

# Tax Guide



# 2019 Rates, Changes, Deductions

Each year, the Internal Revenue Service updates, or indexes, the annual inflation adjustments for a number of provisions for the tax year, including tax rate schedules, tax tables and cost-of-living adjustments for certain tax items.

Your return for 2019, which will be due on April 15, 2020, will feature the same lower tax rates for 2018 which were created by the Tax Cuts and Jobs Act of 2017. These rates are 10%, 12%, 22%, 24%, 32%, 35% and 37%.

Another change, noted by the financial experts at Kiplinger, the personal financial advice firm, is the method used to adjust tax brackets for inflation. Tax brackets were previously adjusted based on the Consumer Price Index, the variation in prices paid by typical consumers for retail goods and other items. But some economists thought the formula failed to account fully for changes in spending as prices rise.

Subsequently, the so-called “chained index” has come into play for 2019 adjustments. Chained indexing should result in lower inflation adjustments and could result in a higher tax bracket. The bottom line: If your income rises faster than inflation, you pay more taxes.

Also, if you were looking for the so-called marriage penalty to disappear, look again. This law still exists and taxes couples who file jointly and whose incomes are similar more than if they were single. This twist used to affect the

four highest brackets, but since the TCJA went into effect, only the top bracket is vulnerable to the penalty. Be warned, advises Kiplinger, couples who earn more than \$612,350 in taxable income for 2019.

Other changes include the elimination of the individual mandate penalty for the Affordable Care Act, a higher medical expense deduction threshold, no alimony deduction and higher retirement account and HSA contribution limits.

## STANDARD DEDUCTIONS

Below is information on standard deductions for the 2019 tax year, according to the IRS, which have risen slightly over last year:

The standard deduction for single taxpayers is \$12,200.

For married couples filing jointly, the standard deduction is \$24,400.

For married couples filing separately, the standard deduction is \$12,200.

For heads of households, the standard deduction is \$18,350.

People over age 65 or who are blind get a bigger standard deduction.

## OTHER CREDITS

There are a host of changes to credits

affected by your life situation. Here are a few of the most notable from the personal finance website NerdWallet and the IRS:

**Earned Income Tax Credit:** This credit can get you between \$529 and \$6,557 in 2019 depending on how many kids you have, your marital status and if your adjusted gross income is less than about \$56,000.

**Child and Dependent Care Credit:** Deduct 20%-35% of up to \$3,000 of day care and similar costs for a child under 13, an incapacitated spouse or parent, or another dependent so you can work — and up to \$6,000 of expenses for two or more dependents.

**Adoption Credit:** For 2019, this credit covers up to \$14,080 in adoption costs per child.

**Student Loan Interest Deduction:** Deduct up to \$2,500 from your taxable income if you paid interest on your student loans.

**American Opportunity Tax Credit:** This lets you claim all of the first \$2,000 you spent on tuition, books, equipment and school fees — but not living expenses or transportation — plus 25% of the next \$2,000, for a total of \$2,500.



# Too Much Tax Deferral?

It sounds unlikely, but it's possible you can defer too much taxable income.

Deferring your individual or small business income tax is usually a good idea since it gives you more cash and room to breathe before paying. And because most will land in the same or a lower tax bracket in subsequent years, that income would generally be taxed at lower rates.

There are many opportunities for both individuals and businesses to defer taxable income. Individuals can prepay expenses and arrange for installment sales or property of like-kind exchanges of real estate, according to the financial news website MarketWatch.

Small business owners have more options, including prepaying deductible expenses at year's end. Late-year invoices in this case will go unpaid until the next year. The Tax Cuts and Jobs Act also provides generous first-year depreciation allowances. And you can make deductible contributions to retirement plans, among other opportunities.

However, think twice about deferrals as you could wind up with too much deferral, especially if put off beyond 2020. How?

Tax rates for 2020 will likely remain the same as 2019, but individual cuts could be in jeopardy after next year. Scheduled to remain in place through 2025, those rate cuts could be jettisoned if another political party takes over — and

probably would be if they win the White House, according to MarketWatch, especially for wealthier individuals.

Now's the time to sit down with your CPA or tax adviser to consider your potential liability should those rates rise after 2020, especially for business income.

