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2019 Year End Newsletter

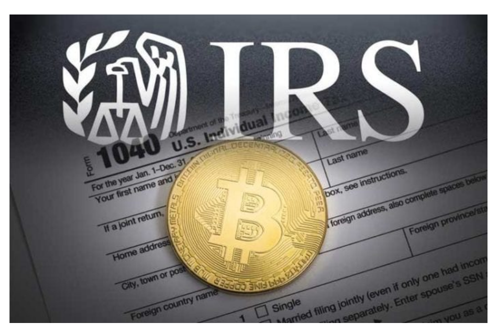
What's Inside:

IRS Gets Serious About Cryptocurrency

Have you been dabbling in cryptocurrency trading? The IRS is stepping up its efforts to provide guidance to taxpayers around cryptocurrency transactions and has enacted some new compliance measures.

On 2019 tax returns, the IRS will require taxpayers to check off a box if they engaged in any virtual currency transactions during the year. The question will appear on the Schedule 1, as follows: "At any time during 2019, did you receive, sell, send, exchange or otherwise acquire any financial interest in any virtual currency?"

The IRS has confirmed that virtual currency is to be treated as a capital asset if it can be converted to cash. This means that capital gains rules apply to any gains or losses on the sale or transfer of virtual currency, and should be reported on a Schedule D.



Digital currency exchanges like Coinbase are now required to issue a 1099-K if there are at least 200 transactions with a total value equal to or exceeding $20,000 or gross proceeds that exceed the state's threshold, which for most states is $20,000. These are high thresholds, so the IRS is heavily relying on taxpayers' complying on their own. The gross proceeds threshold for MA residents, however, is much lower—at only $600.

The IRS has published a complete list of frequently asked questions regarding cryptocurrency on their website at www.IRS.gov.

Checklist to Cut Your 2019 Taxes

It's not too late to cut your 2019 tax bill. Prior to Dec. 31st:

- **Increase your 401(k) and 403(b) contributions** if you haven't been contributing at the maximum rate all year. If you're self-employed, consider setting up a Solo 401(k) by 12/31.
- **Take a look at your withholdings** and instruct your employer to withhold additional taxes if you haven't had enough taxes withheld during the year and might get hit with an underpayment penalty.
- **Consider selling your non-retirement investments that have decreased in value** since your capital losses can offset other capital gains realized during the year (including from your mutual funds), and then can be used to offset up to $3,000 of wages and other income.
- **Send in your January 2019 mortgage payment early enough** so it will be processed prior to 12/31/18. By sending in your payment a few weeks early, you can deduct the interest portion of that payment a full year earlier.
- **Clean out your closets and donate your clothing and household items to a charitable organization** since "non-cash" contributions are deductible if you itemize. Don't forget to get a receipt. And make sure to put together a list or photos of the donated items, including each item's condition since only donations of clothing and household items in "good condition or better" qualify for a deduction.
- **For gifts of money**, making your donation by credit card before December 31st allows you to deduct the donation on this year's return, even if you don't pay your credit card bill until 2020. And **you always have the option of donating appreciated investments** to charities. You get to claim your donation based on the value of the assets donated, without paying any capital gains taxes on the appreciation.
- **Consider contributing to a Donor Advised Fund** if you are married and no longer have a substantial mortgage.
- **Pre-pay or pay off your medical bills** if your total medical expenses exceed 10% of your income and you itemize.
- **Consider the simplified method home office deduction** if you are self-employed, maintain an area of your house used exclusively and regularly as a home office, but don't maintain accurate records documenting expenses for your house. Claiming the simplified home office method as a tax deduction can lower your self-employment net income by as much as $1,500.
- **Fund a 529 education savings plan** and give a tax-free gift to a beneficiary of any age. You can give up to $15k per beneficiary annually ($30k from a married couple who gift-split) without needing a federal Gift Tax Return. You may also front-load and give five years' worth of contributions (up to $150k for a couple) into a 529—front-loading does require a Gift Tax return filing.

Gifting Rules

Does part of your family's financial planning include gifting? If so, here are a dozen tips to follow:

