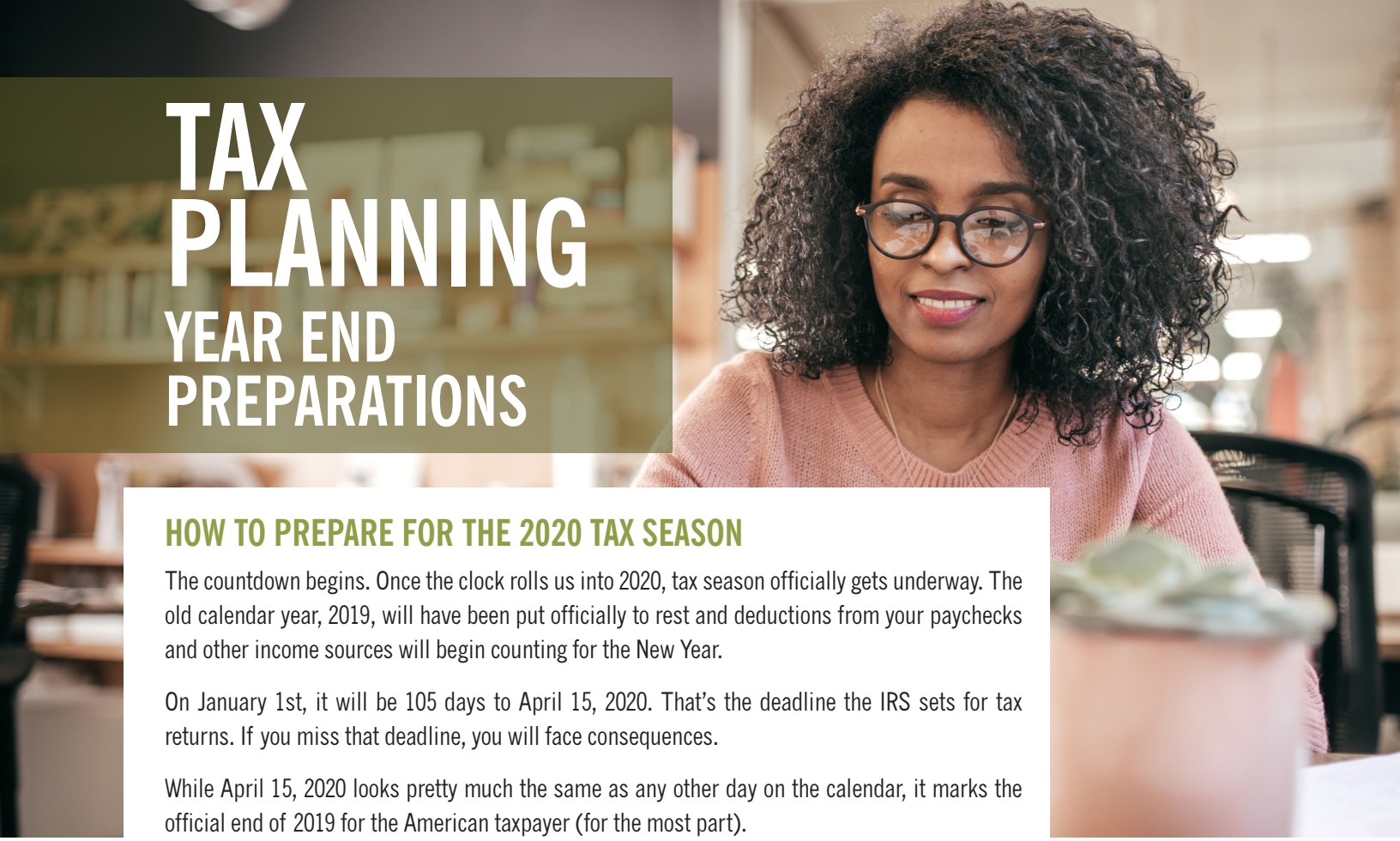
TAX PLANNING

YEAR END PREPARATIONS



HOW TO PREPARE FOR THE 2020 TAX SEASON

The countdown begins. Once the clock rolls us into 2020, tax season officially gets underway. The old calendar year, 2019, will have been put officially to rest and deductions from your paychecks and other income sources will begin counting for the New Year.

On January 1st, it will be 105 days to April 15, 2020. That's the deadline the IRS sets for tax returns. If you miss that deadline, you will face consequences.

While April 15, 2020 looks pretty much the same as any other day on the calendar, it marks the official end of 2019 for the American taxpayer (for the most part).

