

2018/2019 INCOME TAX UPDATE

Chicago Volunteer Legal Services Foundation

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Lawrence R. Krupp is a Director at Wipfli, LLP. He has extensive experience in tax consulting for employee benefit plans, private foundations, associations and charitable not-for-profit organizations. He has been engaged in many consulting assignments in the areas of securing and maintaining tax-exempt status and minimizing the tax on unrelated business income. Accomplishments include the merger of two business associations; securing exempt status for a private school, a foreign-supported religious school and a performing arts organization for the hearing impaired; and the merger of two community service charitable organizations. In addition, he has successfully negotiated settlements with the Internal Revenue Service and Department of Labor regarding defective retirement plans. He is actively involved in sales tax and employment tax audits.

Larry earned a B.S. degree in Accounting from the University of Illinois-Urbana/Champaign and a law degree from Loyola University of Chicago. He is both a licensed CPA and attorney and a member of the American Institute of Certified Public Accountants, the Illinois CPA Society, the Illinois State Bar Association and the Decalogue Society of Lawyers. He is admitted to practice before the U.S. Tax Court.

Larry serves on the University of Illinois Foundation Library Board of Advocates and is a Trustee and Treasurer of The Decalogue Foundation. He is the past Chairman of the Federal Tax Section Council and the Employee Benefits Section Council of the Illinois State Bar Association. He also is the vice chair of the First Folio Theatre Board of Directors. Larry frequently speaks on tax topics for professional, charitable and business organizations including the annual tax updates for the Decalogue Society of Lawyers and the Chicago Volunteer Legal Services Foundation.

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Lawrence R. Krupp, J.D., C.P.A. – Wipfli LLP

- I. Tax Cuts and Job Acts (PL 115-197, December 22, 2017)
 - A. Individual Provisions
 - 1. Tax Rates
 - a. Seven Brackets
 - b. 0% to 37%
 - 2. Standard Deduction for 2018 to 2025
 - a. \$24,000 Married Filing Jointly
 - b. \$12,000 Single, Married Filing Separately
 - c. \$18,000 Head of Household
 - d. Indexed for inflation
 - e. No change to additional amounts for elderly and blind taxpayers
 - 3. Personal Exemptions for 2018 to 2025
 - a. Zero
 - b. Nothing
 - c. Eliminated
 - 4. Kiddie Tax
 - a. Earned income taxed at single rates
 - b. Unearned income taxed at trust rates

5. Alternative Minimum Tax for 2018 to 2025
 - a. Retained
 - b. Exemption and phase-out level increased
 - c. Index for inflation
6. ACA individual mandate repealed
7. State and Local Taxes for 2018 to 2025
 - a. \$10,000 limit for MFJ, Single, H of H
 - b. \$5,000 limit for MFS
8. Mortgage Interest for 2018 to 2025
 - a. Limited to interest on \$750,000 beginning December 15, 2017
 - b. \$100,000 home equity loans eliminated unless for improvements, additions, etc.
9. Medical Expenses
 - a. Amounts over 7½ % for 2018.
 - b. 10% for 2019
10. Charitable Contributions
 - a. Up to 60% of AGI to public charities for 2018 to 2025
 - b. No deduction for college athletic seating
11. Alimony
 - a. Agreements executed after December 31, 2018
 - b. Not deductible by payee
 - c. Not taxable by recipient
12. Miscellaneous Itemized Deductions for 2018 to 2025 not allowed
 - a. Investment fees
 - b. Tax preparation and planning

- c. Unreimbursed employee expenses

13. Moving Expenses for 2018 to 2025

- a. Taxable if employer reimburses employee
- b. Not deductible if paid by taxpayer
- c. Exception for active duty military.

