HITT AND COMPANY, LLC

CLIENT TAX NEWSLETTER

January/February/March 2020

CALENDAR

- JANUARY 15, 2020
4TH QUARTER ESTIMATED PAYMENT DUE
- JANUARY 20, 2020
MARTIN LUTHER KING DAY
- JANUARY 31, 2020
FORM W-2 AND FORM 1099 DUE TO EMPLOYEES AND VENDORS
- FEBRUARY 20, 2020
PRESIDENT'S DAY
- MARCH 8, 2020
DAYLIGHT SAVINGS BEGINS
- MARCH 19, 2020
FIRST DAY OF SPRING

IRS issues 2020 standard mileage rates

The optional standard mileage rates for business use of a vehicle will decrease slightly in 2020 after increasing significantly in 2019, the IRS announced on Tuesday (Notice 2020-05). For business use of a car, van, pickup truck, or panel truck, the rate for 2020 will be 57.5 cents per mile in 2020, down from 58 cents per mile last year after increasing from 54.5 cents per mile in 2018. Taxpayers can use the optional standard mileage rates to calculate the deductible costs of operating an automobile.

Because the law known as the Tax Cuts and Jobs Act (TCJA), P.L. 115-97, suspended the miscellaneous itemized deduction under Sec. 67 for unreimbursed employee business expenses from 2018 to 2025, the notice explains that the standard mileage rate cannot be used to claim a deduction for those expenses during that period.

However, self-employed taxpayers can deduct automobile expenses if they qualify as ordinary and necessary business expenses. And an exception to the disallowance of a deduction for unreimbursed employee business expenses applies to members of a reserve component of the U.S. armed forces, state or local government officials paid on a fee basis, and certain performing artists. They are permitted to deduct mileage expenses on line 11 of Schedule 1 of Form 1040, *U.S. Individual Income Tax Return*, and (an above-the-line deduction) and may continue to use the 57.5 cents-per-mile business standard mileage rate.

The standard mileage rate also can be used under Rev. Proc. 2019-46 as the maximum amount an employer can reimburse an employee for operating an automobile for business purposes without substantiating the actual expense incurred.

Under Notice 2020-05, driving for medical care or for certain limited moving expense purposes for members of the armed forces may be deducted at 17 cents per mile, which is 3 cents lower than for 2019.

The TCJA repealed the moving expense deduction for individual taxpayers from 2018 to 2025, except for U.S. armed forces members on active duty who move pursuant to a military order and incident to a permanent change of station to whom Sec. 217(g) applies.

The rate for service to a charitable organization is unchanged, set by statute at 14 cents per mile (Sec. 170(i)).

The portion of the business standard mileage rate that is treated as depreciation will be 27 cents per mile for 2020, 1 cent more than 2019, one of the few amounts that is increasing.

To compute the allowance under a fixed-and-variable-rate (FAVR) plan, the maximum standard automobile cost is $50,400 for 2020 for all automobiles (including trucks and vans), the same as in 2019. The FAVR amounts were recalculated in 2018 after the TCJA retroactively amended the bonus depreciation rules. Under a FAVR plan, a standard amount is deemed substantiated for an employer's reimbursement to employees for expenses they incur in driving their vehicle in performing services as an employee for the employer.

In November 2019, the IRS updated the standard mileage rules to reflect provisions of the TCJA.

The Tax Adviser
Sally P. Schreiber, J.D.
1/2/2020

The Tax Increases to Come

The Democratic candidates for President are promising a smorgasbord of new taxes, but why wait until 2021? Last week Maryland Senator Chris Van Hollen and Virginia Congressman Don Beyer unveiled the Millionaires Surtax Act, a plan to soak the top 0.2%.

The bill would put an extra 10% tax on individual income above $1 million, or $2 million for married couples. This surtax would apply regardless of the income's source—whether for long-term capital gains, currently taxed at a top rate of 20%, or wages, taxed at rates up to 37%. The legislation's backers say it would raise $635 billion over a decade, citing an estimate by the left-leaning Tax Policy Center.

Messrs. Van Hollen and Beyer would effectively lift the top tax rate on income to 47%, plus there's the 3.8% ObamaCare surtax on investment income. Tax rates haven't been that high in decades. Before Ronald Reagan's big tax reform in 1986, the top rate was 50%. Since then it hasn't broken 40%.

The loopholes were also bigger and more numerous then. Reagan's 1986 law, for example, phased out the deduction for interest on credit cards and car loans. President Trump's 2017 tax reform narrowed the interest deduction for homeowners, so only the first $750,000 of a mortgage is now eligible.

That 2017 law limited the amount of state and local taxes that can be deducted on a federal return. It used to be unlimited, but now the cap is $10,000. There are plenty of other examples, but the basic point is that the tax base has broadened. This is desirable economically as long as the trade-off is lower rates. If Democrats now try to raise income tax rates back to their pre-Reagan heights, special interests will soon be busy carving out new loopholes, especially for the affluent.

In the 1950's the top income-tax rate hit 92%, which applied to earnings above roughly $2 million adjusted for inflation. Still, the wealthiest 1% of filers paid an effective income-tax rate of only 16.9%, according to an analysis by the Tax Foundation. By 2016 the top rate was 39.6%, but the richest percentile had an effective rate of 26.9%. Meanwhile, the overall share of income taxes paid by the top 1% has increased, from 26% in 1986 to 37% in 2016.

