significant provisions:

- **Change to RMD age:** The law raises to 72 from 70½ the age at which individuals must begin taking RMDs from their retirement accounts. **Important:** The new law only applies to people who turn 70½ *after* December 31, 2019. If a person turned 70½ in 2019, the law does not apply—that person must take an RMD in 2019, 2020 and beyond.
- **Contributions to traditional IRAs after age 70½.** The law ends the prohibition on contributing to an individual retirement account (IRA) after 70½. Individuals may continue contributing to an IRA at any age, as long as they have earned income.
- **New rules for inherited retirement accounts:** Under current law, inherited retirement accounts (often referred to as “Stretch IRAs”) can distribute those assets over the beneficiary’s lifetime. Under the new law, those assets must be distributed within 10 years. This provision has potentially significant estate planning implications. There are exceptions for spouses, minor children, disabled individuals and people less than 10 years younger than the decedent. The bill does *not* affect existing inherited accounts. It only applies to accounts that are inherited in 2020 and beyond.
- **Penalty-free withdrawals for birth/adoption expenses.** New parents can withdraw up to \$5,000 from an IRA or an employer-sponsored retirement plan to pay for birth and/or adoption expenses, through the first year after the birth or adoption. Taxes still need to be paid on pre-tax contributions, but no penalties apply to the withdrawal.
- **Part-time workers can participate in a 401(k) plan.** Employees must have worked at least 500 hours a year for three consecutive years in order to be eligible.
- **Lifetime income disclosure.** The bill requires the Department of Labor to propose rules for a new disclosure to plan participants that will illustrate the participant’s projected monthly income in retirement based on current retirement assets. It’s designed as a kind a “progress report” to show employees how they are doing on saving. The rule-making process for this is likely to take a year or more, followed by an implementation period, so it could be 2021 or 2022 before this becomes standard.
- **Makes it easier for annuities to be offered in 401(k) plans.** The new law lowers barriers to offering annuities in employer-sponsored plans, though plans are not required to do so.

Energy Credits are Back

The total credit is limited to 10% of the project, up to \$500. Improvements must be done to an existing home, and it must be your principal residence. It does not apply to new construction, rental property, investment property, or second homes. **The \$500 is a lifetime maximum.** The amount of Energy Credit that you've claimed in the past reduces this year's credit. See chart below for further restrictions:

<u>Project</u>	<u>Requirements</u>	<u>Installation Costs?</u>	<u>Project Max</u>
Insulation	Must meet Intl. Energy Conservation Code	NO	\$500
Gas & oil-fired water heater	Energy Factor ≥ 0.82	YES	\$300
Electric water heater	Energy Factor ≥ 2.0	YES	\$300
Central air conditioning	Split systems: SEER ≥ 16 , EER > 13 Package systems: SEER ≥ 14 , EER ≥ 12	YES	\$300
Heat Pumps	Split systems: SEER ≥ 15 , EER ≥ 12.5 Package systems: SEER ≥ 14 , EER ≥ 12	YES	\$300
Windows	Must meet Energy Star Criteria	NO	\$200
External Doors	Must meet Energy Star Criteria	NO	\$500
Furnaces	Annual Fuel Utilization Efficiency ≥ 95	YES	\$150

You will need to obtain a Manufacturer Certification Statement and have your receipt in order to claim the credit.

Surprising Taxable Items

If something of value changes hands, according to the IRS you may have a taxable event. Here are five that may surprise you:

1. Scholarships and financial aid

If any part of the reward you receive is used for anything except tuition it could be taxable. Be sure to review the details to see if any part is taxable.

2. Gambling winnings

All gambling winnings are taxable. Those include casino games, lottery tickets and sports bets. The IRS allows a deduction of losses to the extent of winnings as an itemized deduction.

3. Unemployment compensation

The IRS doesn't give you a break on unemployment income. The benefits are taxable. However, you can choose to have taxes withheld to cover your tax liability.

4. Crowdfunding

A popular method to raise money for new ventures or causes is crowdfunding through websites. Whether or not the funds are taxable depends on two things: intent for the funds and what the giver receives in return. Generally, funds used for a business purpose are taxable and funds raised to cover a life event are considered a gift.

5. Cryptocurrency

Cryptocurrencies like Bitcoin are considered property to the IRS. If you use cryptocurrency, you must keep track of the original cost and its value when you use it so the tax on your gain or loss can be properly calculated.

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795-9882 Ext 5
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What to Bring List

- **NEW CLIENT?** Copy of last year return, dates of birth for yourself, spouse and dependents, and SSNs
- Estimated tax payments, if any
- Wage and Tax statements (W-2)
- Interest Income (1099-INT)
- Dividend Income (1099-DIV)
- Pension Income (1099-R)
- Unemployment Compensation (1099-G)
- Social Security Benefits (SSA-1099)
- Distributions from Profit-Sharing-401(k)- IRA's, etc. (1099-R)
- Alimony income/expense
- Commissions-Independent-Contractor-Self Employment income and expenses (call for add'l worksheet)
- Railroad Retirement Benefits (RRTA-1099)
- Long Term Care Insurance Premiums (even if you don't itemize)
- Active military moving expenses
- Rental property income and expenses
- Income from Partnerships, estates, trusts, S-Corps, etc. (K-1)
- Did you sell any real estate; securities: stocks, mutual fund share, etc?
You will need:
Date of sale and sales price
Records of date of purchase and original cost
Cost of improvements (real estate)
- Did you buy a personal residence?
Please bring closing statement from purchase of home.
- Did you sell your personal residence?
You will most likely not have to report this, but please let me know. In the event it is reportable, you will need:
- 1099-S Proceeds from Real Estate Transactions
- Closing statement from purchase of home
- Closing statement from sale of home
- Records of any improvements
- IRA/SEP/KEOGH contributions/rollovers/ withdrawals
- Gambling/Lottery Winnings
- Child care expenses so you could go to school/ work - need name, address, SSN, and full amount paid to each day care provider even if you did pre-tax
- Form 1095-A if you enrolled in health insurance coverage through the Health Insurance Marketplace.
- National Guard & Reserve Members – Travel expenses for overnight meetings more than 100 miles from home.
- Jury pay - prizes - awards
- Did you sell or trade in any business assets e.g., car, computer, rental property?
You will need:
Records of date of purchase and original cost
Records of prior depreciation
Any settlement statements
Date and amount of sale
- Any other income from any other source!
- Do you make payments on a student loan? (1098-E)
- Do you pay any higher education tuition for yourself, your spouse, and your dependents? Bring book receipts separately. (1098-T)
- Contributions & distributions from state tuition programs (1099-Q)
- Adoption expenses
- To itemize your deductions, we will need:
- Out of pocket medical expenses (must exceed 7.5% of income to help) Health Insurance counts only if not paid through a pre-tax pay- roll deduction. Includes medical, dental, Rx, chiropractic, co-pays, deductibles, etc.
- Did you buy or sell a home? I will need your closing statements for possible deductions
- Home mortgage interest (1098)
- Real Estate/Personal property tax receipts
- Charitable contributions
- Gambling losses