Individuals:

- **Foreign asset reporting**. You must report overseas assets owned by you or owned through your business and owned within certain investment accounts.
- **If you receive 1099's or K-1's** from investments in 2019, we may plan to extend your return in case these documents are corrected/amended after the original filing deadline as is common. In some cases, these amended forms can be vastly different and create additional costs in amending your tax returns.
- **Plug-In (electric) vehicle credit** in 2020 has begun to phase out for manufacturers who have sold 200,000 of the qualifying vehicles. The maximum federal tax credit is $7,500 for qualifying vehicles. In addition, California offers a rebate for the purchase of "clean vehicles" ranging from $900 to $5,000 depending on the vehicle.
- **Solar Credit** is reduced from 30% to 26% in 2020 and is scheduled to be reduced to 22% in 2021 and 0% for 2022.
- **Residential energy efficient home credit** is back through 2020 and retroactively applies to 2018. Lifetime cap of $500
- **Mortgage interest form 1098** reporting; This form should include loan balances at beginning of year and the date loan originated. **(see section below-deductible home mortgage interest)**.
- **The Exclusion from income of qualified canceled mortgage debt** income associated with a primary resident is reinstated back to 2018
- "**Kiddie tax".** Although the Tax Act effective 1-1-18, requires us to use the trust tax rates rather than parent's rate for unearned income, (California doesn't follow) for 2018 and forward, the 2019 Secure Act has us reverting back to the pre-2018 rules of taxing at the parent's rate (of which California still follows). In addition, allows you to elect to use the parent's rate rather than the trust rate to apply to 2018(by amending) and apply to 2019.
- **Charitable deduction requires substantiation** as in prior years. All charitable receipts must say "no goods and services received". The IRS is targeting large noncash donations and out of pocket expense, be sure to have this letter. The IRS doesn't allow a deduction for clothing unless it is in good used condition or better.
- **Turned Age 70 ½ in 2019 or before? You can make cash donations to IRS approved charities out of your IRA's** and can use your RMD for these types of donations. There is an annual limit of $100,000 for these types of donations.
- **Age 70 ½ in 2019? You need to begin taking required minimum distribution (RMD**) from your IRA's by 4/1/2020.
- **Beginning in 2020 the start date for RMD is age 72 . In addition, the age limit for contributions to an IRA has been eliminated.**
- **Individual health insurance mandate penalty (Obamacare)** is eliminated for 2019-2025. Lower-income taxpayers can continue to receive the subsidy for health insurance through the exchange. If you received the subsidy and your actual income is higher than you estimated at the time you applied, you will be required to pay back some or all of the subsidy.
- **California as enacted an individual health insurance mandate penalty** effective January 2020, which is similar to the eliminated federal mandate penalty.
- **Capital gains rates remain** at 0%, 15% and 20% depending on your adjusted gross income. 0% taxable capital gains, income breakpoint for 2020 is $40,000 for single and $80,000 for joint filers.
- **Investment tax** on net investment dividends and net capital gains remains at 3.8% for certain high-income levels.
- **Miscellaneous itemized deductions subject to 2% are still suspended** for federal tax years through 2025. Miscellaneous itemized deduction not subject to the 2% phaseout are still deductible and remember, both types of **deductions are still allowable on your California tax return.**
- **Medical expenses are deductible** to the extend they exceed **7.5%** of your adjusted gross income. This was scheduled to rise to 10% in 2019 and the Secure Act keeps it at 7.5% for 2019 and 2020.
- **2020 estate and gift exemption** is $11,580,000.

- **Gift tax annual exclusion** is $15,000.
- **Tax free distributions from 529 plans** allow a distribution for elementary or secondary school up to $10,000. California has not conformed.
- **Virtual Currency Transactions;** The IRS has ramped up its enforcement of virtual currencies reporting, such as Bitcoin. According to the IRS, most taxpayers who own virtual currencies fail to report their taxable transactions when filing their tax returns. Be sure to provide me with all information containing your virtual currency transactions during the year. The IRS considers virtual currency as personal property, not currency, and subject to capital gain/loss rules.
- **Beginning in 2020, penalty-free withdrawals of up to $5,000 from retirement plans when you have a qualified birth or adoption are allowed.** The withdrawal is subject to income tax, not the early withdrawal penalty.

