2019 NEW TAX LAW BOOKLET UPDATE

FEBRUARY 2019

SUMMARY FOR 2018 NEW TAX LAW

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LEARNING OBJECTIVES

- Learn about The Tax Cuts and Jobs Act and some of its highlights.
- Learn about the changes in tax rates, standard deductions, personal exemptions, phase-out amounts, credit levels for 2019.
- Which tax benefits are expiring and which tax benefits have been made permanent.
- What’s new and the status of the Affordable Health Care Act.
- Learn about the Section 199A deduction.

NEW LAWS FOR FEDERAL TAX RETURNS FOR 2019

The following tax law changes affect 2019 Federal income tax returns and in some cases other year returns ***prepared*** in 2019. Any changes in ***other year's*** returns will be noted. The Tax Cuts and Jobs Act signed into law on December 22, 2017 have the most broad and wide sweeping changes to tax law since the Tax Reform Act of 1986. In this summary we will cover some of the more important changes of this bill.

Here are some of the major highlights of the new tax bill:

- Both individual and corporate tax rates have changed starting in 2018. The individual tax rates range from 10-37% and the corporate rate is a flat 21%. These rates will remain the same in 2019.

- The standard deduction for all filing status has almost doubled but there are no deductions for personal exemptions.

- The Child Tax Credit is now $2,000 per eligible child and there is a new Dependent credit of $500.

- Beginning in 2018 there will be a pass-through entity deduction of 20% for individuals from qualified business income from a sole proprietorship, LLC (except those that are taxed as a C corp), S corporation and partnerships.

- Individuals can only deduct up to $10,000 of property taxes and state income tax withheld on their schedule A through the 2025 tax year.

- Moving expense deductions and miscellaneous itemized deductions subject to the 2% of AGI are suspended through the 2025 tax year.

- Individuals can only deduct the mortgage interest on acquisition indebtedness up to $750,000 ($375,000 if MFS).

- Home equity debt is only deductible from tax year 2018 through 2025 if the loan is used to build, buy or substantially improve the taxpayer's home that secures the loan.

- The percentage AGI limit for contributions made by individuals to public charities and other 50% limit organizations has been raised from 50% to 60%.

- Effective for tax year 2018 through 2025, a personal casualty loss is not deductible unless such loss is attributed to a disaster declared by the President.

- Effective starting tax year 2019 the penalty tax for not having the minimum essential health insurance coverage is zero. The penalty in 2018 was the greater of $695 or 2.5% of the household income over the filing threshold.

- Effective starting tax year 2019 alimony is no longer deductible by the payer spouse and includible in income by the recipient spouse. This applies to divorce or separation agreements executed after December 31. 2018 or agreements prior to this date and were modified after December 31, 2018.

Standard Deduction. The following amounts represent an increase of almost double the standard deductions in 2017. Here are the amounts for the various filing statuses for 2019 tax returns.

• Single	$12,200
• Married Filing Separate	$12,200
• Married Filing Joint and Surviving Spouse	$24,400
• Head of Household	$18,350

The following are ***additional*** amounts for blind and/or elderly taxpayers (Age 65 or over). These amounts have increased by $50 from the 2018 amounts for single and head of household filers. For MFJ, MFS and QW the amounts are the same as 2018.

• Single and Head of Household	
Blind ***or*** Elderly	$1,650
Blind ***and*** Elderly	$3,300
• Married Filing Joint	
• Married Filing Separate	
• Surviving Spouse	
Blind ***or*** Elderly (per taxpayer)	$1,300
Blind ***and*** Elderly (per taxpayer)	$2,600

Personal Exemption. The personal exemption amount for 2018 returns have been suspended through tax year 2025.

Itemized Deductions. The itemized deduction phase-out based on the taxpayer's AGI was reinstated for 2013 tax returns are suspended for the tax years 2018 through 2025.

Medical Expenses. The threshold for deducting unreimbursed medical expenses will be 7.5% of the AGI for all taxpayers. This also applies for purposes of AMT calculations as well. After 2018 the threshold increases to 10% and will expire after tax year 2025.

Tax Rate Schedules. The individual income tax rates for 2017 ranged from 10 to 39.6%. For 2018 and now 2019 the low end tax rate is still 10% but the highest tax rate has decreased to 37%. There are still 7 different tax tiers for each filing status.

