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April 15th has come and gone...now what?

Tax season 2019 is now over. April 15, 2019 has come and gone, and tax returns (or extensions) have been filed.

CPAs have devotedly worked day and night in getting those returns completed accurately and filed on time. As we speak with CPAs at the end of their busy season, we hear relief in their voices.

Sometimes, we also hear about missed opportunities because tax planning started too late. Many CPAs agree that tax planning conversations should continue throughout the calendar year, to include both their clients and their clients' financial advisors.

Our advisors call this planning for the next tax season "a tax review experience." It includes:

> What went well during their tax preparation?

> What could have gone better?

> What planning solutions could help minimize taxation the following year?

Some impacts from the Tax Cuts and Jobs Act (TCJA) of 2017 are only now coming into play. These likely have created changes in clients' tax situation worth discussing. The following list highlights some of the most discussed topics.

Tax rates and brackets

The new tax law decreases five out of the seven tax brackets. The top rate is now 27% and applies to incomes over $600,000 for married taxpayers filing jointly.

In addition to changes to the tax-rate percentages themselves, the dollar amount at which each applies has also changed, resulting in more income being taxed at lower rates.

Itemized deductions

The new tax law features a much higher standard deduction ($12,000 for single and $24,000 for married filers). Even for some high-net-worth filers—say, some retirees with paid-off mortgages—the increased standard deduction will be a benefit and eliminate the need to itemize.

For many high-net-worth filers, the biggest impact in this area will be the new limits on deductions for state and local taxes on real estate, personal property and income. For 2018 through 2025 the total deduction for these "SALT" categories is limited to $10,000 (or $5,000 if married filing separately). Our clients who live in high-tax states such as California, New York, New Jersey and Illinois are especially likely to be affected by these changes.

The mortgage-interest tax deduction looked prone to removal during the legislative process but ended up surviving. Interest on mortgage loans up to $750,000 is deductible, except for mortgage debt incurred prior to December 12, 2017, for which the prior loan-amount limit of $1 million still applies.

Charitable-donation deductions remain the same, except for an increase on the cash donations limit to 60% from 50% of adjusted gross income.

Spousal maintenance payments

Effective January 1, 2019, payments for spousal maintenance become income-tax-free to the recipient. The new law also eliminates the tax deduction for the payor. This change may reduce the number of negotiable options in the face of fixed payments such as child support, and judges may award lower alimony amounts to the ex-spouse—potentially in favor of other

non-alimony arrangements.

In contrast, under previous law, it often made sense financially to pay emphasize alimony in settlements, in order for the payor to get the deduction.

Child Tax Credit and new Credit for Other Dependents

The TCJA's elimination of personal exemptions had an impact on families with children, so the existing child tax credit was expanded. In addition to increasing the credit from $1,000 to $2,000 per qualifying child, the new law also expands the scope of the credit by raising the income limitations. The phase-out now begins at $400,000 for joint filers and $200,000 for all other taxpayers.

In addition, families without qualifying children may qualify for an additional $500 for each qualifying child or other dependent relatives, such as older relatives in the household, if they do not qualify for the child tax credit. You will need to consult with your tax advisor about the definition of who is a qualifying relative for the new credit.

Retirement contributions

The limit on IRA contributions has increase from $5,500 in 2018 to $6,000 in 2019. Similarly, 401(k) employee contributions increase from $18,000 to $19,000. Catch-up contributions for a taxpayer age fifty or above remain unchanged at $1,000 for IRAs and $6,000 for 401(k) plans.

Healthcare and medical expenses

Perhaps the most high-profile change in this category is the elimination of the tax penalty associated with the "individual mandate" to carry health insurance under the Affordable Care Act. This penalty applied for tax year 2018.

The new law preserves the deduction for medical expenses—but only for amounts that exceed 10% of adjusted gross income will be deductible.

Withholding

This tax season has featured some media horror stories about people who presumed their withholding levels were set appropriately and discovered they were in fact too low. It's essential to remember that the even though marginal rates are now lower, the overall tax burden for a particular individual or family may actually be higher under the new law. (The SALT limitations noted above are a leading reason why, especially for higher-net-worth filers.)

Now is the time to review and adjust your withholding levels—with plenty of time left in the calendar year. Don't get caught in a cash shortfall at tax time in 2020, as failure to pay taxes will have a negative impact on your credit score.

AMT

The AMT exemption increased to $109,400 for married taxpayers filing a joint return and $70,300 for all other taxpayers. The phase out thresholds increase to $1 million for married taxpayers filing a joint return and $500,000 for all others.

Corporate tax rate

There is a reduction in the corporate rate from 35% to a flat 21%. This was intended to help business to grow, increase dividends and expand. A last-minute addition to the law extended similar benefits to many "pass through" businesses—in which taxes are paid at the owner and not corporate level—in an effort to level the playing field for smaller companies.

Many of our clients are entrepreneurs and executives managing businesses with an eye to these important changes. We encourage you to include your financial advisor in your conversations with your CPA as you make such business decisions, as only an integrated strategy can maximize potential benefits.

Continuing the conversation

While the preceding list covers the recent changes most likely to affect clients, just as important are changes at the individual and family level. Holding a "tax review experience" well ahead of the 2020 tax season enables your CPA and financial advisor to develop and implement strategies best suited to your specific situation.

When those situations change—a career change, a retirement, a child off to college, an inheritance...not to mention divorce or loss of a spouse—clients often underestimate the potential tax impacts. Those impacts can be either positive or negative and may not be at all intuitive. The best approach is to lean on your team of experts in an ongoing conversation.

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