2019 Tax Law Changes

2019 saw very few changes in the tax laws compared to 2018. They are summarized below.

Two-Page Form 1040

Form 1040 became a one-page form last year, but for 2019, the form has expanded again, this time to two pages.

Schedules 1-6

Schedule 1-6 were introduced in 2018 as the IRS redesigned Form 1040 to more easily conform to the tax law changes brought about by the Tax Cuts and Jobs Act. For 2019, several of these schedules were streamlined and others discontinued.

Form 1040-SR Added tor 2019 Filing Season

Form 1040-SR, U.S. Tax Return for Seniors, has been added for 2019.
This form, filed in lieu of Form 1040, is for taxpayers–or their spouse–who are 65 years and older.
Taxpayers (or their spouse) who reach their 65th birthday at any time during the tax year—even December 31—qualify for using the 1040-SR. The 1040-SR does not put a limit on interest, dividends, or capital gains, nor does it cap overall income. This form does impose a few other qualifying restrictions in addition to the age rule. For instance, it disallows itemized deductions.
Filers do not have to be retired yet to qualify.

Form 8997 Added

Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments has been added to the 1040, 1041, 1120, 1120S, and 1065. An investor in a qualified opportunity fund (QOF) uses Form 8997 to inform the IRS of the QOF investments and deferred gains held at the beginning and end of the current tax year, as well as any capital gains deferred and invested in a QOF in the current year, and QOF investments disposed of during the current tax year.

Virtual Currency Question Added

On Schedule 1, Additional Income and Adjustments to Income, of Form 1040, on the line above Part I, is a question about the buying and selling and otherwise acquiring and disposing of virtual currency (such as Bitcoin, Litecoin, Ripple, etc.).

Changes to Health Care Requirements

The Shared Responsibility Payment for 2019 has been reduced to $0, and for that reason, Form 8965, Health Coverage Exemptions, is no longer used. No health insurance information will flow to the 1040 return unless the taxpayer received Form 1095-A, Health Insurance Marketplace Statement, from the health insurance marketplace (or "Exchange").
Health Care Coverage Information, is required only if the taxpayer's dependents were required to file a federal income tax return for 2019.

Form 8995 and 8995-A

The IRS released new forms—Form 8995, Qualified Business Income Deduction Simplified Computation, and Form 8995-A, QBI Deduction

<u>On Dec. 20, President Trump signed into law the Setting Every Community Up for Retirement Enhancement Act (Secure Act) which retroactively changed two tax laws for prior years.</u>

Kiddie Tax Rates

Before the Tax Cuts and Jobs Act (TCJA), the Kiddie Tax rules taxed a portion of an affected child or young adult's unearned income (typically from investments) at the parent's marginal federal income tax rate if that rate was higher than the rate the child or young adult would otherwise pay. The Kiddie Tax rules can potentially apply until the year an affected young adult reaches age 24.

For tax years beginning after 2017, the TCJA changed the deal to tax a portion of an affected child or young adult's unearned income at the rates paid by trusts and estates. That change could cause the Kiddie Tax to be much more expensive when an affected child or young adult had substantial unearned income.

New law: Belatedly, our beloved Congress became concerned that the TCJA change unfairly increased the federal income tax bills of certain children and young adults, including those who are survivors of deceased military personnel, first responders and emergency medical workers. In effect, the Secure Act retroactively repeals the TCJA Kiddie Tax rate change for all affected children and young adults and reinstates the pre-TCJA Kiddie Tax calculation. So, the calculation is once again based on the parent's marginal tax rate like before the TCJA was hatched. This development will be a meaningful tax-saver for kids and young adults with substantial investment income. Good!

Effective date: While the Secure Act's repeal provision is generally effective for 2020 and beyond, you can choose to apply the repeal to 2018 and/or 2019 returns of Kiddie Tax victims. So, if you have a Kiddie Tax victim in your family, an amended 2018 return may be in order. You'll probably want to follow the Secure Act change for the victim's 2019 return as well.

Liberalized rules for tax-free Section 529 plan distributions

Section 529 plans are state-sponsored programs that allow you to make contributions to an account established to cover the designated account beneficiary's qualified college expenses or to prepay qualified college tuition for the account beneficiary. Distributions to cover the beneficiary's qualified college expenses are federal-income-tax-free. Tax-free 529 account distributions can also be used to cover up to $10,000 of annual qualified expenses to attend public, private, or religious elementary or secondary schools.

New law: The Secure Act sweetens the already-sweet 529 plan deal by allowing federal-income-tax-free 529 distributions to cover eligible apprenticeship costs. This change applies to distributions made after 12/31/18. The Secure Act also allows federal-income-tax-free 529 distributions to cover up to $10,000 of qualified student loan principal and/or interest payments. This change also applies to distributions made after 12/31/18.

Key point: The limited deduction for student loan interest is disallowed to the extent the interest is paid with a tax-free 529 distribution.

