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SCIARABBA WALKER &CO LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Dear Valued Client,

As 2019 comes to a close, it is important to review your tax situation to take advantage of possible reduction strategies. There is still time to reduce your 2019 tax bill and plan ahead for 2020. Year-end planning for 2019 takes place against the backdrop of recent major changes in the tax rules. These changes include lower income tax rates, a boosted standard deduction, severely limited itemized deductions, no personal exemptions, an increased child tax credit, and a watered-down alternative minimum tax (AMT). To assist with your year-end tax planning, we have provided a few strategies to help minimize your tax burden:

Avoid Surprises. Check withholding and estimated payments to date in order to determine if withholding should be increased, or if any fourth quarter estimated payments should be made to avoid underpayment penalties. You are generally able to avoid the penalties by paying withholding and/or estimated taxes based on 100% of the tax shown on your 2018 return, or 110% if your adjusted gross income as shown on the 2018 return exceeds $150,000 ($75,000 married filing separately). The IRS has created a useful tool to assist in assessing your withholdings called the tax withholding estimator. To perform a quick "paycheck checkup", go to https://www.irs.gov/individuals/tax-withholding-estimator.

The IRS is implementing a new Form W-4 withholding methodology beginning January 1, 2020 that is no longer based on claiming withholding allowances. You may want to adjust your withholding before the end of 2019 under the current allowance-based system, which is easier to navigate. Also, be sure to factor in the 3.8% net investment income tax when making estimated taxes or estimated payments if you expect your adjusted gross income to exceed $200,000 for a single taxpayer or $250,000 for a married couple.

Adjust Income and Deductions. Because many tax benefits are tied to, or limited by, adjusted gross income (AGI), a key aspect of tax planning is to estimate both 2019 and 2020 AGI and then adjust income and deductions between the two years, if possible. A key number to keep in mind is your tax bracket - the rate at which the last dollar of income is taxed. The tax brackets and rates for 2019 are: 10%, up to $9,700 single/$19,400 married filing jointly; 12%, over $9,700/$19,400; 22%, over $39,475/$78,950; 24%, over $84,200/$168,400; 32%, over $160,725/$321,450; 35%, over $204,100/$408,200; and 37%, over $510,300/$612,350. Although tax brackets are indexed for inflation, if income increases faster than the inflation adjustment, you may be pushed into a higher bracket. If you expect AGI to be higher in 2019 than in 2020 or anticipate being in the same or a higher tax bracket in 2019, you may benefit by deferring income until 2020. Some ways to accelerate or defer income include:

- *Delay Billing*: Self-employed taxpayers on a calendar year cash basis accounting method may delay year-end billing to clients so that payments will not be received until 2020.
- *Capital Gains*: The timing of transactions generating capital gains and losses should be considered whenever possible. Capital losses may be fully deducted against capital gains and also may offset up to $3,000 of ordinary income ($1,500 for married filing separately). Note that to avoid capital gains, you may consider donating appreciated property to charity, especially if doing so may result in overall itemized deductions exceeding your standard deduction for 2019.
- *Retirement Plan/IRA Contributions*: If you are not an active participant in an employer pension plan, you may make deductible contributions to an IRA. The deadline for 2019 contributions is April 15, 2020. The annual deductible contribution limit for an IRA for 2019 is $6,000 or $7,000 if you are age 50 or older by the close of 2019. Individuals who are active participants in an employer pension plan also may make deductible contributions to an IRA, but their contributions are limited in amount depending on their AGI.
- *Retirement Plan Distributions*: If you are age 70½ or older by the end of 2019, consider making charitable donations via qualified charitable distributions, particularly if you can't itemize your deductions. Such distributions are made directly to charities from your IRAs, and the amount of the contribution is not included in your gross income. The amount of the qualified charitable distribution counts towards your required minimum distribution requirement, which can result in tax savings.

Accelerating income into 2019 may be disadvantageous if you expect to be in the same or lower tax bracket for 2020. If self-employed, it could be disadvantageous to accelerate income, even if you will be in a higher bracket in 2020, if the acceleration causes you to cross a threshold that would result in a reduction to the §199A qualified business income deduction. The §199A deduction phase-out thresholds for 2019 are $321,400 for joint filers and $160,700 for all other taxpayers.

Standard vs Itemized Deductions. Another key number to keep in mind is the standard deduction. For 2019, the standard deduction is $24,400 for married filing jointly and surviving spouses, $18,350 for head of household, and $12,200 for all other taxpayers. If itemized deductions are relatively constant and are close to the standard deduction amount, little or no benefit will be gained from itemizing deductions each year. Some taxpayers may be able to work around these deduction restrictions by applying a bunching strategy to pull or push discretionary medical expenses and charitable contributions into the year where they will provide some tax benefit. For example, if you know you will be able to itemize deductions this year but not next year, you will benefit by making two years' worth of charitable contributions this year, instead of spreading those contributions between 2019 and 2020. For 2019, medical expenses, including amounts paid as health insurance premiums with after-tax dollars, are deductible only to the extent that they exceed 10% of AGI, making bunching of medical expenses more valuable. Consider paying medical expenses or making charitable contributions by the end of 2019 using a credit card since the deduction can be taken in 2019, but payment is not required until 2020.

These are just a few of the ideas that can be implemented to reduce your tax burden. We would be happy to assist you with your year-end tax planning or answer any questions you have. Please contact our office at your earliest convenience to schedule an appointment.

Sincerely,

Sciarabba Walker & Co., LLP