2019 Tax Rate Schedules

Schedule X – Use if your **2019** filing status is **Single**

Single Income	But not over	The tax is	of the amount over
$0	$9,700	10%	$0
$9,701	$39,475	$970.00 + 12%	$9,700
$39,476	$84,200	$4543.00 + 22%	$39,475
$84,201	$160,725	$14,382.50 + 24%	$84,200
$160,726	$204,100	$32,748.50 + 32%	$160,725
$204,101	$510,300	$46,628.50 + 35%	$204,100
$510,301		$153,798.50 + 37%	$510,300

Schedule Y-1 – Use if your **2019** filing status is **Married Filing Jointly** or **Qualifying Widow(er)**

MFJ or **QW**	But not over	The tax is	of the amount over
$0	$19,400	10%	$0
$19,401	$78,950	$1,940.00 + 12%	$19,400
$78,951	$168,400	$9,086.00 + 22%	$78,950
$168,401	$321,450	$28,675.00 + 24%	$168,400
$321,451	$408,200	$65,497.00 + 32%	$321,450
$408,201	$612,350	$93,257.00 + 35%	$408,200
$612,351		$164,709.50 + 37%	$612,350

Schedule Y-2 – Use if your **2019** filing status is **Married Filing Separately**

MFS Income	But not over	The tax is	of the amount over
$0	$9,700	10%	$0
$9,701	$39,475	$970.00 + 12%	$9,700
$39,476	$84,200	$4,543.00 + 22%	$39,475
$84,201	$160,725	$14,382.50 + 24%	$84,200
$160,726	$204,100	$32,748.50 + 32%	$160,725
$204,101	$306,175	$46,628.50 + 35%	$204,100
$306,176		$82,354.75 + 37%	$306,175

Schedule Z – Use if your **2019** filing status is **Head of Household**

HH income	But not over	The tax is	of the amount over
$0	$13,850	10%	$0
$13,851	$52,850	$1,385.00 + 12%	$13,850
$52,851	$84,200	$6,065.00 + 22%	$52,850
$84,201	$160,700	$12,962.00 + 24%	$84,200
$160,701	$204,100	$31,322.00 + 32%	$160,700
$204,101	$510,300	$45,210.00 + 35%	$204,100
$510,301		$152,380.00 + 37.0%	$510,300

Long-Term Capital Gain and Qualified Dividend Tax Rates. The tax rates changed slightly in 2013 and were in place until 2017 for long-term capital gains and qualified dividends. The rates are stated below.

Ordinary Tax Rate	**2008 to 2012** Capital Gain and Qualified Dividend Rate	**2013 To 2017** Capital Gain and Qualified Dividend Rate
39.6%	n/a	20%
35%	15%	15%
33%	15%	15%
28%	15%	15%
25%	15%	15%
15%	0%	0%
10%	0%	0%

The new rates for 2019 still have a 20% rate at the high end but the breakpoints are not tied in to the actual tax bracket as in the past. Below are the new breakpoints with tax rates for 2019.

Single Taxable Income

$0	to	$39,375	=	0%
$39,376		$434,550	=	15%
$434,551		$ and over	=	20%

Married Filing Joint or Qualifying Widow Taxable Income

$0	to	$78,750	=	0%
$78,751		$488,850	=	15%
$488,851		$ and over	=	20%

Married Filing Separate Taxable Income

$0	to	$39,375	=	0%
$39,376		$244,425	=	15%
$244,426		$ and over	=	20%

Head of Household Taxable Income

$0	to	$52,750	=	0%
$52,751		$461,700	=	15%
$461,701		$ and over	=	20%

Estates and Trusts Taxable Income

$0	to	$2,650	=	0%
$2,651		$12,950	=	15%
$12,951		$ and over	=	20%

The breakpoints for the 25% maximum rate for unrecaptured section 1250 gain, and the 28% rate gain follows prior law. Therefore, the 25% and the 28% maximum rates apply when taxable income exceeds the 24% tax bracket for regular income tax purposes.

Standard Mileage Rates. The deductible amounts for the use of your car are as follows:

- The deductible amounts for the use of your car for business purposes was 54.5 cents per mile for 2018. In 2019 it will be 58 cents per mile.

