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# Happy New Year 2020!

Welcome to 2020 and the beginning of a new decade! We hope 2019 was a great year for you and your family. Last year brought many changes to tax laws as the provisions of the Tax Cuts and Job Act (TCJA) went into effect. The new regulations brought lower tax rates for individuals and new deductions such as QBI for businesses.

We're just about to enter the 2019 tax filing season, and again there are new tax changes going into effect. The insurance penalty has been removed, supplemental schedules have decreased from six to three, new tax and withholding forms have been introduced, and many more tax changes are being implemented. Confused? We get it, but we are here to help and guide you with your 2019 tax preparation and 2020 tax planning. As many of you know, we now offer enhanced payroll services.

Our customers are truly the best and we would like to extend the warmest of New Years wishes. We thank you for your business and hope the coming year provides you with wonderful opportunities and much happiness.

## ***Gather Your Tax Paperwork and Receipts***

As you gather your tax information (i.e. W-2's, 1099's, mortgage statements, etc.) please use the 2019 Client Income Tax Checklist attached. It is a list of common income and deduction items we will need.

## ***Set Tax Appointment, CALL (480) 783-8870***

Call us to schedule your appointment. The earlier the better. We strive to beat the April 15<sup>th</sup> deadline for early appointments. You can also mail, drop off, upload to our ShareFile account or email (Jadyn.Bruce@capitalacctpc.com) your tax information and we will contact you when it is received.

## ***Tax Deadlines***

S Corporations & Partnerships (Forms 1120S/1065) – Monday, March 16<sup>th</sup>  
Individual & Corporations (Forms 1040/140 & 1120) – Wednesday, April 15<sup>th</sup>

We will continue to keep a close eye on the news and be proactive in implementing strategies to help minimize any adverse tax consequences that may affect you. As always, we have your back.

Please feel free to call us with any questions you may have. We look forward to meeting with you.

Sincerely,

***Capital Accounting, PC***



# 2019

## TAX HIGHLIGHTS & ANALYSIS

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### INDIVIDUALS

#### **Individual Rates**

Individual rates remained at 10, 12, 22, 24, 32, 35 and 37% through 2019. The amount of income subject to the top tax rate of 37% is \$612,350 (married filing jointly), \$510,300 (single individuals).

#### **Child Tax and Dependent Credit**

A \$2,000 tax credit for each child under age 17 permanently extended. Phases out at certain income brackets. If your children are 17 or older or you take care of elderly relatives you can claim a \$500 non-refundable credit. Dependents who can't be claimed for the Child Tax Credit may still qualify you for the Credit for Other Dependents. This is a non-refundable tax credit of up to \$500 per qualifying person.

#### **Itemized Deductions**

Mortgage interest, charitable contributions, and medical expenses remain but with small tweaks to each. Mortgage interest is now on debt up to \$750,000 vs. \$1,000,000 (this only applies on mortgages taken after December 15<sup>th</sup>, 2017). Charitable contributions can now be up to 60% of income. The threshold for medical expenses is now 7.5% of AGI. The deduction for state and local taxes is now limited to \$10,000.

Miscellaneous deductions including unreimbursed employee expenses and tax preparation fees are eliminated. Also, gone are moving expenses and most casualty losses. You may still deduct gambling losses. The amount of losses you deduct can be up to the amount of your gambling income.

#### **Solar Credit**

Consumers who install solar energy systems (including solar water heating & solar electric systems) can receive a 30% tax credit of total cost. The credit is available through the end of 2019. After that, the percentage steps down, 26% for year 2020, 22% for 2021, 10% for 2022.

#### **Adoption Credit**

Tax benefits for adoption include both a tax credit for qualified adoption expenses paid to adopt an eligible child and an exclusion from income for employer-provided adoption assistance. The credit is nonrefundable, which means it's limited to your tax liability for the year. However, any credit in excess of your tax liability may be carried forward for up to five years. The maximum amount (dollar limit) for 2019 is \$14,080 per child.

Year-end tax letter  
2019

### **Charitable Contributions**

Charitable donations continue to be deductible but adequate documentation is a must. Evidence of the donation is necessary. This can be a cancelled check or a credit card receipt, and for any donation more than \$250, a written acknowledgement from the charity is required.

### **Affordable Care Act**

Healthcare insurance (Obamacare) penalties are gone for 2019 and future years.

### **Additional 0.9% Medicare Tax**

A 0.9% tax is imposed on wages in excess of \$200,000 for single taxpayers and \$250,000 of the combined wages of married taxpayers.

### **Net Investment Income Tax 3.8%**

Applies to long term and short-term capital gains, dividends, rental income or income from a business in which the taxpayer is a passive participant. Income thresholds apply – (\$250,000 threshold for married filing joint)

### **Capital Gain and Dividend Rates**

The general structure of the capital gains tax system isn't changing. However, for married filing jointly the capital gains rate is 0% up to \$77,200 of taxable income and 15% for incomes of \$77,200 - \$479,000.

### **Standard Deduction and Personal Exemption**

The standard deduction has roughly doubled for all filers but the personal exemption has been eliminated. The standard deduction for 2019 is \$12,200 for single filers and \$24,400 for married filers.