14. Child Tax Credit for 2018 to 2025

- a. Increased to \$2,000 per child
- b. Phase outs increased
- c. Up to \$1,400 refundable
- d. \$500 non-refundable non-child credit

15. Casualty and Theft Losses for 2018 to 2025

- a. Eliminated
- b. Exception for Federally declared disaster areas

16. Section 529 Plan withdrawals

- a. Includes elementary and secondary school
- b. Private, Public, Religious school
- c. \$10,000 limit per year

B. Estate and Gift Tax Provisions for 2018 to 2025

- 1. \$10,000,000 index for inflation
- 2. \$11,180,000 for 2018 and \$11,400,000 for 2019
- 3. \$15,000 gift exclusion for 2018 and 2019

C. Recharacterization from Roth to Traditional repealed

D. Business Tax Provisions

- 1. Flat 21% rate replaces brackets

2. Dividends received deduction
 - a. Reduced from 80% to 65% for controlled corporations
 - b. Reduced from 70% to 50% for other corporations
3. AMT repealed
4. Section 179 Expenses
 - a. Maximum \$1,000,000
 - b. Phase out at \$2,500,000
 - c. Indexed for inflation
 - d. Includes nonresidential roofs, HVAC, alarms, fire protection
 - e. Cannot create net operating loss
5. Bonus Depreciation
 - a. 100% for September 28, 2017 to December 31, 2021
 - b. Phase down to 20% by 2026
 - c. Used property qualifies
6. Net Operating Losses
 - a. Carry back period eliminated
 - b. Carry forward period forever and ever
 - c. Limited to 80% of current taxable income
7. Section 199A for sole proprietors, partnerships, S Corps, trusts and estates.
8. Like kind exchanges limited to real property
9. Meals and Entertainment
 - a. Entertainment no longer deductible
 - b. 50% meal expense applies to employee meals through 2025, then no deduction

E. Exempt Organization Provisions

1. 21% excise tax on compensation over \$1,000,000
2. 1.4% excise tax on certain private college endowments
3. Unrelated business income/losses no longer netted against each other
4. Parking facilities may generate UBIT

II. Protecting Americans from Tax Hikes Act of 2015 (PL 114-113, December 18, 2015)

A. Individual Provisions

1. Deduction of income or sales tax made permanent
2. Mortgage insurance not deductible for 2018
3. Mortgage Forgiveness not taxable in 2018
 - a. Principal residence only
 - b. Up to \$2 million
4. IRA distribution to charity made permanent
 - a. Public Charity only
 - b. Over age 70 ½
 - c. Up to \$100,000
 - d. Not Included in AGI
5. Earned Income Credit
 - a. 45% credit for three or more children made permanent
 - b. \$5,000 increase in phase-out for MFJ made permanent
 - c. Child Social Security Number required before return is filed
6. Child Tax Credit
 - a. Child Social Security Number required before return is filed
 - b. If reckless claim, 2 year ban
 - c. If fraudulent claim, 10 year ban

B. Education Provision

1. American Opportunity Tax Credit made permanent (See III.D.)
2. \$4,000 deduction for expenses not deductible
3. Education Expenses
 - a. \$250 deduction for 2018
 - b. Indexed for inflation
 - c. Professional development expense qualifies
 - d. Illinois allows \$250 credit
4. IRC Sec. 529 funds can be used for computers and software

C. Filing Dates for 2018 (returns due in 2019)

1. Individuals – April 15, extended to October 15
2. Partnerships and S Corporations – March 15, extended to September 16
3. C Corporations – April 15, extended to September 16
4. Trusts/Estates – April 15, extended to September 30
5. Tax exempt extension is 6 months

D. Non Business Energy Credit ended in 2017

III. Rates, Deductions, and Other

A. Individual Tax Rates

1. 10%, 12%, 22%, 24%, 32%, 35%, and 37% for 2018
2. Marriage penalty relief through 32% bracket
3. 2018 Qualified Dividends and Long Term Capital Gains
 - a. 0% if income below \$77,200 (MFJ)/\$38,600 (S)
 - b. 15% if income below \$479,000 (MFJ)/\$425,800 (S)
 - c. 20% if income above \$479,000 (MFJ)/\$425,800 (S)