- The deductible amounts for the use of your car for qualified medical or moving expenses was 17 cents per mile for 2018. In 2019 it will be 20 cents per mile.

- The deductible amount for the use of your car for qualified charitable causes remains at 14¢ per mile, the same amount as in the previous several years. The reason is the amount is set by statute and can only be changed by Congressional action and Presidential signature. The other mileage rates are subject to IRS discretion.

- The deductible amount for depreciation purposes was 25 cents per mile in 2018. For 2019 it's 26 cents per mile.

Child Tax Credit and Dependent Credit. The child tax credit has been increased to $2,000 per child versus $1,000 per child in tax years 2017 and prior. The maximum amount of the credit that is refundable cannot exceed $1,400 per child. There is also the new dependent credit where you receive up to $500 for each non-child dependent. There are phase-out thresholds for these credits but the thresholds have been increased. These are the income limits for 2019.

- For Single and Head of Household returns $200,000 - $240,000
- For Married Filing Joint returns $400,000 - $440,000
- For Married Filing Separate returns $200,000 - $240,000

Earned Income Tax Credit. The following chart includes the maximum income limit and the maximum allowable credit for 2019:

• Single Filers	Maximum Credit	Income Limit
No Children	$529	$15,570
One Child	$3,526	$41,904
Two Children	$5,828	$46,703
Three Children	$6,557	$50,162

- Joint Filers

No Children	$529	$21,370
One Child	$3,526	$46,884
Two Children	$5,828	$52,493
Three Children	$6,557	$55,952

The maximum investment income you can have and receive the credit is $3,500 for 2018. In 2019 it will increase to $3,600.

Alternative Income Tax (AMT). For 2018 the AMT exemption amount was as follows:

- For Single or Head of Household returns $70,300
- For Married Filing Joint returns $109,400
- For Married Filing Separate returns $54,700

For 2019 returns, the AMT exemption amounts have ***increased*** as follows:

- For Single or Head of Household returns $71,700
- For Married Filing Joint returns $111,700
- For Married Filing Separate returns $55,850

Many situations may trigger the AMT. Following is a list of the most common ones:

- A larger than average number of dependents.
- Large gross income in relation to taxable income.
- The exercise of incentive stock options.
- Tax exempt interest.
- Long-term capital gains.

Section 179 expense limits. For 2018, the basic section 179 dollar limit was $1,000,000. For 2019, it will ***increase*** to $1,020,000.

The SUV limit was at $25,000 for 2018. In 2019 it has ***increased*** to $25,500.

The section 179 phase-out for 2018 was $2,500,000. For 2019, the phase-out limit will ***increase*** to $2,550,000.

Retirement Savings Contribution Limit. For 2018, the retirement savings contribution limit (maximum AGI) in order to receive a tax credit was as follows:

- For Single returns $31,500
- For Married Filing Joint returns $63,000
- For Head of Household returns $47,250

For 2019 returns, the limit has been ***increased*** as follows:

- For Single returns $32,000
- For Married Filing Joint returns $64,000
- For Head of Household returns $48,000

Lifetime Learning Credit Income Limits. The income phase-out range for 2018 was as follows:

- For Single returns $57,000 - $67,000
- For Married Filing Joint returns $114,000 - $134,000
- For Head of Household returns $57,000 - $67,000

For 2019 returns, the income phase-out range has ***increased to***:

- For Single returns $58,000 - $68,000
- For Married Filing Joint returns $116,000 - $136,000
- For Head of Household returns $58,000 - $68,000

The maximum Lifetime learning credit ***remains*** at 20% of the first $10,000 of qualified expenses.

American Opportunity Credit/Hope Credit. The income phase-out range for 2019 is the ***same*** as 2018. Here are the amounts:

- For Single returns $80,000 - $90,000
- For Married Filing Joint returns $160,000 - $180,000
- For Head of Household returns $80,000 - $90,000

The maximum American Opportunity Credit/Hope Credit is $2,500.

Foreign Earned Income Exclusion. The foreign income exclusion from U.S. income taxes was $103,900 in 2018. For 2019 it has been ***increased*** to $105,900.

