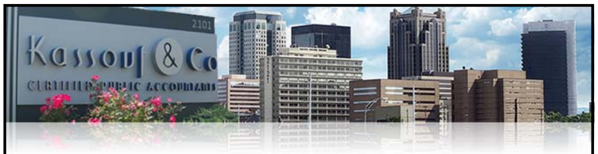


# 2019 Tax Planning Considerations

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## Pre-Tax Benefit Plans

- Not subject to federal, state, social security, nor Medicare taxes if made through payroll deductions
  - Dependent care benefits
    - Up to $5,000
  - Health Savings Accounts (HSAs)
    - Up to $3,500 (self-only) or $7,000 (family)
    - Minimum annual deductible is $1,350 (self-only) or $2,700 (family)
    - Employer contributions
    - Employee contributions

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## Public Service Loan Forgiveness (PSLF)

- How does filing your individual income tax return affect the potential for PSLF?
  - File jointly?
  - File separately?
  - Will you pay off your debt before the 10-year period?

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## Roth IRAs

- Funding an individual retirement account (IRA) with post-tax dollars
- $6,000 limit for 2019 ($7,000 if age 50 or older)
- Can contribute directly if:
  - MAGI is less than $137,000 for single filers
  - MAGI is less than $203,000 for married filing jointly
- Must have earned income
- 15 months to make contributions for any given tax year

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## Roth IRAs

- Can make contributions at any age
- Not required to make a required minimum distribution (RMD)
- Non-working spouse can open a Roth IRA based on working spouse's earnings
- Can contribute even if you participate in an employer retirement plan

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## Backdoor Roth

- A means of contributing to a Roth IRA if your MAGI exceeds the limits for single filers and married filing jointly
- Make a nondeductible contribution to a traditional IRA
- Convert to a Roth IRA
- Be cautious!

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## Qualified Business Income Deduction (QBID)

- Created by the Tax Cut and Jobs Act (TCJA)
- Lowered C-corporation tax rate to 21%
- To give non-C-corporation entities some similar benefit, the QBID was created to reduce the effective tax rate of those entity earnings
- Applies to sole-proprietor work
  - Income from depositions or locum tenens work
- Only eligible if certain parameters are met and AGI is under:
  - $157,500 for single filers
  - $315,000 for married filing jointly

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## Contract Work Deduction Substantiation

- In a recent article published by *Accounting Today*, the tax gap – the difference between taxes owed and actually paid – is around $460 billion
- $390 billion is attributable to underreporting
  - Taxpayers who understate their income
  - Taxpayers who overstate their deductions
- Always keep underlying receipts
- Expenses must be ordinary and necessary
- Documentation must be contemporaneous

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## Unreimbursed Business Expenses

- Under the TCJA, the deduction for a miscellaneous itemized deduction subject to the 2% AGI floor have been suspended
- If you have an arrangement with your employer, consider modifying it to include having them pay or reimburse you for the expenses

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## Scholarship Granting Organizations (SGOs)

- Established by the Alabama Accountability Act
- Seven SGOs
- Provide scholarships for students who live in an area zoned for a deemed failing public school to attend a private or out-of-district public school
- $30 million pool
- Can contribute the lesser of half your state tax liability or $50,000
- Excess applied towards the next tax year
- Not a deduction, but dollar-for-dollar offset against state tax liability

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## Mortgage Interest Limitations

- Changes under the TCJA
- Does not affect homes purchased prior to December 15, 2017
- Suspends deduction for interest on home equity indebtedness until 2025 if not used to buy, build, or substantially improve the home
- Deduction for interest on acquisition indebtedness is also limited by reducing the amount of debt that qualifies as acquisition indebtedness from $1 million to $750,000

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## Donor Advised Fund (DAV)

- Allows you to contribute cash or securities to a charitable investment account that can be used to support your desired charities
- Funds can be invested for tax-free growth
- Receive the deduction in the year you contribute the assets to the account
- Helps support a technique known as “stacking”
  - Multiple years of charitable deductions into one year to exceed the standard deduction threshold when you would otherwise benefit from the standard deduction

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## Donor Advised Fund (DAV)

- For example, married filing jointly, itemize, only itemized deduction is charitable contributions
  - Contribute $20,000 per year for three years and never receive the benefit of the contribution (standard deduction is $24,000)
    - Cash outlay of $60,000 when already receiving the benefit of $72,000 without spending anything
  - Contribute $60,000 in Year 1 and take standard deduction in Years 2 and 3
    - Cash outlay of $60,000 and receive benefit of $108,000
    - Can then spread $60,000 over three years to fulfill pledges or goals

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## Employer Retirement Plan Participation

- Plan types:
  - 401(k) plan
  - 403(b) plan – 401(k) plan equivalent for tax-exempt organizations
  - 457(b) plan – non-qualified plan for governmental and certain non-governmental employers
    - Not protected against creditors
    - Consider the financial stability of the institution
- Vesting schedules

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## Roth Contributions to Retirement Plan(s)

- For the long-term, it may be worth considering the Roth option of your employer's 401(k), 403(b), and/or 457(b) plan
- In making post-tax contributions today, you are saving yourself from tax at retirement
- Deferral portion would grow tax-free and be distributed tax-free

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## Roth Contributions to Retirement Plan(s)

- Assume you defer the maximum amount allowed by the IRS of $19,000 as a Roth contribution at age 35 to a 403(b) plan
- Assume you are in the 35% tax bracket (30% federal, 5% state)
- Pay tax today of $6,650 that you would otherwise save if these were pre-tax (traditional) deferrals
- If the $19,000 grows tax-free at 6% per year for 35 years and is distributed tax-free:
  - Value of $146,000 – on only one year's deferrals!
  - Paying 35% tax today yields an effective tax rate of just under 4.5% at age 70!

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