  Reminder on Home Mortgage interest rules: Interest paid on your home mortgage is deductible if you are the legal or equitable owner. The mortgage must be recorded or perfected by the property. Home mortgage interest is deductible to the extend the mortgage was used to acquire(buy), build or improve your home and your second home. The new acquisition debt is limited to $750,000 for mortgage debt incurred from December 15, 2017 through 2025. The limit for debt incurred before December 15, 2017 is $1,000,000. Don't worry, if you need to refinance to change your rate and term after 12-15-17, your debt limit will still be grandfathered in under the $1 million limit. No deduction is allowed for equity borrowing. However, home equity debt used to acquire(buy), build or improve the home is deductible up to the above mortgage debt limits. Interest on debt used for personal use whether it's a first, second or home equity loan is not deductible. California does still allow for up to $100,000 of equity borrowing. **These acquisition debt limitations, noted above, do not apply to business and rental property debt.** If home equity borrowing is used for business, investment or rental purposes an election can be made to deduct the interest without applying these limitations noted above.

Business owners and rental real estate investors:

- **Partnerships and S corporation returns** are generally due by March 15th.
- **1099's** must be filed by January 31, 2020, for 2019 payments made by your business and certain rentals. If you have a rental property which generates a profit and you qualify as a trade or business for the QBI deduction, you may need to issue 1099's to your service providers. 1099's filings are required for any business or rental treated as a business, if any individual or business(unless the business is a corporation) has been paid $600 or more during the calendar year.
- **Following a California supreme court case**, which restricted the use of independent contractor status for workers which should be classified as employees, **California enacted Assembly bill 5 (AB 5) which adopts an ABC test to determine whether a worker is an employee or independent contractor.** AB 5 changes the workers classification rules for California purposes. However, the federal government will continue to apply the traditional right to control standards. This means employers may choose to classify workers as employees for California purposes, and independent contractors for federal purposes.
- **Tax deferred exchanges** only apply to real estate. California does allow exchanges of equipment for certain lower income level taxpayers. However, we have a new tax deferral provision referred to as the opportunity zones. This allows a deferral of gain from the sale or exchange of property if invested in these qualified opportunity zones. Let me know if you would like to discuss further. California doesn't follow.
- **There are new rules pertaining to the way the IRS audits all Partnerships and Multi-member LLC's.** Any tax assessed due to the audit will be owed by the partnership, or LLC directly rather than the individual partners. The new rules allow the partnership to "elect out" of this and instead shift the tax due back to the individual partners. This is a year by year election and cannot be done once the partnership is under audit. Let me know if you would like to discuss this election.

Businesses and rental real estate and "pass through" income deduction(QBI). The 20% Qualified Business Income (QBI) deduction for certain businesses began in 2018 and continues through 2025. The IRS has added new tax forms to complete if taking this deduction as well as issued new regulations to use in making the calculations. The rules and calculations are quite complex, and each situation is different. This deduction pertains to Sole Proprietors, S-corporations, LLCs and Partnerships (not C-corps). Certain “specified service” businesses don’t get this deduction unless their taxable income is less than $160,700 for single filer and $321,400 for married filing jointly. This deduction will be extremely valuable for those who qualify for it. C corporations are taxed at a flat 21%.

Real estate rental: Only the net income(profit) from a qualified “trade or business” is eligible for this QBI deduction, however rental real estate property for purposes of this deduction is considered a business if the owner’s involvement is” substantial, systematic and continuous”. In addition, the IRS issued a notice which sets forth a “safe harbor” election that can be made for rental real estate which if applicable will qualify your rental as eligible for the QBI deduction. To qualify for this safe harbor, you must: 1. Maintain Separate books and records for each rental, 2. Verify at least 250 hours of “rental services” were done for the property(hours of services on the property includes many services performed by others) and 3. Maintain “contemporaneous” records(starting in 2020). This safe harbor requires a signed statement by the taxpayer to be attached to the tax return. Your rental can still qualify as a trade or business for this QBI deduction without meeting this safe harbor. The property can qualify as a trade or business based on case law which requires…”substantial, systematic and continuous involvement”. Meeting these requirements for a rental to qualify as a trade or business are especially important if your rental real estate generates a taxable profit. If your rental real estate property generates an income tax loss, the passive activity rules will also come into play.

Other Business Items:

- **Business entertainment** is not deductible for federal tax. Business meals continue to be deductible at 50%. (California still allows 50% of business entertainment and meals)

- **Bonus depreciation** increased to 100% of cost and applies to **used** as well as **new** equipment and other business property. (California has never conformed to federal bonus depreciation)

- **Section 179 first year** expensing has increased to $1,040,000.00 (California only allows $25,000 and $0 for C corporations)

- **There are restrictions on deducting business losses** incurred by certain taxpayers and deducting NOL’s (California doesn’t follow).