Note: The exclusion amount applies to worldwide earned income as it applies to U.S. citizens and resident aliens. It includes worldwide earned income whether the taxpayer is living in the United States or living abroad.

Income Limits for Excluding U.S. Savings Bond Interest. The exemption phase-out range for interest on United States Savings Bond interest for 2018 was as follows:

- For Single returns $79,550 - $94,550
- For Married Filing Joint returns $119,300 - $149,300
- For Head of Household returns $79,550 - $94,550

The phase-out range for 2019 returns has been ***increased*** to the following amounts:

- For Single returns $81,100 - $96,100
- For Married Filing Joint returns $121,600 - $151,600
- For Head of Household returns $81,100 - $96,100

Adoption Credit or Exclusion. The maximum adoption credit or exclusion for employer–provided adoption benefits for 2018 was $13,810.

For 2019 returns the maximum credit or exclusion has been ***increased*** to $14,080.

The MAGI (Modified Adjusted Gross Income) income phase-out limit for 2018 was from $207,140 to $247,140.

For 2019 returns the MAGI income phase-out limit has been ***increased*** from $211,160 to $251,160.

For 2011 returns and thereafter, the credit is ***not*** refundable. However, any unused credit is carried forward to the next five years or until it is used, whichever comes first.

Student Loan Interest Deduction. The phase-out range for income for student loan interest for 2018 is as follows:

- For Single returns $65,000 - $80,000
- For Married Filing Joint returns $135,000 - $165,000
- For Head of Household returns $65,000 - $80,000

For 2019 returns the phase-out range ***has increased*** to the following amounts:

- For Single returns $70,000 - $85,000
- For Married Filing Joint returns $140,000 - $170,000
- For Head of Household returns $70,000 - $85,000

The maximum student loan deduction for 2018 was $2,500. The maximum deduction for 2019 tax returns ***remains the same at*** $2,500.

Qualified Parking Benefits. The exclusion of benefits for qualified parking provided by an employer to its employees was $260/month for 2018 tax returns.

For 2019 returns, the exclusion ***has increased to*** $265/month***.***

<u>Commuter Highway Vehicle and Transit Pass Benefits.</u> The monthly limit on the exclusion of benefits on qualified transportation in a commuter highway vehicle and transit pass provided by an employer to its employees for 2018 was $260/month.

For 2019 returns, the monthly amount ***has increased to*** $265/month.

<u>Social Security Taxes.</u> In 2012 social security was withheld from an employee's wages at the rate of 4.2% (down from 6.2%) up to the social security limit of $110,100. There is no change in the Medicare withholding. In 2013 the rate was restored to 6.2% and the wage limit was $113,700. In 2018 the rate remains the same at 6.2% and the wage limit ***increased*** to $128,400. For 2019, the rate remains the same as 2018 and the wage limit has ***increased*** to $132,900.

In 2012 the same decrease applies to net earnings from self-employment – the rate will be 10.4% (down from 12.4%) up to the social security wage limit of $110,100. In 2013 the rate reverts back to 12.4% with a wage limit of $113,700. In 2018, the rate remains the same at 12.4% with the net earnings limit ***increased*** to $128,400. For 2019, the rate remains the same as 2018 but the net earnings limit has ***increased*** again to 132,900.

Also there is a Social Security benefits (cola) increase of 2.8% in 2019.

<u>Expiring Tax Benefits.</u> The following tax benefits were scheduled to expire at the end of 2016 leaving them in limbo for the 2017 tax year. On February 9, 2018, the President signed HR 1892, The Bipartisan Budget Act of 2018, which extended certain tax provisions until the end of 2017 and beyond. The status of some of these will be listed below.

- Work opportunity tax credit. Expires after 2019.

- Deduction for qualified tuition and fees deduction. Expires after 2017.

- Nonbusiness energy property credits. Expires after 2017.

- Cancellation of qualified principal residence indebtedness exclusion from gross income. Expires after 2017.

- Mortgage insurance premiums treated as qualified residence interest. Expires after 2017.

- Energy efficient home credits. Expires after 2017.

- Alternative motor vehicle credit for qualified fuel cell motor vehicles. expires after 2017.

- Residential energy efficient property credit which includes solar property. Expires after 2021.

