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Mike D'Avolio • Dec. 05, 2019

As you know, the Tax Cuts and Jobs Act (TCJA) was signed into law in 2017. Most of the measures were effective beginning in tax year 2018, and many individual measures contain a sunset date at the end of 2025. Here's a summary of the TCJA provisions, along with other tax changes that are effective beginning in tax year 2019.

Changes to Tax Forms

- Form 1040: Condensed to Schedules 1, 2 and 3; Schedules 4, 5 and 6 are eliminated.

for S corporations, for example.
- Retired tax forms:
  - Schedule C-EZ
  - Form 2555-EZ, Foreign Earned Income Exclusion
  - Form 8965, Health Coverage Exemptions

New Form W-4 for 2020

The primary goals for redesigning Form W-4, *Employee's Withholding Certificate*, was to provide simplicity, accuracy and privacy for employees, while minimizing the burden for employers and payroll processors. The final version of the form was released in November 2019 and will be used starting in 2020. The IRS continues to encourage people to do a Paycheck Checkup as soon as possible, especially if they had too much or too little tax withheld in 2019. The IRS launched a new Tax Withholding Estimator, a redesigned, online tool that makes it easier to have the right amount withheld.

Alimony

Under the new law, for divorce or separation agreements executed after Dec. 31, 2018, alimony and separate maintenance payments are no longer deductible by the payer or included in income of the recipient. For agreements executed before 2019 and modified after 2018, the modification needs to expressly state that the new rules will apply; otherwise, the prior alimony rules will govern.

Affordable Care Act

We're seeing a very large component of the Affordable Care Act (ACA) going away! Beginning in 2019, individuals won't have to pay a federal penalty for not being covered by insurance or by an exemption, and the individual shared responsibility payment has been permanently reduced to zero going forward. For tax years 2016-2018, the penalty was the greater of $695 per individual or 2.5% of household income. Please remember that a handful of states invoke a penalty for not having

- Premium tax credit: Taxpayers falling within 100%-400% of the federal poverty level may be eligible for the credit.
- Employer mandate: Employers with over 50 employees are required to provide employees with healthcare coverage or face a penalty.
- Surtaxes on high-income taxpayers:
  - 3.8% net investment income tax
  - 0.9% additional Medicare tax

Medical Expense Deduction

The itemized deduction for medical expenses is subject to the elevated 10% adjusted gross income floor for regular tax and alternative minimum tax (increased from 7.5% of adjusted gross income for tax year 2018). The change is less beneficial to taxpayers. However, many taxpayers are no longer itemizing deductions due to the increased standard deduction.

Tax Treatment of State and Local Tax Limits, and State and Local Tax Refunds

The IRS clarified the tax treatment of state and local tax refunds that arise from any year the new state and local tax deduction limit applies. The ruling impacts state tax refunds received in 2019 and going forward. Beginning in 2018, the itemized deduction for state and local taxes is limited to $10,000 (if $5,000 married filing separate).

State and local tax refunds are not taxable if the taxpayer takes the standard deduction in the year the tax is paid. If the taxpayer itemizes deductions on Schedule A, all or part of the refund may be taxable in the following year to the extent a tax benefit is received. You need to help your clients figure out how much they would have deducted had they paid the actual liability; the revenue ruling provides four

- **Cryptocurrency:** A type of virtual currency where the transactions are digitally recorded on a distributed ledger, such as blockchain.
- **Hard fork:** A protocol change and results in a permanent diversion. A new cryptocurrency and new distributed ledger are created, in addition to the legacy system. However, the taxpayer does not receive income in a hard fork alone.
- **Airdrop:** Cryptocurrency units are dispersed to the distributed ledger addresses of multiple taxpayers. This results in income to taxpayers, since they receive new currency.

Let's say the taxpayer owns 100 units of Crypto A. Crypto A experiences a hard fork and Crypto B is created. 50 units of Crypto B are airdropped to the taxpayer. The taxpayer must report ordinary income equal to the fair market value of Crypto B.

Electric Car Credit

The plug-in electric drive motor vehicle credit was enacted in 2008 for eligible passenger vehicles and light trucks. You can pay a premium by purchasing one of these cars, so the credit makes them more affordable. Depending on the model of the car purchased and your client's tax situation, they can get an electric vehicle credit up to $7,500, plus any state or local incentives. Each vehicle manufacturer is allowed to sell up to 200,000 vehicles before the credit begins to phase out. The total is by manufacturer not by brand.

- For General Motors (Chevrolet Bolt EV, for example) the credit began to phase out on April 1, 2019.
- For Tesla, the phase out of the tax credit began on Jan. 1, 2019.

Taxpayer First Act of 2019

This newly passed law gives taxpayers additional safeguards. Beginning Aug. 16,

It's Another Tax Year to Serve Your Clients

Tax professionals can look at their clients' 2019 and 2020 tax situations, and identify tax planning and tax savings opportunities, in addition to completing estimated taxes and Form W-4s to make sure withholding allowances are correct. Overall, these proactive measures will serve to enhance your role, provide advisory services and set yourself apart from the competition.

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