One area to keep a close eye on is qualified business income, or QBI. The TCJA created a new 20% personal deduction for QBI from such entities as sole proprietorships or partnerships, among others, known as pass-through entities. But the deduction can't go beyond 20% of personal taxable income, as figured prior to taking a QBI deduction or before net capital gains.

This is where too much deferral comes in: Taking those first-year depreciations or deductibles could potentially lower your QBI deduction. Unlike most deferrable tax income, QBI deductions are permanent. But because of political uncertainty, those moves may reduce QBI deductions should the presidency and both houses of Congress change hands.

This is just another example of how your CPA or tax professional can save you money year-round by helping you keep abreast of potential pitfalls in your tax strategy that might mean higher tax rates down the line.

Stay tuned and keep your eyes on Washington — and your taxes.



## 2019 TAX RATES

Tax Bracket	Single	Joint	Head of household
10% tax bracket	\$0 - \$9,700	\$0 - \$19,400	\$0 - \$13,850
Beginning of 12% bracket	\$9,701	\$19,401	\$13,851
Beginning of 22% bracket	\$39,476	\$79,851	\$52,851
Beginning of 24% bracket	\$84,201	\$168,401	\$84,201
Beginning of 32% bracket	\$160,726	\$321,451	\$160,701
Beginning of 35% bracket	\$204,101	\$408,201	\$204,101
Beginning of 37% bracket	\$510,301	\$612,351	\$510,201

# Self-Employment on the Rise

Do you own a small business, perform a service for a living or are otherwise a member of the so-called Gig Economy, freelancers or contractors who work as ride-sharing drivers or other nontraditional forms of employment? If so, you're one of 24 million Americans who are self-employed.

While the self-employed enjoy certain freedoms other workers do not — such as working remotely, setting their own hours and being their own boss — they also must deal with the tax challenges for income that comes to them without taxes and deductions withheld. The self-employment tax accounts for Social Security and Medicaid deductions and is paid for by individuals using the 1040 form Schedule SE, either with annual or quarterly payments.

Self-employed persons often say they are “double taxed,” by which they mean they take on the burden of paying for Social Security, Medicare and Medicaid taxes normally paid partially by employers. Traditionally, employers pay 6.2% of the Social Security tax,



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with the employee paying the remaining 6.2%, plus 1.45% for Medicaid. With an employer payment, the entire tax 12.4% falls on the self-employed.

But who is classified as self-employed? The IRS uses the following criteria. You are self-employed if you are:

- An independent contractor or sole proprietor of a business;
- Part of a partnership of a business or trade;
- In what the IRS calls “other

business” in some capacity, or part-time;

- Made \$400 or more in net earnings from self-employment, or \$108.28 or more for church employee income; or
- Spouses in joint-ventures.

## SELF-EMPLOYMENT TAX DEDUCTIONS

The self-employed are also unique in their available deductions, the largest of which is the ability to subtract half of the self-employment

tax. Unfortunately, the Tax Cuts and Jobs Act of 2017 also did away with some cuts and deductions for the self-employed, but several still remain.

For home workers, the IRS allows a home-office deduction that also includes property taxes, insurance and utilities, among other expenses. Other deductions include a 20% deduction for pass-through entities, which excludes some of your income from taxes, and health care premiums.

Business expenses such as cell phone and internet service, office supplies, software and computers are also deductible, as are advertising expenses, websites and business travel.

These deductions help ease the burden on the self-employed but the best advice to lessen the blow is to pay taxes quarterly. Otherwise, annual penalties for some self-employed individuals can be levied come April 15.



# Summer Tax Savings Opportunities

Did you know that some of your summertime activities, pursuits and investments can result in tax credits and deductions?

If you volunteered, worked a summer job or sent your kids to day camp over the summer, the IRS allows certain deductions and credits for all these common activities. Of course, if you purchased a home or got married, these big life events are also can trigger tax changes. Here's a noncomprehensive list from the IRS:

**Marriage:** If you were married this summer, you might miss tax-related notices from the IRS if you don't update your name change to the Social Security Administration before April 15.

**Summer camp rebates:** You can't claim overnight camps, but summer day camps could count as day care under the Child and Dependent Care Credit.

**Summer jobs:** If you took on part-time work or a summer job, your employer is required to issue you a W-2 — unless you worked as a freelancer or part-time contractor, then you must report your own earnings. Knowing your status — employee or contractor — can help you at tax time.