- Energy credits and credit phase-outs under IRC section 48(a). Includes solar and thermal energy property and fibre-optic solar property among some of the items in this section. Expires after 2021.

Estate and Gift Taxes. For an estate of any decedent dying during calendar year 2019, the unified credit for estate tax ***has increased to*** $11,400,000, compared to $11,180,000 for 2018.

The annual exclusion for gift taxes has ***remained the same at*** $15,000 for 2019.

Long–Term Care Premiums. The limitations on long-term care premiums for 2018 based on attained age before the close of the taxable year for 2018 were as follows:

• 40 or less	$420
• More than 40 but not more than 50	$780
• More than 50 but not more than 60	$1,560
• More than 60 but not more than 70	$4,160
• More than 70	$5,200

The per diem limit for 2018 was $360.

For 2019 returns, the limitations are as follows:

• 40 or less	$420
• more than 40 but less than 50	$790
• more than 50 but less than 60	$1,580
• more than 60 but less than 70	$4,220
• More than 70	$5,270

The per diem limit for 2019 is $370.

Medical Savings Accounts – Self-Only Coverage. For the taxable year 2018, the term "High Deductible Health Plan" means a health plan that had an annual deductible that was not less than $2,300 and not more than $3,450 and under which the annual out-of-pocket expenses required to be paid for covered benefits do not exceed $4,550.

For 2019, the annual deductible premium must not be less than $2,350 and not more than $3,500 and under which the annual out-of-pocket expenses required to be paid for covered benefits do not exceed $4,650.

For ***family coverage*** in taxable year 2018, the annual deductible must not have been less than $4,550 and not more than $6,850 with required out-of-pocket expenses not more than $8,400.

For 2019 returns, the annual deductible premium must not be less than $4,650 and not more than $7,000 with the required annual out-of-pocket expenses to be paid must not exceed $8,550.

Simplified Optional Home Office Deduction. Taxpayers who have home-based businesses may use the simplified home office deduction beginning with 2013 tax returns. The new deduction is capped at $1,500 per year based on $5 a square foot for up to 300 square feet. The $5 per square foot is allowed regardless of actual costs. Taxpayers using this method will not be able to depreciate the portion of the home they use for their business like they could if they filed Form 8829.

AFFORDABLE HEALTH CARE ACT

Health Insurance. The Health Care act requires that all individuals must have health care insurance by 2014 or pay a penalty tax on their individual income tax return. The exceptions to this would be individuals whose income is below the minimum filing requirement, coverage that is unaffordable, or if the individual suffered a hardship making him or her unable to secure insurance. Effective 2019 there will be no penalty for not having the minimum essential health coverage.

The penalty for not having health insurance is as follows:

Year	The penalty is the greater of:	Or the following percent of excess household income over the filing threshold amount:
2014	$95	1.0%
2015	$325	2.0%
2016 - 2018	$695	2.5%
2019	$0	0.0%

Plan Levels. The Health Care Act requires that all new policies, including plans sold on an exchange (except stand-alone dental, vision, and long term-care plans) to comply with one of the four benefit categories that provide for certain levels of benefits at the following actuarial levels.

- Bronze Plan 60%
- Silver Plan 70%
- Gold Plan 80%
- Platinum Plan 90%

Additional Medicare Tax. Beginning in 2013, individuals will pay an additional 0.9% Medicare Hospital Insurance (HI) tax of earned income that exceeds a threshold amount. The tax affects the employee's portion of FICA but it does affect the employer's share. A married filing joint return the tax is applied to the total earned income of the taxpayer and spouse. The Additional Medicare Tax amount would appear on form 8959. The threshold amounts are as follows:

- $250,000 for MFJ returns
- $125,000 for MFS returns
- $200,000 for Single, Head of Household and Qualifying Widow

Net Investment Income Tax. Beginning in 2013, individuals will have a Net Investment Income Tax imposed on them at a rate equal to 3.8% of the lesser of the net investment income or the excess of modified adjusted gross income (MAGI) over the threshold amount. The Net Investment Income Tax amount would appear on form 8960. The threshold amounts are as follows:

- $250,000 for MFJ, QW returns
- $125,000 for MFS returns
- $200,000 for Single, Head of Household returns

For estates and trusts the Net Investment Income Tax is imposed on them equal to 3.8% of undistributed net investment income or the excess of adjusted gross income over the dollar amount at which the highest estate and trust income tax bracket begins. In 2019 that amount will be $12,951.