1. Annual gift exclusion is $15,000 per year by an individual to another individual, or
2. Annual gift exclusion is $30,000 per year gifted jointly from a married couple to another individual (assuming the gift is joint property). However, a Form 709 is required if the gift is in excess of $15,000 and only from assets belonging to one spouse (typically gift-splitting would be elected on the Form 709 to take advantage of the $15,000 annual exclusion for both spouses).
3. Gifts in excess of the annual exclusion amounts noted above are reported by filing a **Form 709 United States Gift (and Generation-Skipping Transfer) Tax Return**. The giver is responsible for filing the tax return.
4. The receipt of a gift from another is not taxable income to be reported by the receiver of the gift.
5. Gifting is tracked and reported on a calendar year (and not through April 15 of the following year as IRA contributions are tracked).
6. A gift in the form of a check payment is not considered a gift until the check is cashed and clears the bank. Be careful with gifts made near the end of the year – i.e., if a check is given to your grandchild on December 31, 2019 but not deposited into the child’s bank account until January 2, 2020, then the gift would be considered a calendar year 2020 gift.
7. Gifts are not a charitable deduction.
8. For gift tax purposes, payments made directly to an educational institution or medical facility for another person’s respective tuition or medical expenses are not reportable gifts even if the amounts exceed the annual gift exclusion amount.
9. Gifts to a political organization in excess of the exclusion amount are not reportable gifts (nor are they deductible charitable gifts).
10. Individuals are allowed to gift into a 529 plan $75,000 ($150,000 jointly) in a calendar year – being a frontloaded gift of 5 years – and spread the gift over the following 4 years. The filing of a gift tax return is required to report this gift, but will fall under the annual exclusion threshold. Additional gifts to such individuals over the next 4 years would be considered a reportable gift.
11. Non-cash gifts are gifted at the fair market value as of the date of the gift, not the giver’s basis. (Be aware of the gifting rules when the property is eventually sold by the receiver of such gifts.)
12. If an individual receives a gift (or multiple gifts in a calendar year) from a nonresident alien or foreign estate and the total of the gifts received from that foreign individual or entity exceeds $100,000 in a calendar year, the individual/receiver is required to file **Form 3520 Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts**.

New SSN Scam

Scammers are at it again, this time calling up taxpayers, impersonating the IRS, and threatening to suspend or cancel social security numbers. According to the IRS, these calls can come in as “robocall” voicemails, requesting people to call back.

The scammers may mention overdue taxes. If you receive a call threatening to suspend your SSN for an unpaid tax bill, hang up and do not give out any sensitive information over the phone.

There are several telltale signs of this scam. The IRS and its authorized private collection agencies will never:

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, iTunes gift card or wire transfer. The IRS does not use these methods for tax payments.
- Ask a taxpayer to make a payment to a person or organization other than the U.S. Treasury.
- Threaten to immediately bring in local police or other law-enforcement groups to have the taxpayer arrested for not paying.
- Demand taxes be paid without giving the taxpayer the opportunity to question or appeal the amount owed.

Review of the 2019 Rules for Itemizing Your Deductions

Medical Expenses
For 2019, medical expenses are deductible to the extent they exceed 10% of your Adjusted Gross income (AGI). The IRS also allows a deduction of 20 cents/medical miles driven so don't forget to track your medical mileage.

Planning Opportunity: Check out IRS Publication 502, Medical and Dental Expenses. If your allowable medical expenses will exceed 7.5% of your AGI this year, then paying your outstanding medical and dental bills prior to 12/31/18 will increase the allowable deduction. Same goes for pre-paying for medical expenses even if the services won't be provided until next year.

Home Mortgage Interest
Big changes with the deductibility of home mortgage interest:

- Interest on a total of up to $1 million of pre-12/14/17 outstanding debt on your primary residence and a second home is fully deductible.
- New mortgages debt (excluding refinancing of pre-12/14/17 mortgages) taken after 12/14/17 limited to $750k for this deduction.
- Interest on home equity debt used to improve the residence securing the debt is still deductible subject to the $1 million and $750k limits above.
- All other home equity loans no longer qualify for the mortgage interest deduction.

Planning Opportunity: Read the IRS' explanation of the new rules for deducting mortgage interest and home equity loan interest and consider refinancing outstanding debt accordingly, but only if the current interest rates permit. You might also consider claiming the home office deduction to write off a portion of your mortgage interest and real estate taxes that are now non-deductible under the new rules.

Charitable Donations
The amount of charitable donations you can make and deduct each year are 60% of your AGI.

Planning Opportunity: Consider donating appreciated securities to a charity since you don't pay taxes on the appreciation but can still write off the full value of the securities donated. You will claim the deduction based on the asset's FMV.

You might also consider setting up and funding a Donor Advised Fund to frontload the tax deduction on your donations while still allowing you to disburse the contributions to the charities over a number of years.

Miscellaneous Itemized Deductions
Investment management fees, tax prep fees, and unreimbursed employee business expenses are no longer deductible.

Planning Opportunity: Consider claiming these expenses if possible against your business income reported on your Schedule C, rental income on the Schedule E, page 1, or partnership income on Schedule E, page 2.

Casualty Losses
Non-business casualty losses are now only deductible if the loss occurs in a Presidentially declared disaster area. Personal casualty losses and theft losses are no longer deducible as of 1/1/18.

Tougher To Itemize in 2019
With a $24.4k standard deduction and state and local taxes (SALT), including real estate taxes, limited to just $10k annually, married couples without a large mortgage might find themselves struggling to itemize their deductions under the new tax rules. Unmarried individuals can also deduct $10k in SALT taxes but have a standard deduction of just $12.2k, so will have a much easier time to itemize just by owning a home, having significant medical expenses, or donating a few thousand dollars to charity each year.

Planning Opportunity: Married couples might save some taxes by bunching their deductions every other year.