

HAPPY NEW YEAR!!

The following tax rates and amounts are effective for 2019:

1. OASDI rate for employees remains at 6.2%. The wage base increases to \$132,900.
2. Medicare rate remains at 1.45% for employers. The employee portion is 1.45%, and a 0.9% Medicare surtax on earned income will be calculated on single filers with wages over \$200,000 and married filers with wages over \$250,000 as part of health care reform.
3. Social Security payments will increase by 2.8% beginning in January, 2019. The maximum earnings one can earn before Social Security benefits will be completely withheld is \$46,920 for those who reach full retirement age during 2019. Those between age 62 and age 66 can earn \$17,040. For each \$2 earned above that, \$1 of benefits is lost. There is no limit on earnings for those older than 66. The retirement age for Social Security continues to rise this year. Those turning 62 this year are affected. They will get reduced benefits if they start receiving payments before they attain age 66 and 6 months.

The Tax Reform Bill passed in late December, 2017 made some important changes to individual, business, estate and gift taxation beginning in the 2018 tax year. Many of these provisions sunset after 2025. Items 4 through 25 address changes specific to the new Tax Reform Bill, which continue in 2019. While this list is not all inclusive, it represents the items that we feel are of greatest interest to our clients.

4. Personal and dependency exemptions have been eliminated under the new tax law.
5. Standard deduction increases to \$24,400 for married filing joint couples, plus \$1,300 for each spouse 65 or older, or blind or disabled. The standard deduction for a single filer increases to \$12,200, plus \$1,650 if you are 65 or older, blind or disabled. Head of household's standard deduction increases to \$18,350. For children age 14 who must file returns, it increases to \$1,100.
6. There will still be seven tax brackets consistent with 2018. Income tax rates will be 10%, 12%, 22%, 24%, 32%, 35%, and 37% for single taxpayers earning over \$510,300 or married taxpayers earning over \$612,350. The 20% top rate for long term capital gains and qualified dividend starts at a higher level for 2019; singles with taxable income over \$434,550 and joint filers above \$488,850. For those earning less than the thresholds, the tax rate has remained at 15%. Under the 2010 health care law, the new 3.8% Medicare net investment income tax remains effective for single taxpayers earning more than \$200,000 and married taxpayers earning more than \$250,000.
7. Significantly less taxpayers are expected to be subject to the Alternative Minimum Tax as a result of changes under the new tax law. 200,000 individuals as opposed to 5,000,000. Alternative Minimum Tax exemption increases slightly in 2019, from 2018. Exemptions from the minimum tax will rise in 2019 to \$111,700 for couples and \$71,700 for singles. The phase-out levels for the exemptions were raised to \$1,020,600 for joint filers, up from \$1,000,000; and to \$510,300 for individuals, up from \$500,000.

8. The exemption from the Kiddie Tax for 2019 increases to \$2,200. The first \$1,100 of unearned income is tax-free. The next \$1,100 is taxed at the child's rate. If the Kiddie Tax applies, under the new rules, the child's net unearned income exceeding \$2,200 would be taxed using the bracket that trusts and estates follow. That system has a top bracket of 37 percent, which applies to income that exceeds \$12,750.
9. Bonus rate or flat rate withholding for supplemented wages less than \$1,000,000 remains at 22%. If more than \$1,000,000 the rate is 37%.
10. High income taxpayers can continue to convert their IRAs to ROTHs. The \$100,000 AGI cap is gone. Under the new tax law, the ability to undo a Roth IRA conversion after it has been completed is no longer available.
11. Federal estate, gift and generation skipping tax exemption will increase to \$11.4 million. It applies to the estates of people who die after Dec. 31, 2018 but before Jan. 1, 2026 and to gifts made during this time period. The maximum Estate and Gift rate remains at 40%.
12. The federal deduction for state and local income and sales taxes, combined with property taxes has been capped at \$10,000, the national average.
13. The deduction for mortgage interest has changed under the 2018 Tax Reform Act. Previously, taxpayers could deduct mortgage interest on principal balances up to \$1 million for multiple homes. A taxpayer could also deduct home equity mortgage interest on principal up to \$100,000. Under the new law, the deduction for mortgage interest is capped at \$750,000 of principal and limited to two homes. Home equity loan interest is no longer allowed. Home purchases prior to December 15, 2017 are grandfathered in under the prior laws, as are existing mortgage balances.
14. Mandatory health care payments under the Patient Protection and Affordable Care Act (Obamacare) which were effective after 12/31/13 are no longer required since the tax for being uninsured has been reduced to zero under the new tax law.
15. In 2018, a taxpayer may deduct medical expenses when they exceed 7.5% of adjusted gross income. The 7.5% threshold returns to 10% in 2019.
16. The child tax credit remains at \$2,000 per child and will be refundable up to \$1,400. The phase-out for the credit, begins with adjusted gross income of more than \$400,000 for married filing joint couples and more than \$200,000 for all other taxpayers. The phase-out is not indexed for inflation. The definition of the child tax credit has been expanded to include dependents who are not children. The new tax law includes a \$500 nonrefundable credit for dependents who are not children.
17. Pass thru business owners are eligible to deduct 20 percent of their qualified business income from a partnership, S corporation and sole proprietorship. In 2019, this deduction begins phasing out for the deduction that begins at \$160,700 of individual adjusted gross income and \$321,400 of adjusted gross income for couples filing jointly. The deduction does not apply to specified service businesses, except when the income of those taxpayers fall below the phase-out thresholds described above.
18. Qualified withdrawals from 529 plans have been expanded to allow up to \$10,000 to be withdrawn annually for private secondary school expenses. In 2017 and prior, 529 plan qualified withdrawals were only allowed for higher education expenses. Note that many states, including New York, do not follow this new rule.
19. Investment fees, tax preparation fees, and unreimbursed employee business expenses will not be deductible as Federal Miscellaneous Itemized Deductions. Previously, these items were deductible but subject to a 2% of adjusted gross income threshold.
In some cases it may still be relevant for New York and California.