Net Investment income is composed of three categories:

1. Gross income from interest, dividends, annuities, royalties, and rents, less allocable deductions, unless the income is derived from the ordinary course of a trade or business that is not a passive activity.
2. Business or trade income from a passive activity.
3. Net gains attributable to the disposition of property other than property that is held in a trade or business.

Income from a trade or business that trades financial instruments or commodities is subject to the Net Investment Income Tax despite its passive activity status.

Examples of items that would not be considered net investment income:

1. Any income subject to self-employment tax.
2. Income excluded from taxable income under regular tax rules.
3. Distributions from a qualified retirement plan.

Premium Tax Credit. Starting in 2014 a taxpayer who buys health insurance through a state exchange may be eligible for a premium tax credit. The credit is available for individuals with household incomes of at least 100% but not more than 400% of the federal poverty line for a family of the size involved who do not receive health insurance through an employer or spouse's employer. Married Filing Separate filers and individuals who are listed as dependents are ineligible for the credit. Also ineligible are incarcerated individuals and individuals who are not legally present in the United States.

If you are eligible for the credit you can get in one of two ways.

1. You can wait until your tax return is filed to receive the credit.

2. Or you can receive the credit as a way to lower your monthly premium by having some or all of the estimated credit paid directly to the insurance company. When you file your return you will subtract the amount of the advanced payments from the amount of the actual premium tax credit calculated on the return.

2019 Federal Poverty Level (FPL)

Size of family	FPL for 48 Contiguous States and District of Columbia	FPL for Alaska	FPL for Hawaii
1	$12,490	$15,600	$14,380
2	$16,910	$21,130	$19,460
3	$21,330	$26,660	$24,540
4	$25,750	$32,190	$29,620
5	$30,170	$37,720	$34,700
6	$34,590	$43,250	$39,780
7	$39,010	$48,780	$44,860
8	$43,430	$54,310	$49,940
More than 8	Add $4,320 per extra person	Add $5,530 per extra person	Add $5,080 per extra person

How the Premium Tax Credit is Calculated. The tax credits are based on a sliding scale ranging from 2% to 9.56%. The two factors involved are the household income relative to the federal poverty level and the percentage of income the cost of the premium represents. The credit amount is tied to the second lowest-cost tier plan, “silver plan”, otherwise known as the benchmark plan.

> **Example.** Hal wants to purchase health insurance on his state exchange. The four silver plans that he could purchase have yearly premiums of $4,000, $4,400, $4,800, and $5,200. The benchmark plan would cost Hal $4,400. Hal could buy any one of the four plans but for purposes of calculating the premium tax credit the $4,400 would be used.

Household income as a percentage of the Federal Poverty Level	Initial Premium	Final Premium
100%-133%	2.01%	2.01%
133%-150%	3.02%	4.03%
150%-200%	4.03%	6.34%
200%-250%	6.34%	8.10%
250%-300%	8.10%	9.56%
300%-400%	9.56%	9.56%

Example 1. Bob Watson purchases health insurance which is a benchmark plan (silver), and paid premiums of $9,000 for the year. He has two sons and his household income is $74,665. His income is 350% of the federal poverty level according to the chart on page 13. The premium tax credit would be calculated as follows:

Household income:	$74,665
Contribution %:	9.56%
Expected Contribution:	$7,137

Benchmark premium:	$9,000
Expected Contribution:	$7,137
Premium Tax Credit:	$1,863

Bob's premium tax credit would be $1,863. He would be expected to make insurance payments of $7,137 during the year.

Bob is not required to buy the benchmark plan. He is required to maintain minimum essential coverage which means he could purchase a bronze plan. When Bob purchases a plan other than the benchmark plan, the actual contribution could be higher or lower but the calculation of the premium tax credit does not change because that is tied to benchmark plan (silver). The following example will illustrate this.

Example 2. Same data as above except Bob purchases a bronze plan with premiums of $8,000. The calculation of the premium tax credit does not change along with the expected contribution but the actual contribution will be reduced.