2020 Tax Law Changes

On Dec. 20, President Trump signed into law the Setting Every Community Up for Retirement Enhancement Act (Secure Act). The new law is mainly intended to expand opportunities for individuals to increase their retirement savings. It also includes some other important tax changes that have nothing to do with retirement.

No more age restriction on traditional IRA contributions

Before the Secure Act, you could not make contributions to a traditional IRA for the year during which you reached age 70 1/2 or any later year. (There's no age restriction on Roth IRA contributions, and the Secure Act does not change that.)

New law: For tax years beginning after 2019, the Secure Act repeals the age restriction on contributions to traditional IRAs. So, for tax years beginning in 2020 and beyond, you can make contributions after reaching age 70½. That's the good news.

Key point: The deadline for making a contribution for your 2019 tax year is April 15, 2020, but you cannot make a contribution for 2019 if you were age 70 1/2 or older as of Dec. 31, 2019. Thanks to the new law, you can make contributions for tax year 2020 and beyond.

Side effect for IRA qualified charitable distributions

After reaching age 70 1/2, you can make qualified charitable contributions of up to $100,000 per year directly from your IRA(s). These contributions are called qualified charitable distributions, or QCDs. Effective for QCDs made in a tax year beginning after 2019, the $100,000 QCD limit for that year is reduced (but not below zero) by the aggregate amount of deductions allowed for prior tax years due to the aforementioned Secure Act change. In other words, deductible IRA contributions made for the year you reach age 70 1/2 and later years can reduce your annual QCD allowance.

New age-72 start date for required minimum distributions from IRAs and retirement plans

New law: The Secure Act increases the age after which you must begin taking RMDs from 70 1/2 to 72. But this favorable development only applies to folks who reach 70 1/2 after 2019. So, if you turned 70 1/2 in 2019 or earlier, you're unaffected. But if you will turn 70 1/2 in 2020 or later, you won't need to start taking RMDs until after attaining age 72. As under prior law, if you're still working after reaching the magic age and you don't own over 5% of the employer, you can postpone taking RMDs from your employer's plan(s) until after you've retired.

Key point: If you turned 70 1/2 in 2019 and have not yet taken your initial RMD for that year, you must take that RMD, which is for the 2019 tax year, by no later than 4/1/20 or face a 50% penalty on the shortfall. You must then take your second RMD, which is for the 2020 tax year, by Dec. 31, 2020.

Stricter rules for post-death required minimum distributions curtail 'Stretch IRAs:

The Secure Act requires most non-spouse IRA and retirement plan beneficiaries to drain inherited accounts within 10 years after the account owner's death. This is a big anti-taxpayer change for financially comfortable folks who don't need their IRA balances for their own retirement years but want to use those balances to set up a long-term tax-advantaged deal for their heirs.

Before the Secure Act, the required minimum distribution (RMD) rules allowed you as a non-spouse beneficiary to gradually drain the substantial IRA that you inherited from, say, your grandfather over your IRS-defined life expectancy.

Effective date: The Secure Act's anti-taxpayer RMD change is generally effective for RMDs taken from accounts whose owners die after 2019. The RMD rules for accounts inherited from owners who died before 2020 are unchanged.

Penalty-free early retirement plan and IRA distributions allowed for births and adoptions

New law: For 2020 and beyond, the SECURE Act allows penalty-free treatment for a qualified birth or adoption distribution. That means a distribution made during the one-year period beginning on the date when an eligible child of the account owner is born or the date when the legal adoption of an eligible adoptee of the account owner is finalized. An eligible adoptee means any individual (other than a child of the account owner's spouse) who has not attained age 18 or is physically or mentally incapable of self-support.

Key point: The maximum penalty-free qualified birth or adoption distribution is $5,000, and this limit is apparently applied on an individual-by-individual basis. So, if both you and your spouse have an eligible retirement plan account or IRA, you can each apparently receive a $5,000 penalty-free qualified birth or adoption distribution.

Graduate fellowship and stipend payments can count as compensation for IRS contribution purposes

New law: For 2020 and beyond, the Secure Act stipulates that taxable amounts paid to aid you in the pursuit of graduate or postdoctoral study (such as a fellowship, stipend, or similar payment) count as compensation for IRA contribution purposes.

No more retirement plan loan borrowings through credit cards

New law: For plan loans taken out after 12/20/19, the Secure Act stipulates that borrowings cannot be distributed through credit cards or similar arrangements without causing the distributed amounts to be treated as deemed taxable distributions rather than tax-free loan amounts.

Increased penalty for failure to file federal tax returns.

The Secure Act increases the penalty for failure to file affected federal tax returns to the lesser of: (1) $400 or (2) 100% of the amount of tax due. This change applies to returns that are due in 2020 and beyond, including any extensions. Previously, the dollar limit for returns due in 2020 was $330.