TAX UPDATES 2020

INCOME TAX DUE DATE FOR 2019 FILING SEASON.

The due date for the individual income tax returns will be Wednesday, April 15, 2020. This is the last day for filing federal income tax returns and extension requests this 2019 tax season. For the 2020 income tax return the Saturday, Sunday or legal holiday policy will not be applied.

FIGURES FOR 2019 FILING SEASON.

Earn Income Credit

EITC AMOUNT AND LIMITS FOR 2019				
Income Qualification Item	**No Children**	**With 1 Child**	**With 2 Children**	**With 3+ Children**
1. Max. amount of EITC	$529	$3,526	$5,828	$6,557
2. Earned Income (lower limit) required to get maximum credit	$6,920	$10,370	$14,570	$14,570
3. Phaseout Threshold Amount Begins **(for Single, SS, or Head of Household)**	$8,650	$19,030	$19,030	$19,030
4. Phaseout Amount When Credit Ends **(for Single, SS, or Head of Household)**	$15,570	$41,094	$46,703	$50,162
5. Phaseout Threshold Amount Begins **(for Married Filing Jointly)**	$14,450	$24,820	$24,820	$24,820
6. Phaseout Amount When Credit Ends **(for Married Filing Jointly)**	$21,370	$46,884	$52,493	$55,592

Tax Income Brackets

Under the **Tax Cuts and Jobs Act,** there are seven tax rates that will be applied to the 2019 ordinary income (see the following tables).

***New Tax Rates*.** The proposal creates four tax rates and new rate for unmarried individuals:

Tax Rate	Married Filing Jointly and Qualifying widow(er)	Married filing separately	Single	Head of Household
	Taxable Income up to			
10%	$19,400	$9,700	$9,700	$13,850
12%	$78,950	$39,475	$39,475	$52,850
22%	$168,400	$84,200	$84,200	$84,200
24%	$321,450	$160,725	$160,725	$160,700
32%	$408,200	$204,100	$204,100	$204,100
35%	$612,350	$306,175	$510,300	$510,300
37%	Over $612,350	Over $306,175	Over $510,300	Over $510,300

Qualifying dividends and Net Capital Gain Brackets

For 2019, the qualified dividends and net capital gain are subject to 0%, 15%, and 20 %, or the combination of these (see the following table). These rates do not apply to long term gains subject to the 28% rate or the 25% rate for unrecaptured real estate depreciation.

Tax Rate	Married Filing Jointly and Qualifying widow(er)	Married filing separately	Single	Head of Household
	If taxable income is			
0%	$1 - $78,750	$1 – $39,375	$1 – $39,375	$1 - $52,750
15%	$78,751 - $488,850	$39,376 – $244,425	$39,376 - $434,550	$52,751 - $461,700
20%	Over $488,850	Over $244,425	Over $434,550	Over $461,700

OTHER FIGURES

Standard Deductions

$12,200	Single / Married filing separately.
$18,350	Head of Household.
$24,400	Married filing jointly / Qualifying widow(er)

Personal and dependent exemptions

Eliminated	From 2018 trough 2025

Child Tax Credit

$2,000	Per qualifying child
$1,400	Refundable portion

Deferral pay plan limits

$19,000	401(k), 403(b) 457(b) plans (less than 50 years), SEP (Salary-reduction)
$13,000	SIMPLE IRA (less than 50 years)
$6,000	401(k), 403(b) 457(b) plans (50 years or older—Catch-up amounts)
$3,000	SIMPLE IRA (50 years or older—Catch-up amounts)

IRA Contribution limits

$6,000	Traditional and Roth IRA
$7,000	Traditional and Roth IRA (50 years or older—Catch-up amounts)

HSA Contribution limits

$3,500	Self-coverage only
$7,000	Family coverage.

Alternative Minimum Tax (ATM) exemption and brackets

26% bracket

$71,700	Singles and Head of households
$111,700	Married couples filing jointly and Qualifying widows(ers)
$55,850	Married couples filing separately

28% bracket

$194,800	All taxpayers
$97,400	Married couples filing separately

NEW FORM 1040-SR (Tax Return for Seniors)

According to the Bipartisan Budget Act of 2018 (Sec. 41106), for 2019, every senior (aged 65 and older) will use the new Form 1040SR to file their own tax return. The new form looks like the old Form 1040A, but it has a larger font size and better color contrast making it easier to read. The form allows seniors to claim the standard deduction or itemize their deductions on Schedule A. With no limits or restrictions on types of income reported like on the prior Form 1040EZ, most people 65 and up will qualify to file the 1040-SR. This form will simplify their tax preparation and avoid having to use the many forms and schedules associated with the regular 1040 that most people are required to file.