Actual Premium:	$8,000
Premium Tax Credit:	$1,863
Actual Contribution:	$6,137

SECTION 199A DEDUCTION

Definitely the most complex of the new measures coming from the Tax Cut and Jobs Act is Section 199A, The Deduction for Qualified Business Income of Pass-Through Entities. For tax year 2018 through 2025 an individual taxpayer generally may deduct 20% of ***qualified business income*** from a partnership, S corporation, or sole proprietorship, as well as 20% of aggregate qualified REIT dividends, qualified cooperative dividends, and qualified publicly traded partnership income. ***Qualified business income*** is your allocable share of the income less deductions from the trade or business. It does not include capital gain, capital loss, dividends, nonbusiness interest income, reasonable compensation paid to you or guaranteed payments from partnerships. If you are involved in multiple businesses, you determine the ***qualified business income*** of each one separately and you first figure the deduction, subject to any limitations on each business.

General rule. The deduction will generally be equal to the sum of

1. The lesser of (A) the taxpayer's qualified business income or (B) 20 percent of the excess of the taxable income for the taxable year over any net capital plus the total amount of qualified cooperative dividends, plus

2. The lessor of (A) 20 percent of the total amount of qualified cooperative dividends for the taxable year or (B) the taxable income (reduced by the net capital gain).

A taxpayer's combined ***qualified business income*** amount is generally equal to the sum of (A) 20 percent of the taxpayer's QBI with respect to each trade or business plus (B) 20 percent of the total amount of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income.

Limitations. Limitations apply to people with higher taxable incomes in excess of $321,400 for a MFJ return and $160,700 for single and head of household filers. In 2019, there is a new limitation for married filing separate filers which starts at $160,725. The deduction is totally phased out once taxable income exceeds $421,400 for joint returns and $210,700 for single and head of household filers. For married filing separate filers the upper limit is 210,725. It's important to note that the definition of taxable income excludes the 20% deduction.

1. The deduction will be phased out when you exceed the threshold amounts when you are in certain service fields. Some of these fields include law, health, accounting, consulting, financial services, performing arts, athletics or any business where the principal asset is the reputation or skill of its employees.

2. The deduction will be phased out when you exceed the threshold amounts based on W-2 wages paid regardless of what field you are in.

3. The deduction cannot exceed 20% of the overall taxable income, excluding the deduction, minus any net capital gain. If it does, the deduction is limited to 20% of the taxable income. This applies to all taxpayers.

4. The portion of the deduction attributable to 20 percent of the taxpayer's qualified business income cannot exceed the greater of (1) 50% of the share of W-2 wages paid with respect to the qualified business income or (2) the sum of 25% of the share of W-2 wages plus 2.5% of the unadjusted basis of qualified property determined immediately after purchase of such qualified property.

Example. Jack is a sole proprietor who has a machine shop. In 2019, Jack purchased a CNC mill machine for $50,000. Jack does not have any employees.

50% of W-2 wages = 0
or
25% of W-2 wages + 2.5% of qualified property = 0 + $1,250 = $1,250

Jack is limited to $1,250 of Sec 199 deduction

Carryover of losses. Under Section 199A, if the net amount of qualified business income from all qualified trades and businesses during the taxable year is a loss, it is carried forward as a loss from a qualified trade or business in the next taxable year. Any deduction allowed in a subsequent year is reduced (but not below zero) by 20% of any carryover qualified business loss.

Example. In Year 1, Bill has qualified business income for business X of $20,000 and a qualified business loss for business Y of $50,000. Bill is not permitted a deduction for Year 1 and has a carryover qualified business loss of $30,000 to year 2. In Year 2, Bill has qualified business income of $20,000 for business X and qualified business income for business Y of $50,000.

($20,000 + $50,000 X 20%) - ($30,000 X 20%) = $8,000

Bill would be entitled to a Year 2 Section 199A deduction of $8,000.

REVIEW QUESTIONS

1. For tax year 2019, Joe, a single filer, had a capital gain of $20,000. Joe had taxable income of $76,000 in 2019. How much tax does Joe have to pay on his capital gain?