20. Casualty losses continue in 2019 to only be deductible if they are caused by a Federally declared disaster. Personal losses, such as thefts and a house fire not caused by a Federal declared disaster, would no longer be deductible. We suggest you review your insurance policies to see if you have adequate coverage.
21. Alimony payments for divorce agreements entered into after January 1, 2019 will not be deductible. Alimony payments received will not be taxable. Special rules exist for those wishing to modify divorce agreements entered into prior to that date but maintain the deductibility of their alimony payments.
22. Moving expenses continue to generally not be deductible in 2019. Some exceptions apply to members of the military.
23. The domestic production activities deduction has been repealed for C Corporations beginning January 1, 2019. Pass thru entities already had the deduction repealed in 2018.
24. Business meal deductibility remains at 50%. Business entertainment deductibility continues to be repealed.
25. The Tax Reform Bill increased the maximum amount a taxpayer may expense under Sec. 179 to \$1,020,000, up from \$1,000,000 and increased the phase-out threshold to \$2.55 million. Bonus depreciation continues to be extended and modified to deduct 100% of eligible property placed into service through 2022. The amount of allowable bonus depreciation will then be phased down over four years: 80% will be allowed for property placed in service in 2023, 60% in 2024, 40% in 2025, and 20% in 2026.
26. Back up withholding rate is 24%.
27. 401(k), 403(b), and 457 contribution pay-in limitation increases \$500 to \$19,000, with \$6,000 additional for employees 50 and older. Ceiling on SIMPLE plans stays at \$13,000 but folks age 50 or older can put in an additional \$3,000 in 2019.
28. Maximum level of pay on which pay-ins to plans can be based upon increases to \$280,000 from \$275,000 with the maximum pay-in for defined contribution plans increasing to \$56,000. Percentage of compensation that can be put in remains at 100%. Profit Sharing percentage remains at 25%.
29. Phaseout for Traditional IRA deductions start at \$103,000 and ends at \$123,000 for couples. Phaseout for singles is from \$64,000 to \$74,000. If only one spouse is covered by a plan, the phaseout zone for deducting a payin for the spouse who is not covered begins at \$193,000 of AGI and ends at \$203,000. Phaseout for Roth IRA deductions start at \$193,000 for couples and end at \$203,000, and start at \$122,000 and end at \$137,000 for singles. Contribution limit increases \$500 to \$6,000. If 50 or older, can contribute up to \$7,000.
30. The interest exclusion on U.S. Savings Bonds redeemed to pay qualified higher education expenses starts to phase out at AGI above \$121,600 for marrieds.
31. Eligible portion of long term care premium rises to \$5,270 for those age 71 and older, \$4,220 between ages 60 and 70, \$1,580 between ages 50 and 60, \$790 from 41 to 50 and \$420 for age 40 and under, deductible as medical expenses. Limit for tax-free payouts remains at \$360 per day.
32. Medicare Part B premium is \$134.00 monthly for most singles with AGI under \$85,000, although many taxpayers will pay less than that. The maximum premium rate is \$428.60 per month.
33. The Nanny tax threshold remains at \$2,100 in 2019. No social security tax is due for domestics paid \$2,100 or less this year. It is not indexed for inflation. FUTA is still due whenever a domestic employee is paid \$1,000 or more in a calendar quarter in the current or prior year.

