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## PERSPECTIVE

## Top changes in federal tax law to watch for during the 2019 filing season

By G. Michelle Ferreira

With the 2019 income tax filing season underway, taxpayers need to beware of changes to federal tax law impacting how they file their returns for last year. Thus, for taxpayers who are planning for the April 15, 2020

income tax filing deadline, or are planning to file for an extension, major changes to the Tax Code are new for 2019 returns.

Many Californians were shocked how significant their tax bill was last year. Were you surprised by a larger tax bill as a result of the Tax Cuts and Jobs Act? Did you suddenly owe money when you

usually get a refund? The act did decrease the income tax rates for taxpayers. However, the act also decreased allowable itemized deductions for most taxpayers, making many, particularly Californians, liable for higher federal income tax. Plan early and beware of the changes that affect your 2019 tax return!

### Income Tax Brackets and Tax Rates for 2019

Your tax rate (the percentages of your income that you pay in taxes) is based upon what tax bracket (income range) you are in. For the 2019 year, the tax rates are the same but there are small changes to the brackets to adjust for inflation:

2019 Rates	Single	Married Filing Jointly	Head of Household	Married Filing Separately
10%	\$0-\$9,700	\$0-\$19,400	\$0-\$13,850	\$0-\$9,700
12%	\$9,701-\$39,475	\$19,401-\$78,950	\$13,851-\$52,850	\$9,701-\$39,475
22%	\$39,476-\$84,200	\$78,951-\$168,400	\$52,851-\$84,200	\$39,476-\$84,200
24%	\$84,201-\$160,725	\$168,401-\$321,450	\$84,201-\$160,700	\$84,201-\$160,725
32%	\$160,726-\$204,100	\$321,451-\$408,200	\$160,701-\$204,100	\$160,726-\$204,100
35%	\$204,101-\$510,300	\$408,201-\$612,350	\$204,101-\$510,300	\$204,101-\$306,175
37%	Over \$510,300	Over \$612,350	Over \$510,300	Over \$306,175

### Standard Deductions in 2019

Under the Tax Cuts and Jobs Act, the standard deduction was almost doubled, which was great news for many tax filers who did not itemize their deductions. Taxpayers have the option to take the standard deduction or itemize their deductions. With the cap on state and local property and income tax deductions for Californians, the increased standard deduction was not much help. Nevertheless, for 2019, the standard deduction went up slightly to adjust for inflation:

Filing Status	2018	2019
Single	\$12,000	\$12,200
Married Filing Jointly	\$24,000	\$24,400
Married Filing Separately	\$12,000	\$12,200
Head of Household	\$18,000	\$18,350

Under the act, beginning 2018, the act instituted a cap on the deduction for state income, local and property taxes to \$10,000. For 2019, this cap remains unchanged. Previously there was no limit on the amount of state and local taxes that could be deducted, making residents of high tax states, such as California, liable for less federal income tax. Before 2018, most taxpayers of high-income tax states chose to itemize their deductions because their itemized deductions exceeded the standard deduction. For 2018 and 2019, some high-income filers will have a higher tax bill because of the cap on state and local taxes at \$10,000. This limit remains unchanged and is still in effect for 2019.

### **There is no Penalty for Having No Health Insurance**

Despite all the political wrestling over the Patient Protection and Affordable Care Act, there is now no penalty for not having health insurance. That change went into effect for the 2019 tax year. Thus, taxpayers who did not have health insurance in 2018 paid approximately \$695 in penalties for such a failure and will no longer be liable for the health insurance penalty. That said, it is still a good idea to have health insurance.

### **2019 Has a Higher Threshold for Medical Expenses**

Another common deduction for taxpayers is for medical expenses. For the 2019 tax year, you can deduct medical expenses above 10% of your adjusted gross income (your total income minus other deductions already taken). The 2018 Tax Cuts and Jobs Act allowed taxpayers to deduct medical expenses that were 7.5% above AGI, however, that lower threshold was changed effective 2019.

### **New Form 1040- SR Tax Return for Seniors**

New for 2019 is an easier-to-read and less complex tax form for seniors, aged 65 years old and older. The new Form 1040-SR is a simplified version of the much longer, more complex Form 1040. It has larger font, better color contrasting and it is much easier to read. The Form 1040-

SR allows seniors to claim the standard deduction or itemize their deductions on Schedule A. There are no income limits for using the Form-SR, like those that restrict the use of the Form 1040EZ.

### **Alimony Deduction Eliminated**

For divorce decrees signed before Dec. 31, 2018, the payor of alimony was entitled to deduct the full amount of alimony paid, and the recipient was required to report the alimony as income. For divorce decrees signed after Dec. 31, 2018, however, payors of alimony are no longer entitled to deduct alimony payments and recipients are not required to report alimony received. The reason for the change was many of the recipients of alimony were not reporting the income; and for those that did report the income, it did not match the payors' deduction.

### **Tax Exempt Retirement Contribution Limits**

For 2019, 401(k) contributions increased from \$18,500 to \$19,000. Workers over the age of 50 receive a catch-up contribution of \$6,000, for total tax-free contributions of \$25,000 for 2019. For 2019, IRA contribution limits increased from \$5,500 to \$6,000 with an additional catch up amount of \$1,000 for taxpayers who are age 50 and over.

### **Cryptocurrency Reporting**

For taxpayers who engaged in any crypto transaction, the IRS released a new form that will be required with your 2019 income tax return. On the new Schedule 1, the IRS asks whether taxpayers have acquired, exchanged or sold a financial interest in virtual currency. Specifically, the question asks: "At any time during 2019, did you receive, sell, exchange or otherwise acquire any financial interest in any virtual currency?" Failure to check the box "yes" on Schedule 1 could subject the taxpayer to serious penalties.

The introduction of the new question on the 2019 tax return regarding virtual currency transactions is not a coincidence. The IRS has been signaling for years that it intends to pursue taxpayers who fail to report income tax on their virtual currency

transactions. In years past and to current, the IRS has received great traction in penalizing taxpayers who failed to admit that they maintained signatory or ownership authority over foreign bank accounts or entities, a question which appeared on the otherwise innocuous Schedule B of the Form 1040. We see similar penalties being asserted on the horizon for taxpayers who fail to properly complete the new Schedule 1 on the 1040 for 2019, including checking the box "yes" regarding their participation in cryptocurrency transactions.

### **Conclusion**

There are several other nuanced changes for 2019 which will affect some people as the 2019 tax season approaches. This article was intended to give an overview on changes that would affect a lot of taxpayers. The bottom line is that taxes are complex and are getting even more difficult, despite the changes that appear to "shorten" tax forms and schedules to tax returns. Consult a competent tax advisor and prepare early. ■

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