## ITEMIZING

Because of the larger per-



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sonal exemption enacted as a result of the Tax Cuts and Jobs Act of 2017, many people are forgoing itemizing. But for certain filers, itemizing can result in several deductions, according to the IRS. Here's just a few for those who itemize:

**Homebuyers:** New homeowners buying after Dec. 15, 2017, can only deduct mortgage interest they pay on a total of \$750,000, or \$375,000 if married filing separately, in qualifying debt for a first and second home. For existing mortgages if the loan originated on or before Dec. 15, 2017, taxpayers continue to deduct interest on a total of \$1 million

in qualifying debt secured by first and second homes.

**Donations:** Those long-unused items in good condition found during a summer cleaning and donated to a qualified charity may qualify for a tax deduction. Taxpayers must itemize deductions to deduct charitable contributions and have proof of all donations.

**Volunteering:** Driving a personal vehicle while donating services on a trip sponsored by a qualified charity could qualify for a tax break. Itemizers can deduct 14 cents per mile for charitable mileage driven in 2019.

**Summer work:** Although

workers may not have earned enough money from a summer job to require filing a tax return, they may still want to file when tax time comes around. It is essential to file a return to get a refund of any income tax withheld. There is no penalty for filing a late return for those receiving refunds, however, by law, a return must be filed within three years to get the refund.

**Withholding:** Newlyweds, summertime workers, homeowners and every taxpayer in between should take some time to check their tax withholding to make sure they are paying the right amount of tax

as they earn it throughout the year. A withholding calculator on [irs.gov](http://irs.gov) helps employees estimate their income tax, credits, adjustments and deductions and determine whether they need to adjust their withholding by submitting a new Form W-4, Employee's Withholding Allowance Certificate. Taxpayers should remember that, if needed, they should submit their new W-4 to their employer, not the IRS.

In addition to these tips, taxpayers should visit [irs.com](http://irs.com) for the full schedule of deductions and credits that may be available to them.



# Surviving an Audit

The idea of being audited strikes fear and loathing in the hearts of taxpayers. But before you begin to hyperventilate, take a breather and solace in the fact that only 0.6% of all individual income tax returns were recently audited, according to the IRS.

But that low figure is not a license to fudge numbers or take deductions and credits for which you do not qualify. These actions can raise red flags that can trigger an audit. And you can almost expect the IRS to contact you if it finds discrepancies in your returns that may result in an audit.

While stressful, most taxpayers who receive notice of an audit can survive the process. Unless you've done something wildly out of bounds, according to tax experts, an audit will result in one of three outcomes: You'll owe. They'll owe you. There's no problem.

## IRS AUDIT DO'S AND DON'TS

The IRS conducts three types of audits that can generally review your taxes for the previous three years, longer under special circumstances. These include a correspon-



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dence audit, conducted in writing; an office audit, in which you'll meet with an auditor at an IRS office; and a field audit, during which an auditor could come to your home or business.

**Don't be fooled.** The IRS will not call you to initiate an audit. You'll receive notice in writing. If you do receive a call, you're likely being targeted by a scam. The same goes

for email, texts and threats of jail time.

**Don't ignore it.** An audit isn't going to disappear because you slide that notice into a desk drawer. In fact, it may get worse, resulting in penalties and more taxes and fees the longer you delay.

**Be direct.** Take a page from the advice attorneys give witnesses — answer only the questions you're asked.

Protect your interests by being direct, but refrain from providing too much information if it's not specifically sought.

## NEED HELP?

If you've used a tax professional to prepare your taxes, they should be present for any audit or can represent you without your presence. Tax-filing software companies often offer audit defense as

part of packages and will offer assistance in the event of an audit.

In the end, it pays to be prepared and to know your rights. Ensure you have all your records and documentation in order and educate yourself on the process. You have a right to professional treatment, representation and an appeal in case the audit doesn't go your way.



# Beware New Tax Scams

They arrive in your email inbox and via the U.S. mail, by robocalls or texts on your phone, sometimes scammers even show up in person. These are the routes in which tax scams find their way to you. And while most know better, many don't.

First, know the rules: the IRS doesn't conduct official business using email, nor will representatives call you (in most cases). The IRS initiates most contacts through regular mail delivered by the United States Postal Service.

