

ClientLine®

February 2020

TAX NUMBERS TO KNOW

Throughout this newsletter, we'll focus on numbers you need to know for tax year 2019 and offer a sampling of what's ahead for 2020. Consult a tax professional for personalized help.

STANDARD DEDUCTION

The Tax Cuts and Jobs Act that became law in 2017, increased the standard deduction significantly.

If you take the standard deduction, you can reduce your taxable income by up to \$24,400 in 2019 if married and filing jointly, \$18,350 if you file as head of household or \$12,200

if you're single or married and filing separately. Those numbers will increase to \$24,800, \$18,650 and \$12,400 respectively in 2020.

BRACKET INCREASES

Check out the accompanying graphic for both 2020 and 2019. The vast majority of taxpayers will see a tax rate of 22% or lower. Tax brackets rise in 2020 due to inflation adjustments.

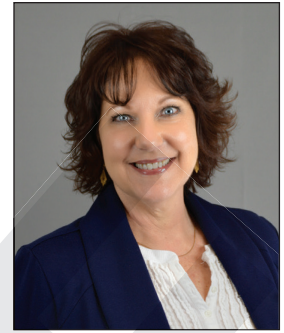
MARRIED FILING JOINTLY & SURVIVING SPOUSES

TAX RATE	2020 INCOME	2019 INCOME
10%	\$0-\$19,750	\$0-\$19,400
12%	\$19,751-\$80,250	\$19,401-\$78,950
22%	\$80,251-\$171,050	\$78,951-\$168,400
24%	\$171,051-\$326,600	\$168,401-\$321,450
32%	\$326,601-\$414,700	\$321,451-\$408,200
35%	\$414,701-\$622,050	\$408,201-\$612,350
37%	\$622,051 or greater	\$612,351 or greater

MARRIED FILING SEPARATELY, SINGLES & HEADS OF HOUSEHOLD

TAX RATE	MARRIED FILING SEPARATELY INCOME		SINGLE INCOME		HEAD OF HOUSEHOLD INCOME	
	2020	2019	2020	2019	2020	2019
10%	\$0-\$9,875	\$0-\$9,700	\$0-\$9,875	\$0-\$9,700	\$0-\$14,100	\$0-\$13,850
12%	\$9,876-\$40,125	\$9,701-\$39,475	\$9,876-\$40,125	\$9,701-\$39,475	\$14,101-\$53,700	\$13,851-\$52,850
22%	\$40,126-\$85,525	\$39,476-\$84,200	\$40,126-\$85,525	\$39,476-\$84,200	\$53,701-\$85,500	\$52,851-\$84,200
24%	\$85,526-\$163,300	\$84,201-\$160,725	\$85,526-\$163,300	\$84,201-\$160,725	\$85,501-\$163,300	\$84,201-\$160,700
32%	\$163,301-\$207,350	\$160,726-\$204,100	\$163,301-\$207,350	\$160,726-\$204,100	\$163,301-\$207,350	\$160,701-\$204,100
35%	\$207,351-\$311,025	\$204,101-\$306,175	\$207,351-\$518,400	\$204,101-\$510,300	\$207,351-\$518,400	\$204,101-\$510,300
37%	\$311,026 or more	\$306,176 or more	\$518,401 or more	\$510,301 or more	\$518,401 or more	\$510,301 or more

<https://www.irs.gov/pub/irs-drop/rp-19-44.pdf> and <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2020>



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Big Income, Big Taxes

The IRS issued a final ruling explaining how to qualify for a real estate income safe harbor to receive the Qualified Business Income (QBI) deduction. You will need to make this safe harbor determination annually.

Pay Now

The alternative minimum tax (AMT), will see its exemption amount rise in 2020 to \$72,900 and begin to phase out at \$518,400 (\$113,400 for married couples filing jointly and phasing out starting at \$1,036,800). In 2019, the exemption was \$71,700 and began to phase out at \$510,300 (\$111,700 for married couples and phasing out starting at \$1,020,600). Also in 2020, you'll pay Social Security tax on up to \$137,700 of taxable income, up from \$132,900.

Pay Later

Another provision, the federal estate tax, will be your heirs' concern after you pass. The basic exclusion amount in 2020 is \$11,580,000 per taxpayer (double if filing taxes jointly), after which estate taxes begin. That's up slightly from 2019, when the exemption was \$11,400,000.

5 REASONS TO WORK WITH A TAX PROFESSIONAL

To help ensure you use every tax deduction to which you're legally entitled is to work with a knowledgeable tax professional. Here are five reasons this partnership can pay off, not only with this year's taxes but possibly with future tax bills as well.

1. YOU'RE A NEWBIE.

If you're new to the work world, you may not realize how some simple steps like deducting interest on qualified student loans and putting money into a traditional IRA or company 401(k) plan can reduce your tax bill.

2. YOU OWE MONEY.

A tax professional can tell you how choosing the right number of exemptions for your paycheck withholding or making the correct quarterly estimated tax payments can potentially save you interest costs and underpayment penalties.

3. YOU GET A REFUND.

Getting a tax refund from the IRS means you gave an interest-free loan to the federal government. Deduct the right amount of money for taxes and

direct what used to be your refund to long-term college and retirement savings vehicles.

4. YOU HAVE TUNNEL VISION.

Maintaining a focus on one goal, such as reducing taxes, can come at a steep cost if you don't look at the bigger picture. You might, for example, combine current and future goals for your business by investing in new technology that is both tax-deductible and makes your company more productive and profitable now and in the future.