Mr. Beyers says the Millionaires Surtax Act would "restore fairness to the tax code." Ohio Senator Sherrod Brown, another sponsor, adds that the new surtax would ensure "the wealthy are paying their fair share." Rest assured, Mr. Van Hollen says, this bill isn't "in conflict" with other desired tax increases.

Democrats these days are also proposing to raise the regular income-tax rate, the corporate-tax rate, the capital-gains-tax rate, the dividend-tax rate, the death-tax and payroll-tax rates, while creating a new wealth tax, a new financial-transactions tax, a new carbon tax and a new pharmaceutical tax, even as they would repeal 100% business expensing and the 20% income exclusion for so-called pass-through firms. We've probably missed a few others.

As usual, the question Democrats won't answer: Should the top 1% pay half of all income taxes? Two-thirds? Three-fourths? Where does their "fair share" end? If Democrats sweep the 2020 election, we are sure to find out.

The Tax Increases to Come
Wall Street Journal
Opinion – Review and Outlook
The Editorial Board
11/12/2019

IRS
Department of the Treasury
Internal Revenue Service

Tax Reform and Beyond: Tax Law Changes for the 2020 Tax Filing Season

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.
- Form 1040-SR: A new, simplified two-page form for seniors.
- Form 8995, *Qualified Business Income Deduction Simplified Computation* (instead of Form 1040 worksheet).
- Form 8995-A, *Qualified Business Income Deduction* (instead of Publication 535, *Business Expenses*, worksheets).
- Schedule K-1 (Form 1065), *Partner's Share of Income, Deductions, Credits, etc.*: Regarding the Qualified Business Income (QBI) deduction, each trade or business is reported separately, and income and deductions comprising QBI are broken out 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 insurance – and this may not change.

Taxpayers will continue to receive Forms 1095-A, B and C containing information about insurance coverage, and should keep these forms with their records. Taxpayers who purchase insurance coverage through the marketplace will continue to receive Form 1095-A, Health Insurance Marketplace Statement, which provides information necessary to compute the Premium Tax Credit.

The following elements of ACA are not changing:

- 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 examples.

Virtual Currency

Under Notice 2014-21, virtual currency such as Bitcoin is considered property for federal tax purposes; it is recognized as a capital gain or loss on the sale. If virtual currency is received for performing services, your clients would recognize ordinary income equal to the fair market value of the virtual currency.

Newly issued Revenue Ruling 2019-24 established the following rules:

- **Cryptocurrency**: A type of virtual currency where the transactions are digitally recorded on a distributed ledger, such as block chain.
- **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.
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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, 2019, the IRS may not contact any person other than the taxpayer regarding the determination or collection of a liability without giving the taxpayer a 45-day notice. Also, beginning on Jan. 1, 2020, the IRS must notify a taxpayer if there is suspected, unauthorized use of a taxpayer's identity.
The IRS plans to issue regulations by Jan. 1, 2020 that will allow taxpayers to report when a refund was not electronically transferred into the taxpayer's account, to coordinate with financial institutions to recover the payment, and ensure the refund will be delivered to the correct account.

Tax Reform and Changes
CPA Practice Advisor
12/5/19
Mike D'Avolio, CPA, JD

Here's the First Day You Can File Your Taxes in 2020

Mark your calendar -- the sooner you file your return, the more you stand to benefit.

The tax-filing deadline this year is April 15, so you may not be thinking about submitting a return just yet. But the IRS just announced that it will begin accepting 2019 returns on January 27, 2020. And if you're able to complete your taxes by the end of the month, it pays to do so.

The benefit of filing early

If you're owed a refund from the IRS, the sooner you submit your tax return, the sooner you can expect that cash. The IRS typically issues refunds for electronically submitted returns within three weeks. For paper returns, it's about twice as long a turnaround. But if you think you're due a large chunk of cash, filing your return in January could put that money in your hands by mid-February. It especially pays to try to snag your refund early if you have large bills coming up that you can't pay without it, or you're sitting on a leftover pile of holiday debt that you want to pay off quickly to avoid accruing loads of interest. And if you're not sure whether you're owed money or will need to write out a check to the IRS, the sooner you figure it out, the sooner you can map out a plan to come up with any needed cash by this year's deadline. Keep in mind that you can submit your tax return in January and not pay your tax bill until April 15.

Another thing: Filing your taxes early could help you avoid becoming a tax fraud victim. If a criminal gains access to your personal data, files a return on your behalf, and nabs your refund, you'll be out of luck when you try to file your legitimate return -- yours will get rejected if the IRS already has a version on file with your Social Security number. But if *you* file first and *then* someone attempts the aforementioned crime, yours will be the accepted return, and that crook will most likely back down and choose someone else to victimize.

When will you get your tax documents?

You should get your W-2, which summarizes your taxable wages, and 1099 forms, which summarize additional non-salaried income, by the end of January, whether electronically or by mail. If you're planning to itemize on your tax return, you'll also need your mortgage interest statement for 2019, as well as copies of charitable donations, medical expenses, and any other deductions you're looking to claim.

Another thing you should know is that if you're claiming the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit, your refund may be delayed until late February. Due to high levels of fraud associated with these credits in particular, the IRS must delay refunds relating to them. In fact, if you claim one of these credits, your *whole* refund will be delayed -- not just the portion relating to the credits themselves.

Even if you're not anticipating a refund this year, the sooner you file your taxes, the sooner you remove one stressful task from your plate. And that's reason enough to get moving.

The Motley Fool
Maurie Backman
1/8/2020

To discuss these and any other tax issues, please feel free to contact our office.

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