H&S COMPANIES
CPA's & Business Advisors

37th Annual Tax Letter | January 2020

The SECURE (Setting Every Community up for Retirement Enhancement) Act and the Taxpayer Certainty and Disaster Tax Relief of 2019

Now that's a mouthful, isn't it? These two bills were passed by Congress and signed by the President the week before Christmas. I don't know about you, but it makes us nervous when Congress uses words like "setting...up" and "disaster" in tax legislation. Key provisions for these two pieces of legislation are as follows:

IRAs

Beginning January 1, 2020, as long as you have earned (wages, self-employment income) income you can continue to fund your IRA past the age of 70 1/2 (previously unallowed).

The age at which RMD's (Required Minimum Distributions) must start is now 72 - this is extended from age 70 1/2 for those who were not already the age of 70 1/2 as of December 31, 2019. Reminder – if you are at least 70 1/2, have an IRA, and are charitably inclined, making Qualified Charitable Distributions (QCD's) directly from your IRA can save you tax dollars. QCD's can be made up to $100,000 per year. This is an excellent tax saving opportunity.

Penalty-free withdrawals (still subject to regular tax) are allowed for "qualified birth or adoption distributions". (This provision also applies to retirement plans other than IRA's).

Small Employer Retirement Plans

The credit for establishing a retirement plan for small employers (under 100 employees) has increased from a maximum of $500 to $5,000! And a 3 year credit of up to $500 per year for companies that revise their plans to include "automatic employee enrollment".

Now that's a really good deal if your company is looking to establish a 401k Plan. If you are thinking of doing so, contact our retirement plan specialist, Randy Filbrandt, at 231-798-6504 or randyf@hscompanies.com

"Kiddie Tax"

While the Tax Cuts and Jobs Act of 2017 changed the tax for children from parents' rates to trust rates, Congress has now repealed this provision and replaced it with prior tax law at parents' tax rates effective 2020...however, taxpayers may elect to apply these provisions for 2019 and even amend their 2018 returns!

TIP: Opportunity for review and analysis of alternatives for tax savings 2019 and 2018.

New Markets Tax Credit

Congress provided $5 Billion for the New Markets Tax Credit – a 39% tax credit of the capital invested in a qualified community development entity, a for profit or nonprofit entity that commits to the rules of the program, which must loan to or invest substantially all capital in qualified businesses operated in low-income communities.

FMLA

The tax credit for most employers with at least 50 employees for providing paid FMLA leave has been extended through 2020. The credit is equal to 12.5% of eligible wages if payments are at least 50% of wages. It is increased by 1/4% (.25 percent) for each percent above 50%. The maximum amount is 25% of FMLA payments and the credit applies to the first 12 weeks of pay.

Beer, Wine and Distilled Spirits Tax

Excise tax reductions extended through 2020 – eat, DRINK and be merry!!!

Medical Expenses

The threshold for claiming medical expenses was set to increase to 10% of AGI, however, it will stay at 7.5% for 2019 and 2020.

Education

Deductions for qualified tuition and education expenses for higher education expenses were extended for 2019 and 2020.

Work Opportunities Tax Credit

The Work Opportunities Tax Credit has been extended through 2020.

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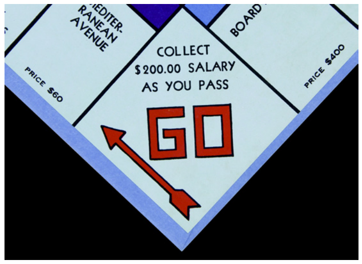
Business Income Deduction

Prefer to pay tax on only 80% of your income? Well that's possible now!



If your taxable income is under $321,400 ($160,700 single), you'll get this deduction on nearly any type of active business income without restriction. Phase out of deduction starts at $321,400 (married) and $160,700 (single) and end at $421,400 (married) $210,700 (single).

If your taxable income is over these thresholds, there are two important hurdles to meet before claiming the deduction:

1. W-2 Wage/Depreciable Asset Limit: Your 20% deduction is limited to the greater of:
   a. 50% of W-2 wages paid or
   b. 25% of W-2 wages paid plus 2.5% of unadjusted basis of your depreciable assets

2. Exclusions for specified services: Not all businesses are created equal for this new deduction, oh no! The following folks are excluded unless their income is below thresholds above:
   a. Doctors, including pharmacists, dentists, veterinarians, nurses, therapists, etc.
   b. Lawyers
   d. Accountants – CPAs, accountants, enrolled agents
   e. Athletes
   f. Performing Artists
   g. Consultants
   h. Financial Services and Advisors

C-Corporation

If you operate your business as a C-Corporation, you won't receive the new 20% business income deduction, but you will get something better if you make a lot of money. The old tax brackets have been thrown out and replaced with a flat rate of 21% on corporate net income, including personal service corporations (PSCs).

It's certainly time for many businesses to re-consider C-corporations as their tax structure, particularly for businesses with high incomes, that need to reinvest and retain profits for debt retirement or expansion. And, only businesses operated as C-Corporations can qualify for 100% tax free sale of shareholder's stock on up to $10 million ($5 million single tax payer) of gains. This provision (Code Section 1202) applies to most businesses with certain exceptions, such as legal, accounting, banking, farming, and real estate.

Opportunity Zones

Highlights from a whole new set of Code Sections created by the TCJA:

1. Permits deferral of capital gains that are reinvested in Qualified Opportunity Zones (QOF).
2. QOFs can be found by checking Census Tract Numbers and are all located in Low-Income Communities.
3. Excludes from gross income post-causational gains on investments in QOF's held for at least 10 years.

Cash Method of Accounting

How would you like to quit paying tax on your accounts receivable? Under prior law, most businesses grossing more than $5 million a year were required to utilize the "accrual" method of accounting (Accounts Receivable/Accounts Payable)

This threshold has been raised to $25 million. Thus, you could switch to the cash method for tax purposes and deduct the net amount that your accounts receivable exceed your account payable on your 2019 tax return!

Depreciation Deductions

Two big depreciation deductions are still available for businesses purchasing or improving property:

	179 Expensing	Bonus Depreciation
Write Off	100%	100%
Limitation	$1.04 M of property subject to net income limitation	None
Phase Out	Yes, beginning at $2.59M	No
New or Used	Both	Both
Rental Property	No	Yes
Qualified Improvement Property	Yes	No

Important Facts & Figures

	2019	2020
Mileage Rate	58 cents/mile	57.5 cents/mile
Federal Minimum Wage	$7.25	$7.25
Michigan Minimum Wage	$9.45	$9.65
Tipped Employees	$3.59	$3.67
Social Security Wage Base	$132,900	$137,700
Earning Limit for SS Recipients Under Age 66	$17,640	$18,240
Tax Free Gift Per Person	$15,000	$15,000
Tax Free Estate: Individual	$11,400,000	$11,580,000
Married	$22,800,000	$23,160,000
IRA: Under 50	$6,000	$6,000
50 or Older	$7,000	$7,000
SIMPLE: Under 50	$13,000	$13,500
50 or Older	$16,000	$16,500
401K: Under 50	$19,000	$19,500
50 or Older	$25,000	$26,000
HSA Individual: Under 55	$3,500	$3,550
55 or Older	$4,500	$4,550
HSA Family: Under 55	$7,000	$7,100
55 or Older	$8,000	$8,100

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