Unless you have an overdue tax bill, have a delinquent return or employment tax payment, or tour a business as part of an audit or investigation, the IRS won't call or visit. And when they do, they'll issue official notices through the mail beforehand.

But scammers prey on taxpayers' fears and insecurities, and some will fall for the scheme. Scam artists work year-round, according to the IRS, flooding email inboxes with phishing scams and robocalls that seem authentic enough that some lose money.



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## NEW SCAMS UNCOVERED

Recently, the IRS warned taxpayers involving two new twists on tax scams involving Social Security numbers and threats from a fictional government agency.

In the first instance, scammers claim to be able to sus-

pend or cancel the victim's Social Security number, a common fear tactic in which con artists mention overdue taxes and use these false threats to fleece people.

The second new scam involves the scammer sending a letter threatening a lien

or levy. The letter is from a fake agency called the "Bureau of Tax Enforcement, which doesn't exist according to the IRS. But it also references the IRS, which may cause the recipient into believing the letter is authentic.

## WHAT THE IRS WON'T DO

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. Generally, the IRS will first mail a bill to any taxpayer who owes taxes.

- Demand that you pay taxes without the opportunity to question or appeal the amount they say you owe. You should also be advised of your rights as a taxpayer.

- Threaten to bring in local police, immigration officers or other law enforcement to have you arrested for not paying. The IRS also cannot revoke your driver's license, business licenses or immigration status. Threats like these are common tactics scam artists use to trick victims into buying into their schemes.

If you receive any of these threats, here's what you should do:

Contact the U.S. Treasury Inspector General for Tax Administration to report a phone scam. Use their "IRS Impersonation Scam Reporting" web page. You can also call (800) 366-4484.

Report phone scams to the Federal Trade Commission. Use the "FTC Complaint Assistant" on [ftc.gov](https://www.ftc.gov). Please add "IRS Telephone Scam" in the notes.

You also should report an unsolicited email claiming to be from the IRS, or an IRS-related component like the Electronic Federal Tax Payment System. Contact the IRS at [phishing@irs.gov](mailto:phishing@irs.gov).



# How to File Back Taxes

It seems like it might be an intentional act — and it often is — but failing to file a tax return happens in other circumstances, too. Intentional or not, the obligation never goes away and interest and penalties pile up as time goes by.

For most, paying taxes is not exactly cause for rejoicing but it is a responsibility. For the record, the IRS requires you to file in each year that your income is greater than your standard deduction, plus one exemption if you are not the dependent of another taxpayer. If you are filing back taxes, you must use the forms and deductions for those years to avoid overpaying or underpaying.

If you are among those who did not file, catching up might not be hard as it seems. The tax-filing software company TurboTax offered these tips for filing back taxes.

## COLLECT INCOME INFORMATION

If you've neglected to file for multiple years, gathering information about your income might be difficult. Nevertheless, if you are missing a W-2 or 1099, your employer may be able to provide copies. You can also



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request a substitute from the IRS by filing Form 4852, which is available for download at [irs.gov](https://www.irs.gov).

You must also report the sale of capital assets, such as stocks, but you can put the brakes on penalties and interests by estimating your income and making a payment until you receive a W-2 or 1099.

## DETERMINE DEDUCTIONS

As with any tax filing, you can reduce your bill by claim-

ing deductions as you normally would. Just be sure to have documentation if you plan to itemize. If not, claim the standard deduction, as well as deductions for any eligible dependents in the year or years you did not file.

## OBTAIN THE PROPER FORMS

When you've gathered your information and documents, you must file using forms for the year or years you missed.

Fortunately, the IRS maintains forms for previous years, either on their website at [irs.gov](https://www.irs.gov) or by mail. Forms are also available on some tax-prep software sites.

## COMPLETE TAX FORMS

One reason for using the original forms is that tax law changes annually, so those specific forms contain the applicable instructions for the tax year you are filing. If you use the wrong forms, you may

underpay or overpay.

## MAIL OR E-FILE YOUR RETURN

When your back taxes are complete, you can either mail or e-file your forms and supporting documents according to instructions, just as you normally would. Once you're done, your pocketbook may be lighter but you'll relieve some guilt and stop the accruing penalties and interest that can make a bad situation worse.