President Trump's Tax Cuts and Jobs Act, which became law on December 22, 2017[1], significantly altered the U.S. tax code: Deductions changed, tax brackets shifted, and exemptions were revamped. The act is viewed as the biggest overhaul of the tax code since the Tax Reform Act of 1986.[2]

Revisiting the Tax Cuts and Jobs Act

As a brief refresher, the act retained the seven federal income tax brackets as under former tax law but lowered most taxpayers' rates.[3] The top rate, for example, dropped from 39.6% to 37%. Income requirement levels also changed in the individual tax brackets.

The new brackets are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.[4]

Here are the tax brackets and the corresponding income ranges.[5]

2019 tax rate	Single	Married filing jointly
10%	$0 to $9,700	$0 to $19,400
12%	$9,701 to $39,475	$19,401 to $78,950
22%	$39,476 to $84,200	$78,951 to $168,400
24%	$84,201 to $160,725	$168,401 to $321,450
32%	$160,726 to $204,100	$321,451 to $408,200
35%	$204,101 to $510,300	$408,201 to $612,350
37%	over $510,301	over $612,351

These new rates are scheduled to expire in 2025 unless Congress acts to make them permanent. Exemptions also changed under the new tax code.

Here's an overview of the standard deductions since 2016.[6]

Tax Year	2019	2018	2017	2016
Single	$12,200	$12,000	$6,350	$6,300
Married filing jointly	$24,400	$24,000	$12,700	$12,600
Married filing separately	$12,200	$12,000	$6,350	$6,300
Head of household	$18,350	$18,000	$9,350	$9,300
Personal exemption	Repealed	Repealed	$4,050	$4,050

The higher standard deductions may make it more attractive for many taxpayers compared to itemizing. Taxpayers who had itemized to take advantage of deductions for high mortgage interest, large charity donations, or local taxes may be unable to reach the standard deduction's higher limit.

Under previous tax law, taxpayers could claim exemptions for themselves, spouses, and dependents.[7] Exemptions lowered taxable income by $4,050 each.

The act eliminated all personal and dependent exemptions. The higher deduction is intended to fill that exemption gap.

HOW TO PREPARE

While the tax structure underwent substantial changes, you may expect to encounter few differences in the actual filing process. The filing and other deadlines haven't changed. While the act may have changed the amount you pay in taxes or the size of your take-home check, you should begin making preparations early to avoid any unforeseen challenges.[8]

Talk to CTS Financial Group about your tax planning needs

We're here to help you address your financial situation from a tax perspective – working to ensure tax efficiency and eliminate the stress that comes along with tax season.

LOOKING AT ITEMIZING

The IRS has revamped the way itemized deductions can be claimed on Schedule A. Schedule A is a separate tax form attached to standard 1040 forms.[9]

Some important reminders for itemized deductions:

- Medical and dental expenses that exceed 10% of your AGI may be deducted.
- Total deductions from state and local income, sales, and property taxes are limited to $10,000. It's $5,000 if you're married and filing separately.
- Job-related and other miscellaneous expenses—that were subject to the 2% AGI limit—can

no longer be deducted.

- Certain other expenses, such as gambling losses, can still be deducted.
- Deductions for the interest on mortgage debt—incurred after December 15, 2017—are limited to up to $750,000 of the home's loan amount.
- The cash charity contribution limit is 60% of your AGI.

Other changes in deductibles include:

You may no longer deduct moving expenses unless you're on active duty in the U.S. military.

The Child Tax Credit under 2018 tax reform rose to $2,000 per qualifying child. The refundable portion of the credit (referred to as the additional child tax credit) is limited to $1,400 and applies when taxpayers are unable to fully use the $2,000 nonrefundable tax credit to offset their taxes. The credits phase out at income thresholds of $200,000 or $400,000 for married taxpayers filing jointly.[10]

The tax code established a tax credit of up to $500 for other dependents who may not qualify for the child tax credit. Children who you plan to claim as dependents must have social security numbers prior to the due date of your tax return (which is April 15, 2020). Children who don't have social security numbers but have individual taxpayer identification numbers may be claimed under the new credit for other dependents.

PREPARING FOR THE TAX SEASON

Planning well in advance of the tax season will help better prepare you for the unexpected. Here are several reasons to begin planning early:[11]

- Your home, job, or relationships changed in 2019.
- You need to start saving money if you think you may owe taxes.
- You want to ensure you qualify for tax deductions.

You can make changes throughout the year to ensure your tax preparations go smoothly.

Specifically, you can make periodic assessments of your paycheck withholdings so that you'll get a refund or to reduce or eliminate your tax burden.

You should keep track of and store your tax and other financial records

To avoid headaches and penalties, mark your calendar with the following key dates:

JANUARY 15, 2020

4TH QUARTER 2019 ESTIMATED TAX PAYMENT DUE

If you are self-employed or have other fourth-quarter income that requires you to pay quarterly estimated taxes, postmark this payment by January 15, 2020.