34. Low and middle income savers can still get a tax credit of up to \$1,000 for contributions made to IRAs and qualified plans. Credit disappears for marrieds when AGI hits \$64,000, \$32,000 for singles.
35. Adoption tax credit increased to \$14,080 of expenses, from \$13,810. Phaseout starts at \$211,160 AGI.
36. The Lifetime Learning credit phaseout for MFJ starts at \$116,000, \$58,000 for singles.
37. Gift tax exclusion remains at \$15,000 per donee for gifts made in 2019.
38. The limit on deducting payins to Health Savings Accounts increases to \$7,000 for family coverage and \$3,500 for individual coverage. Account owners age 55 and older can put in an additional \$1,000. Ceiling on out of pocket cost increases to \$13,500 for family coverage and \$6,750 for individual coverage. HSAs can be rolled into IRAs.
39. Monthly limitation on contributions to transit flexible spending accounts for tax-free parking and transit increases \$5 to \$265.
40. U.S. taxpayers working abroad have a higher exclusion, \$105,900, up from \$104,100.
41. Federal minimum wage remains unchanged at \$7.25, food service employees, \$2.13. New Jersey increased to \$8.85 and to \$10.00 as of July 1, 2019 and New York increased to \$11.10. Different rates apply for the New York hospitality industry. Connecticut minimum wage remains at \$10.10. Pennsylvania minimum wage remains at \$7.25 with tipped employees \$2.83.
42. Credit and Debit Card companies will continue to issue 1099s on payments made to merchants in 2019. Third party networks, such as PayPal, will issue 1099s to payees with over 200 sales transactions and more than \$20,000 in sales income.
43. S Corporations and partnerships will continue to owe a penalty of \$195 per owner or partner per month for up to 12 months for failure to file on time. This includes returns that are required when no business activity takes place.
44. Nearly all businesses must wire tax deposits to the IRS.
45. Standard mileage allowance for business increases 3.5¢ to 58.0¢ per mile. The rate increases to 20.0¢ a mile for medical purposes and job related moves. Remains at 14¢ per mile for charitable driving.
46. Tax-free direct payouts from IRAs to charity of up to \$100,000 for individuals age 70½ and older continue to be allowable.
47. Professional development costs continue to be deductible as part of the \$250 of teacher classroom supplies deduction.

Investment Management Performance Reports

All of our investment management clients are automatically enrolled in Albridge, which is a sophisticated financial aggregation software. One of the abilities of Albridge is to be able to provide performance reports for various periods of time.

The most common period of time for performance reporting is the preceding year. The most common performance report metric is the benchmark chosen that you want to be compared to. Our chosen benchmark is one created by us, is the one that we think most closely approximate that of a balanced portfolio, that is one that has income (bond) and growth (equity) characteristics. Our benchmark is 40% income (Barclay's Bond Aggregate) and 60% growth (Standard & Poors 500 Index), which is commonly used for balanced portfolios.

If you would like to see how your portfolio did in 2018, and as against the benchmark, we encourage you to go to the Albridge website and use your password information to enter and then go to Reports. Once in Reports, you should choose Last Year's performance, Program 1 and composite Benchmark 40/60, which you will be able to view. Of course, now that you know how to run a report, you can choose other time periods to run your own reports. If it is too difficult or cumbersome for you to do this, you can send us an email affirmatively authorizing us to prepare the report either on a one-time basis or annually and provide us with the email address you would like the report sent to. This is necessary in order to satisfy both Compliance and Privacy concerns.

If you have any questions about this additional benefit we are providing to you free of charge, please call us.

NYS Decouples from Certain Federal Tax Cuts and Jobs Act Personal Income Tax Changes

The Federal Tax Cuts and Jobs Act (TCJA), which was enacted on December 22, 2017, made many changes that may affect you when filing your federal income tax return.

Since New York State's individual income tax return is based on your federal taxable income and your New York return follows many of the same rules that apply to your federal return, the TCJA changes also may affect your New York return (and California, Hawaii, Iowa and Minnesota).

Itemized Deductions

You may choose to itemize your deductions for New York State purposes for tax years 2018 and after, even if you did NOT itemize on your federal income tax return. New York opted NOT to follow many of the federal itemized deduction changes. So you may be able to claim some deductions on your New York personal income tax return that are no longer available for federal purposes. For example, you may be able to claim deductions for:

- State and local real estate taxes paid, including amounts over the \$10,000 federal limit.
- Casualty and theft losses, including those incurred outside a federally declared disaster area. (You will have to document the losses).
- Unreimbursed employee business expenses (You will have to document them).
- Certain miscellaneous deductions not allowed federally, i.e. tax preparation fees, investment expenses, and safe deposit box fees.

Alimony or Separate Maintenance Payments

For alimony or separate maintenance payments made under an alimony or separation agreement executed or modified after December 31, 2018, New York taxpayers when calculating their New York adjusted gross income should:

- Subtract from federal AGI any alimony or separate maintenance payments.
- Add to federal AGI any applicable alimony or separate maintenance payments.

Qualified Moving Expenses and Reimbursement

New York will, for tax years 2018-2025, continue to allow you to exclude qualified moving expenses reimbursement you receive in the tax year and allow you to claim any qualified moving expenses you paid during the tax year.

Empire State Child Tax Credit

You may no longer use the amount of your current tax year's federal tax credit or additional tax credit to compute your Empire State child tax credit for New York. Your Empire State child tax credit will now be based upon the 2017 federal amounts and income.

529 College Savings Account

New York opted not to follow changes made by TCJA to the types of withdrawals that are allowed from a Qualified Tuition Program account established under IRC 529. For New York purposes, withdrawals for kindergarten through 12th grade school tuition are not qualified withdrawals under the New York 529 college savings account program. *New York State Technical Memorandum TSB-M-18(6)I 12/28/18.*

As always, if you have any questions about these or any other matters, do not hesitate to call us.

Remember, We're Here For You!