B. Individual Deductions

1. Personal Exemptions are gone
2. Itemized Deductions
 - a. Medical
 - i. 7 1/2% for 2018
 - ii. 10% for 2019
 - b. Income or Sales Tax election has been made permanent
 - c. Standard deduction
 - i. MFJ - \$24,000 for 2018 and \$24,400 for 2019
 - ii. S - \$12,000 for 2018 and \$12,200 for 2019
 - d. Elderly/Blind deduction
 - i. S - \$1,600 for 2018 and \$1,650 for 2019
 - ii. MFJ - \$1,300.00 for 2019

C. Child/Dependent Care

1. \$3,000 per child/dependent; maximum \$6,000
2. Reduced for Dependent Care Plan amounts

D. Education

1. American Opportunity Tax Credit made permanent
 - a. 100% of first \$2,000 and 25% of next \$2,000
 - b. First four years of post high school education
 - c. Tuition, fees, course materials qualify
 - d. Phase-out \$180,000 (MFJ)/\$90,000 (S)
 - e. Up to \$1,000 refundable
2. Lifetime Learning Credit

- a. 20% of first \$10,000
- b. Any post high school education
- c. Tuition, fees, course materials qualify
- d. Phase-out at \$132,000 (MFJ)/\$66,000 (S)
- e. Limited \$2,000 per return

3. Coverdell/Education IRA Accounts

- a. \$2,000 per year per beneficiary
- b. Elementary/Secondary School expense qualify
- c. Can be used with credits

E. Estate/Gift Taxes

1. Portability made permanent
2. Gift tax exemption unified with Estate tax exemption
3. Annual Gift Exclusion \$15,000 for 2018 and 2019

IV. Additional Medicare Tax

A. .9% on Excess Wages and Self-Employment income

1. Employee, not employer, subject to tax
2. \$250,000 (MFJ)/\$200,000 (S)
3. Combined earnings of couples
4. Withholding requirement for salary over \$200,000

B. 3.8% on Net Investment Income

1. Excess over Modified Adjusted Gross Income
2. \$250,000 (MFJ)/\$200,000 (S)
3. Net Investment Income
 - i. Interest, Dividends, Royalties, Rents

- ii. Passive Activity
- iii. Capital transactions
- iv. Not IRA, Pension, Social Security

V. Employee Benefits

A. Transit, Van Pooling and Parking Exclusions for 2019

- 1. \$265 per month for parking
- 2. \$265 per month for transit and van pooling
- 3. Can receive both parking and transit benefit
- 4. Not deductible by employer

B. Flexible Spending Arrangements

- 1. \$2,700 for 2019
- 2. 2018 must be used by March 15, 2019

VI. Health Savings Accounts

A. Contributions not linked to deductible

- 1. Family Coverage
 - a. \$7,000 for 2019
 - b. \$6,900 for 2018
- 2. Individual Coverage
 - a. \$3,500 for 2019
 - b. \$3,450 for 2018

B. Catch-up Contributions

- 1. 55 years old by year-end
- 2. \$1,000 for 2019 and 2018

C. Contribute up to April 15, 2019 for 2018

VII. Standard Mileage Deduction

A. Business

1. 58¢ for 2019
2. 54.5¢ for 2018

B. Charity - 14¢ for 2019 and 2018

C. Medical and Moving

1. 20¢ for 2019
2. 18¢ for 2018

VIII. Retirement Savings

A. Individual Retirement Accounts

1. Contribution Level

- a. \$5,500 for 2018
- b. \$6,000 for 2019
- c. \$1,000 catchup if age 50 at year end

2. Non-active spouse can deduct if joint AGI

- a. Less than \$193,000 (Phase-out \$203,000) – 2019
- b. Less than \$189,000 (Phase-out \$199,000) – 2018