April 15, 2020

2019 INDIVIDUAL TAX RETURNS DUE

Most taxpayers have until April 15, 2020 to file tax returns. Email or postmark your returns by midnight on this date.

INDIVIDUAL TAX RETURN EXTENSION FORM DUE

If you can't file your taxes on time, file your request for an extension by April 15, 2020 to push your deadline back to October 15, 2020.

1ST QUARTER 2020 ESTIMATED TAX PAYMENT DUE

Pay your first estimated tax payment by April 15, 2020.

LAST DAY TO MAKE A 2019 IRA CONTRIBUTION

If you haven't already contributed fully to your retirement account for 2019, April 15, 2020 is your last chance to fund a traditional IRA or a Roth IRA; however, if you received a filing extension, you have until October 15th to contribute to a Keogh or SEP plan.

July 15, 2020

2ND QUARTER 2019 ESTIMATED TAX PAYMENT DUE

Pay your second estimated tax payment for 2020 by this date.

October 15, 2020

EXTENDED INDIVIDUAL TAX RETURNS DUE

If you received an extension, you have until October 15, 2020 to file your 2019 tax return.

3RD QUARTER 2020 ESTIMATED TAX PAYMENT DUE

to avoid delays or frantic preparations as the filing deadline approaches. Records may include W-2 forms, canceled checks, certain receipts, and previous year returns.

Here's a list of other items to start gathering:

- Pay stubs
- Mortgage payment records
- Closing paperwork on home purchases
- Receipts for items or services you may want to claim as itemized deductions
- Records on charity giving and donations
- Mileage logs on cars used for business
- Business travel receipts
- Credit card and bank statements to verify deduction
- Medical bills
- 1099-G forms for state and local taxes
- 1099 forms for dividend or other income

During the first three months of 2020, make sure you receive your W-2 and 1099 forms, and other tax documents. Leave adequate time to collect documents and prepare to file your taxes prior to the April 15, 2020 deadline.

TIGHTENING THE NUTS AND BOLTS

The final months of 2019 provide taxpayers with some unique opportunities to avoid unpleasant surprises and scrambling as the finish line draws near.

Here are some ways to prepare this year for next year's tax season:[12]

Look at last year: Take one more look at last year's (2018) return. In the months ahead, you may still have the opportunity to contribute more to your retirement plan, which will lower your taxable income.

Donating to charity: How about "bunching" your charitable donations? The new standard deduction of individual taxpayers rose to $12,200 in 2019.

For married couples, deductions must exceed $24,400. These deduction limits only apply if you itemize your deductions.[13]

Bunching provides you with the ability to optimize your deduction allowances by making two or more years' worth of charity donations in one year to boost the amount.

Let's say you're married, you plan to itemize your deductions (as opposed to taking the $24,000 standard deduction), and you plan to make $15,000 in annual donations. By donating $30,000 in one year and skipping the next, you may be able to qualify for the higher amount. [14]

The IRS allows you to deduct an amount to charity up to 60% of your adjusted gross income; however, the agency sets 20% and 30% limits in some cases. The IRS provides a list of deduction limit codes for different kinds of organizations. [15]

Get organized: Find a place to store your tax documents until it's time to prepare to file. A good record-keeping system may alleviate concern later on as the deadline gets closer.

If you have your documents or prior-year returns stored on your computer, make sure you back them up on a thumb drive or other device or system in case your computer is hacked or stolen.

Other taxes: Keep watch on local and state government requirements. Changes produced on the federal level with the Tax Cuts and Jobs Act affect state and local governments.

HOW LONG?

The IRS provides recommended timelines for retaining financial documents:[16]

1. You should keep your tax records for three years if item 4 does not apply to you.
2. You should keep records for three years from your original filing date of your return (which is typically prior to the April 15 deadline) or two years from the date you paid your taxes. Select whichever is the later date. This is if you claimed a credit or refund after you filed your return.
3. You should keep your records for seven years if you claimed a loss from worthless securities or a bad-debt deduction.
4. You should keep your records for six years if you failed to report income that you should have, and the income was more than 25% of the gross income listed on your return.
5. You should keep employment tax records for at least four years after the due date on the taxes or after you paid the taxes. Select whichever is later.

CONCLUSION

We hope you found this report educational and informative.

You may incorporate the principles and tips in this report into your tax preparation strategy.

Planning well in advance may enable you to take advantage of the opportunities and benefits available under the new tax code.

Discussing your unique situation with both a financial professional and a tax professional may help you make the best choices as tax season approaches.

ENDNOTES

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