   A. $4,000
   B. $3,000
   C. $2,000
   D. $0

2. How much is the Child Tax Credit per child in 2019?

   A. $500
   B. $1,000
   C. $1,400
   D. $2,000

3. There are many situations that could trigger Alternative Minimum Tax (AMT). Which one of the following is ***incorrect*** in this regard?

   A. Tax exempt interest.
   B. Large gross income in comparison to taxable income.
   C. Short-term capital gains.
   D. The exercise of incentive stock options.

4. Kelly, a single filer, paid for college tuition for her daughter Shannon. Which one of the following choices would entitled Kelly for the Lifetime Learning Credit in 2019?

   A. $100,000
   B. $80,000
   C. $70,000
   D. $50,000

5. Which one of the following tax provisions will ***not*** expire after 2019?

   A. Residential Energy Efficient Property credit.
   B. Nonbusiness energy credit.
   C. Mortgage insurance premiums treated as qualified residence interest.
   D. Deduction for tuition and fee expenses.

6. Frank did not have health insurance for 2019. Assuming he does not qualify for an exemption what would his penalty be?

   A. There is no penalty for not having health insurance in 2019.
   B. The greater of $325 or 2.0% of excess household income over the filing threshold.
   C. The greater of $695 or 2.0% of excess household income over the filing threshold.
   D. The greater of $695 or 2.5% of excess household income over the filing threshold.

RESPONSES TO REVIEW QUESTIONS

1. For tax year 2019 Joe, a single filer, had a capital gain of $20,000. Joe had taxable income of $76,000 in 2019. How much tax does Joe have to pay on his capital gain?

   A. Incorrect. Joe would need taxable income of over $434,551 to pay $4,000 in capital gains tax.
   B. Correct. With taxable income of $76,000, Joe is in the 15% capital gain bracket for a single filer. ($20,000 X 15% = $3,000).
   C. Incorrect. See B above
   D. Incorrect. See B above. This would be the correct answer if he had taxable income of $39,375 or less.

2. How much is the Child Tax Credit per child in 2019?

   A. Incorrect. That is the amount of the new dependent care credit for a non-child dependent.
   B. Incorrect. That was the amount of Child Care Credit for years 2017 and prior.
   C. Incorrect. That is the refundable portion of the Child Care Credit for 2019.
   D. Correct. In 2019 the Child Care Credit is $2,000 per child.

3. There are many situations that could trigger Alternative Minimum Tax (AMT). Which one of the following is ***incorrect*** in this regard?

   A. Incorrect. Tax-exempt interest is one of the elements that triggers AMT.
   B. Incorrect. When taxable income is low in comparison to gross income this will trigger the AMT.
   C. Correct. Short-term capital gains will ***not*** trigger AMT. However, long-term capital gains will trigger AMT.
   D. Incorrect. When you have incentive stock options this will trigger AMT.

4. Kelly, a single filer, paid for college tuition for her daughter Shannon. Which one of the following choices would entitled Kelly for the Lifetime Learning Credit in 2019?

   A. Incorrect. Lifetime learning credit is totally phased out for single filers when modified AGI (MAGI) is over $68,000 in 2019.
   B. Incorrect. See A above. The phase-out range for the lifetime learning credit for single filers in 2019 is $58,000 - $68,000.
   C. Incorrect. See A and B above.
   D. Correct. Kelly will be entitled to the lifetime learning credit if her MAGI is $50,000. As long as her MAGI is under $58,000 Kelly would be entitled to tax credits.

5. Which one of the following tax provisions will ***not*** expire after 2019?

   A. Correct. The residential energy efficient property credit expires after 2021, ***not*** 2019.
   B. Incorrect. The nonbusiness energy credit is scheduled to expire after 2017.
   C. Incorrect. Mortgage insurance premiums that are deductible as interest is scheduled to expire after 2017.
   D. Incorrect. The deduction for qualified tuition and related expenses is due to expire after 2017.

6. Frank did not have health insurance for 2019. Assuming he does not qualify for an exemption what would his penalty be?

   A. Correct. There is no penalty for not having health insurance in 2019.
   B. Incorrect. This was the penalty for 2015, ***not*** 2019.
   C. Incorrect. This would be correct answer if the percentage was 2.5%.
   D. Incorrect. This would be the correct answer for tax years 2016 through 2018. After 2018 there will be no penalty for ***not*** having essential health coverage.