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CLIENT ALERT

FEDERAL TAX LAW CHANGES

Well, after "much ado about nothing," Congress passed The Appropriation Bill on December 19, 2019 just before recessing for the holidays. The President signed the legislation on December 20, 2019. As what frequently occurs, last minute legislation becomes like a "Christmas tree" with many amendments attached like "Christmas ornaments." The Appropriation Bill was no different with many tax amendments.

Extender Provision

The following are brief highlights of some of the changes. We will need to await IRS guidance on many of these areas to determine implementation and what may be best for our clients. There were over two dozen areas of the tax code that expired after 2017. Consequently, the 2018 tax returns were prepared without taking advantage of these provisions. In their wisdom, Congress has now…two years later…extended these provisions retroactive for 2018 and through 2020. If you are affected by any of the changes, amended 2018 tax returns may need to be prepared. The following are the most prevalent provisions affecting individuals. Let us know if you are affected so we can discuss the feasibility of preparing amended returns.

1. Income from discharge of qualified principal residence indebtedness is generally not taxable.

2. Mortgage insurance premiums are deductible, similar to mortgage interest.

3. Medical expenses deductible in excess of 7.5% of adjusted gross income, NOT 10%.

4. Qualified tuition and related expenses are deductible "above-the-line" up to $4,000 for individuals with income less than $65,000 ($130,000 for joint tax returns) or $2,000 for individuals whose income does not exceed $80,000 ($160,000 for joint tax returns).

5. Non-business energy credit of 10% of the cost of qualified energy improvements to your principal residence, i.e.., windows, doors, skylights and roofs. A credit of $50 to $300 for other improvements, i.e.., furnaces, boilers, heat pumps, water heaters, central air and circulating fans subject to a lifetime cap of $500.

6. Qualified Fuel Cell Motor Vehicle Credit of between $4,000 and $40,000, depending on the vehicle.

7. Two wheeled plug-in electric vehicle credit of 10% of cost up to $2,500.

Setting Every Community Up for Retirement Enhancement Act (SECURE Act)

There are a lot of changes effecting retirement plans and IRAs. The following are a few of the most notable affecting individuals.

1. Under prior law, IRA contributions could not be made once an individual attained the age of 70½. This provision is repealed for tax years beginning after December 31, 2019.

2. For plan years beginning after December 31, 2020, employees who work at least 500 hours per year for at least three consecutive years and are age 21 or older can participate in a 401(k) plan.

3. The age requirement for taking a "Minimum Required Distribution" from retirement plans is increased from age 70½ to age 72 after December 31, 2019.

4. Penalty free distributions from retirement plans are now allowed for "qualified birth or adoption" expenses up to $5,000 per spouse.

5. Section 529 plan distributions are allowed tax free for costs associated with a registered apprenticeship program.

6. Sections 529 plan distributions are allowed tax free up to $10,000 to pay qualified student loans, including student loans of siblings of the designated beneficiary. It appears the $10,000 distribution is a lifetime distribution per recipient. (Awaiting IRS guidance.)

7. Generally, effective for individuals who die after December 31, 2019, the beneficiary of the retirement account, including IRAs, must take the distribution within 10 years of the date of death. This new rule does not apply to;

    a. a surviving spouse.
    b. child of the deceased who has not reached the age of majority.
    c. a chronically ill individual.
    d. any other individual who is not more than 10 years younger than the deceased.

Kiddie Tax

For tax years beginning after December 31, 2019 (may elect to apply to 2018 & 2019), the SECURE Act repeal the provision that unearned income is taxed at trust/estate tax rates instead of individual tax rates.

Disaster Relief

1. The 10% penalty for early retirement plan distributions up to $100,000 will not apply for disaster relief distributions.

2. Money withdrawn for home purchases can be re-contributed where the purchase was canceled due to disaster.

3. An automatic 60-day extension to file tax returns for individuals who live or have a business in a disaster area.

4. The current law requirement that casualty losses exceed 10% of adjusted gross income is eliminated as well as the need to itemize deductions.

5. Taxpayers in a disaster area can use their prior year earned income to calculate the Earned Income Tax Credit or Child Tax Credit in tax year 2018.

January 3, 2020