### **Alimony**

This is no longer deductible or taxable to the recipient for divorces contracted after January 1, 2019.

### **Electric Vehicle Credit**

Credits are still available for purchasing electric vehicles. The credits phaseout as the manufacturer sells a specific number of electric vehicles. Make sure to check if your vehicle is eligible for the credit.

## **BUSINESS**

### **Research & Development Credit**

The R & D research credit allowed normally is equal to 20% of the amounts by which qualified research expenses for the tax year exceed a base amount (unless the taxpayer elects the alternative simplified research credit). Qualified small businesses may be eligible to claim a federal tax credit for costs related to their research and development activities, up to \$250,000 per fiscal year.

### **Section 179 Expense – Permanently Extended**

The increased expensing allowance for business assets, computer software, and qualified real property (i.e., leasehold improvement, restaurant, and retail improvement property) was permanently extended to allow property with a cost of up to \$1,00,000 to be expensed currently (with a limit of \$2,500,000 in total property placed in service before the Section 179 limit would be reduced).

### **Bonus Depreciation**

Similar to section 179 bonus depreciation is accelerated depreciation, however it allows for up to 100% expensing for most business assets with less than a 20-year life (machinery, equipment, furniture).

### **Business Entertainment Deductions**

Are now eliminated, but a meals deduction is still allowed at 50%.

### **Small Business Stock – Permanently Extended**

Allows a taxpayer to exclude from income up to 100% of the gain from the sale of qualified small business stock held for more than five years (must be stock of a C-corporation). Exclusion of 100% of gain on certain small business stock is permanently extended.

### **AZ State Credit for S-Corporations**

Dollar for dollar for contributions to school tuition organizations (STO's). Minimum \$5,000 – No maximum limit.

### **Reporting of 1099's (Independent Contractors)**

Forms 1099-Misc must be filed for payments of \$600 or more to individuals or partnerships. You will need to meet the new January 31<sup>st</sup> filing deadline. Applicable to both recipient and agency copies, whether filing by paper or electronically.

### **Net Operating Loss Deduction**

The 2017 Tax Act now limits the amount of the NOL that a taxpayer can use to 80% of taxable income. Plus, the law also repeals the provision allowing for a 2-year carryback but does allow for indefinite period to carryforward the NOL.

## **RETIREMENT ACCOUNTS**

### **401k Accounts**

401(k) contributions remain at \$19,000 in 2019, and an additional catch up of \$6,000 if you are age 50 or older. For 2020 the deduction will be \$19,500 plus the catchup.

### **Required Minimum Distributions (RMD)**

The law raises to 72 from 70½ the age at which individuals must begin taking RMDs from their retirement accounts. Important: The new law only applies to people who turn 70½ after December 31, 2019. If a person turned 70½ in 2019, the law does not apply—that person must take an RMD in 2019, 2020 and beyond.

### **Traditional IRA**

IRA contributions limits for 2019 is capped at \$6,000, with a \$1,000 catch up contribution. Your ability to deduct traditional IRA contributions from your taxable income is income limited, with allowed amounts phased out as your income rises.

### **IRS Office**

Contacting the IRS for guidance continues to be difficult. On the bright side, your chances of facing an IRS audit are greatly reduced. However, the IRS continues to send out computer-generated notices, usually from document-matching processes. Since IRS notices generated in this way are sometimes incorrect, you should contact us as soon as you receive correspondence and we will take care of it.

**Remember, never ignore an IRS notice, it won't go away.**





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## Tax Year 2019 Key Income Tax Figures

<b>Individual Income Tax Rates</b>	10%, 12%, 22%, 24%, 32%, 35%, 37%	
<b>Additional Medicare Tax Rate</b>	0.90%	
<b>Net Investment Income Tax Rate</b>	3.80%	
<b>Personal Exemption</b>	Eliminated	
<b>Standard Deductions</b>		
Single & Married Filing Separate	\$12,200	
Married Filing Joint & Qualifying Widower	\$24,400	
Head of Household	\$18,350	
<b>FICA Taxable Wages (Social Security)</b>	<b>2019</b>	<b>2018</b>
	\$132,900	\$128,400
<b>Child Tax Credit</b>	\$2,000	
<b>Standard Mileage Rate</b>		
Business	58¢	
Medical and Moving	20¢	
Charitable	14¢	
<b>Section 179</b>	<b>2019</b>	<b>2018</b>
Maximum Amount 179	\$1,000,000	\$1,000,000
SUV Limitation	\$25,000	\$25,000
<b>Retirement Plans</b>	<b>2019</b>	<b>2018</b>
IRA - Contribution Limit/Catch up if Age 50	6,000/1,000	\$5,500/\$1,000
SIMPLE IRA - Contribution Limit/Catch up if Age 50	13,000/3,000	\$12,500/\$3,000
401(k), 403(b), & 457 - Contribution Limit/Catch Up Age 50	19,000/6,000	\$18,500/\$6,000
Defined Contribution - Contribution Limit	\$56,000	\$55,000
<b>Health Savings Accounts (HSA)</b>		
Individual - Contribution Limit	\$3,500	
Family - Contribution Limit	\$7,000	
Age 55 Catch Up	\$1,000	