HEALTH INSURANCE PENALTY FOR 2019 TAX YEAR.

In 2018, the tax penalty for not having health insurance was $695 for adults and $347.50 for children or 2% of taxpayer's yearly income, whichever amount is more. This penalty was created to protect people from skipping out on health insurance and not being able to pay off their medical expenses in the event of injury or illness.

However, since 2019 this federal penalty has been eliminated because of changes made by the Trump Administration. Form 1040 will not have the "full-year health care coverage or exempt" box and Form 8965, Health Coverage Exemptions, will no longer be used. Taxpayers need not make a shared responsibility payment or file Form 8965, Health Coverage Exemptions, with your tax return if you don't have a minimum essential coverage for part or all of 2019.

On the other hand, taxpayers must be careful to look at state requirements regarding health insurance penalties, especially in the following states: **Massachusetts** (the penalty will be calculated according to the individual income based on the Federal Poverty Levels), **Vermont** (The health insurance penalty law goes into effect in 2020), **New Jersey and District of Columbia** (The penalty is $695 per adult (half that amount for a child) with a maximum penalty of $2,085 or 2.5% of household income, whichever is greater).

CALIFORNIA HEALTH INSURANCE CHANGES FOR 2020

Penalty for Not Having Health Insurance. In addition to the 4 states that put into place their own laws regarding health insurance coverage, California has chosen to enact legislation to restore the individual mandate penalty in 2020. From January 1, 2020 the new California law requires that all residents maintain qualifying health insurance throughout the year.

According to this new law, customers who can afford health insurance but choose not to purchase coverage may be subjected to a tax penalty. This penalty could be either 2.5 percent of household income or $695.00 per adult ($347.50 per child) of their annual income, whichever amount is larger. Take note that this amount will rise according to inflation.

To avoid the tax penalty, residents must have the minimum essential coverage. If they go without health insurance during the upcoming coverage year, even if it is only for a few months, they may be subject to the tax penalty. It is preferable to purchase a health insurance during the open enrollment period for the 2020 coverage year (October 15, 2019 through January 31, 2020 for California).

New Subsidy for Health Insurance. It is estimated that money received from the penalties will be used to fund a new subsidy program that California is putting into place in 2020. This fund will help lower the cost of health insurance for low and middle-income Californians. Previously, those who made above 400% of the federal poverty line (FPL) were not eligible for premium tax credits. In 2020, those who make between 100 to 600% of the FPL will newly be eligible for subsidies. Generally, individuals that make less than 100% may qualify for Medi-Cal, and those who make more than 600% may not be eligible for government subsidies to pay health insurance.

ALIMONY DEDUCTION REVOKED

Again in the 2019 filing season, no deduction is allowed for divorce decrees or separation agreements that require alimony payment and were finalized after December 31, 2018. Under the new rules the payer will not be allowed a deduction for payments made, nor will the payee be required to claim the alimony as income on their respective tax returns. There are no exceptions.

QUALIFIED BUSINESS INCOME DEDUCTION (FORM 8995 AND FORM 8995-A)

Taxpayers who have Qualified Business Income (QBI), qualified real estate investment trust (REIT) dividends, or qualified income from a publicly traded partnership (PTP) will use Form 8995 *(Qualified Business Income Deduction Simplified Computation)* to file your 2019 tax return. Taxpayers must file this form if:

- Your 2019 taxable income before your QBI deduction is less than or equal to $160,700 ($160,725 if married filing separately or a married nonresident alien; $321,400 if married filing jointly), and
- You aren't a patron in a specified agricultural or horticultural cooperative

Taxpayers that do not match the above mentioned circumstances must file Form 8995-A that involves more complex QBI computations.

MEDICAL AND DENTAL EXPENSES DEDUCTIONS

For 2019, the tax law provides only a limited opportunity to deduct unreimbursed medical and dental costs for taxpayers, their spouse, and dependants *only if* those expenses exceed the 10% of their adjusted gross income (AGI).