3. Penalty-free withdrawal

- a. Qualified higher education expenses
- b. First-time home buyers

4. Phase-out for contributions (see G below)

B. Roth IRA's

1. Same limits as Regular IRA

- a. Non-deductible

- b. Reduced by other IRA contribution
- 2. No tax on earnings
- 3. Tax-free withdrawals
 - a. Held at least 5 years
 - b. Over age 59 ½, death, disability
- 4. Phase-out for contributions (See F below)
- 5. No income limit on conversion from traditional IRA
- 6. Contributions after 70 ½ without minimum distribution

C. Qualified Retirement Plans

- 1. 25% of compensation
- 2. Maximum compensation
 - a. \$280,000 for 2019
 - b. \$275,000 for 2018
- 3. Maximum contribution
 - a. \$56,000 for 2019
 - b. \$55,000 for 2018

D. 401(k) Plans

- 1. \$19,000 for 2019
- 2. \$6,000 catch up for those over 50 by year end
- 3. Up to 100% of compensation

E. Social Security Wage Base –

- 1. \$132,900 for 2019
- 2. \$128,400 for 2018

F. Roth IRA Phase-out

1. Single

a. \$122,000 to \$137,000 for 2019

b. \$120,000 to \$135,000 for 2018

2. Married Filing Jointly

a. \$193,000 to \$203,000 for 2019

b. \$189,000 to \$199,000 for 2018

G. Traditional IRA Phase-out

1. Single

a. \$64,000 to \$74,000 for 2019

b. \$63,000 to \$73,000 for 2018

2. Married Filing

a. \$103,000 to \$123,000 for 2019

b. \$101,000 to \$121,000 for 2018

IX. Illinois Matters

A. Individual Rate for 2018 is 4.95%

B. Replacement Tax remains at 1.5% for Trusts, Partnerships and S Corporations

C. Corporation Rate (including 2.5% Replacement Tax) is 9.5%

D. Safe Harbor Estimates for Individuals

1. 100% of prior year liability

2. 90% of current year liability

E. Estate Tax

1. \$4 million Exclusion

2. Rate

- a. Starts at .8% for \$90,000
- b. Maximum at 16% for \$10,040,000

F. Tax Credits

1. Education Credit for Private or Public School

- a. 25% of qualified expenses
 - i. Amount over \$250
 - ii. Tuition/fees
 - i. Regular school year
- b. Qualified Student
 - i. Illinois resident
 - ii. Under age 21 at end of school year
 - i. Kindergarten through 12th grade
- c. Maximum credit is \$750 for 2018
- d. Non-Refundable

2. Real Estate Tax

- a. 5% of tax paid
- b. Primary residence only
- c. Not allowed if AGI above \$500,000 (MFJ) or \$250,000 (for other returns)

3. Taxes Paid to Other States

- a. Limited to Illinois tax on income
- b. Not gambling winnings

G. Exemption

- 1. \$2,225 for 2018
- 2. \$1,000 for age 65 or blind

3. Not allowed if AGI above \$500,000 (MFJ) or \$250,000 (for other returns)

H. Deduct payments to Illinois College Saving Programs

1. Bright Start or College Illinois or Bright Directions

2. \$20,000 (MFJ)/\$10,000 (S) in 2018 and 2019

X. Interesting Cases.

A. *Pourmirzaie v. Commissioner* (T.C. Memo 2018-26) held that taxpayer was not a real estate developer. Reconstructed calendar of activities conflicted with receipts showing taxpayer was out of the country.

B. *Nix v. Commissioner* (T.C. Memo 2018-116) held that Mary Kay representative was not in a trade or business. Taxpayer “travel expenses” were personal in nature.

C. *Plato v. Commissioner* (TC Memo 2018-7) held that leaving a signed, married filing joint return (with a check for balance due) under separated wife’s doormat was not sufficient to avoid late filing penalty.

D. *Felton v. Commissioner* (T.C. Memo 2018-163) held that church members’ designated payments for the minister were compensation and not tax free gifts.