5. YOU NEED INFO YOU CAN TRUST.

Dubious tax information can cost you. A tax professional can help you make informed decisions, such as whether to sell a declining long-term investment or keep it because it has a favorable long-term outlook.

Client PROFILE....

Miriam owns a bakery and her business recently received a tax audit letter from the IRS. How far back will the Internal Revenue Service want to examine her tax returns? What will she need to do to resolve her tax situation?

The IRS should spell everything out for Miriam in the letter, but she should consult a tax professional to find the best solution possible. There are different types of business audits and responses needed to satisfy the IRS.

One is a mail audit, in which the IRS will send a letter requesting additional information about certain items on the tax return such as income, expenses and deductions. She can request an in-person audit if she has too many records to

mail. The IRS also could initially request that she meet in person at her home, place of business or an IRS office.

Generally, the IRS will audit up to three years' worth of returns, but can request six years' worth of records. Miriam may request an automatic 30-day extension and she may want to consult a tax professional who is also an enrolled agent.

Client Profile is based on a hypothetical situation.

The solutions we discuss may or may not be appropriate for you.



TAX TIPS FOR INDIVIDUALS

With time left before the April filing deadline, it makes good financial sense to recheck for don't-miss deductions and credits that can lower your tax bill. One caveat: You will have to choose between taking the standard deduction and itemizing individual deductions.

BIG BREAKS

One big break is the adoption tax credit, which is up to \$14,080 in tax year 2019 for qualified expenses. It increases to \$14,300 for tax year 2020. Another significant break for families with children who qualify by income is the earned income credit, which is up to \$6,557 in tax year 2019 (rising to \$6,660 for tax year 2020). Remember that you subtract credits from your tax liability while you subtract deductions from your taxable income.

SMALLER SUMS

Don't forget that qualified education expenses can also help reduce your taxes. Joint filers can take up to a \$2,000 Lifetime Learning Credit (20% of up to \$10,000 of costs) or up to a \$2,500 American Opportunity Tax Credit if they qualify by income. You can't claim both. For those taxpayers who itemize deductions, they may also deduct up to \$2,500 of student loan interest, subject to income qualifications.

TAX TIPS FOR BUSINESSES

If you own a sole proprietorship or a company and you file taxes on a calendar basis, you will want to take all of the deductions to which you are legally entitled. Here are a few:

TAKE IT ALL

If your business made a qualified large purchase in 2019 and has unpredictable annual income, you may want to consider depreciating the asset 100% during the year of purchase rather than gradually over the asset's life.

A QUALIFIED SUCCESS

Owners of sole proprietorships, partnerships and S corporations may be eligible for a qualified business income (QBI) deduction when they qualify by income. They may deduct up to 20% of their qualified business income, qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income.



HOME RUN

Whether you run a fulltime business or gig from a home office, you may be able to deduct certain expenses for space and equipment used solely for your business.

CHANGE TO CASH

If your business grosses less than \$25 million annually, changing your accounting method from accrual to cash can offer one-time savings. The accrual method recognizes income when earned while cash accounting recognizes income when received.

SOONER OR LATER

With either accounting method, you can accelerate or delay income and expenses depending on your company's performance with savvy planning. Talk to your tax professional to learn about these and other ways to save on taxes.

... Q&A

Q I made a major calculation error in favor of the IRS on last year's tax return. Can I file an amended return?

A You can file an amended return for individual taxes if you make a mistake in either your favor or the IRS's up to three years after the filing date (with extensions) for the tax year in question. To get the ball rolling, file a *Form 1040X, Amended U.S. Individual Income Tax Return*. State clearly the reason for your amended return. If your mistake was on a business tax return, there are various forms needed to amend tax returns. A tax professional can tell you more.

Q I'm getting ready to prepare and file my 2019 tax return and heard I could open a traditional IRA this year and deduct contributions from last year's income on my tax return. Is that true?

A Anyone with earned income can open a traditional or Roth IRA before the tax filing deadline and contribute up to \$6,000 for 2019 (\$7,000 if over age 50), but they must qualify by income to get a tax deduction on a traditional IRA. (You can't deduct contributions to a Roth.) The deductibility phases out at different income levels depending on your filing status and whether you or your spouse has a qualified retirement plan at work.

ClientLine® SHORT BITS....

> REFUND STATS

Ever wonder how other Americans fare with their refunds during tax season? According to IRS statistics based on returns filed through April 19 of last year, the average tax refund was \$2,725 for tax year 2018, a drop of \$55 from the previous tax year. An important aside: If you expect a refund anywhere near this large for 2019, you should probably adjust your withholding exemptions for 2020.

> BIG BUMP

Yes, your Social Security check really was lighter in January if you also have Medicare Part B. This year's Part B monthly premium

costs you \$144.60, up from \$135.50 in 2019, if you earned \$87,000 or less and filed taxes as an individual or married filing separately. The income threshold if you file jointly is \$174,000. Rates rose similarly for Medicare recipients with higher earnings. Part B deductibles also rose from \$185 to \$198.

> EMPLOYER COSTS UP

Employers' compensation costs in the private sector increased 2.7% year over year by the end of September 2019. Increases were as low as 0.7% for those in the information sector and as high as 3.5% for construction workers.

> EDUCATION PAYS

In the third quarter of 2019, full-time workers age 25 and older had median weekly earnings of \$975. Learning leads to earning. Those without a high school diploma earned a median of \$606 weekly, while high school graduates earned \$749 and workers with some college or an associate's degree earned \$874. A bachelor's degree resulted in median weekly earnings of \$1,281. Workers with advanced degrees (master's, professional or doctoral) earned \$1,559 in the third quarter of 2019.

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