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DLD NEWS AND VIEWS

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REMINDERS

- Withholding for federal income tax needs to be reviewed to assure when filing your 2019 tax return you are not hit with a big surprise balance due or less of a refund then expected. The IRS website has a calculator available to assist in determining if your W-4 needs to be changed.

- If your dependent child is working part-time and no tax liability is anticipated, consider having them indicate "exempt" on the W-4.

- Home equity loan interest is no longer a deductible itemized deduction. With many home equity loan interest rates exceeding 5%, consideration should be given to paying them off with savings or funds in investments.

- 401(k) deductible contributions can be made up to $19,000. If age 50 and over, additional catch up contributions of up to $6,000 can be made.

- IRA and/or ROTH contributions of up to a total of $6,000 can be made ($7,000 if age 50 and over).

- Health Saving Account (HSA) contributions can be made up to $7,000 for family coverage or $3,500 for single coverage.

- If age 70 ½, charitable contributions can be made out of your IRA. The contribution reduces the amount of your minimum required distribution (MRD) and is a direct reduction of your taxable income without the necessity of itemized deductions.

- While there is no longer a federal penalty for NOT having health insurance, New Jersey imposes a penalty for NOT having health insurance. The penalty is calculated similar to what the federal penalty would have been.

- The standard deduction for 2019 is $24,400 for married filing joint returns, $12,200 for single and married filing separate returns and $18,350 for head of household. Review what your potential itemized deductions might be to plan deductible expenses accordingly to maximize use of the standard deduction.

- With all the federal and state tax law changes, consider a review of all Wills and Trusts for possible updating.

TO MOVE OR NOT TO MOVE OUT OF NEW JERSEY – THAT IS THE QUESTION

It's nothing new to read about New Jersey being one of the highest taxed states and the surveys indicating a migration of New Jersey residents to other states, predominantly Florida. However, there are plenty of reasons why people continue to live in New Jersey including the geography, varied opportunity for employment and entertainment, the beaches, lakes & mountains, seasonal weather, access to New York and Philadelphia, etc.

To answer the question requires knowing the objectives. Examples include family ties, health, relationships, both personal and professional, cost of living, and taxes to name a few. For all, except cost of living and taxes, the decision is generally based on personal preferences and/or emotional feelings.

To move to reduce cost of living is a financial decision which involves analysis of income, expenses and cash flow while living in New Jersey verses another state. The resulting analysis in many cases also needs to be balanced against non-financial factors.

Turning to taxes, other than real estate taxes as a predominant reason, requires in many cases a lot more thought and planning if one will continue to have "ties" to New Jersey. What are the "ties" to New Jersey. Some examples: continue to own a personal residence in New Jersey, family still in New Jersey, medical doctors are all located in New Jersey, house of worship located in New Jersey and source of income is from New Jersey.

What's the issue? First and foremost is the question of "domicile." In layman terms it is the place you are attached to and always come back to. Once "domicile" for tax purposes has been established it remains unless specific facts indicate it has been terminated and a new "domicile" has been established. The burden of proof usually rests with the taxpayer. Even if you are able to establish a change in "domicile," you are still liable for New Jersey Income Tax on New Jersey source income. New Jersey also has a "residence" test to determine if you are subject to New Jersey Income Tax. If you maintain a permanent residence in New Jersey and are in New Jersey for all or part of 183 days or more, New Jersey will consider you to be a New Jersey "resident" and will seek to tax you on all your income regardless of the source.

As with cost of living, there is a need to balance with non-financial reasons when making a decision to move for taxes. A typical example we hear is the need to be close to the grandchildren.

So, the decision is made to relocate to a non-tax state, but for a variety of reasons you will also maintain a residence in New Jersey. Consequently, there is a need for a lot more thought, preparation and planning. Attention must be given to more than just changing your driver license, car registration and where you vote. To truly establish a change in "domicile," it must be established through facts that you no longer are "attached" to New Jersey. Factors that are considered by the Division of Taxation, in addition to days out of New Jersey, include where you bank, insurance policies, receive important mail, state where legal documents are executed, i.e; wills, trust, business agreements, etc. Credit cards, toll passes and cell phones are sources of evidence as to travel within and outside New Jersey

Depending on the reasons for changing "domicile," especially if it is tax motivated, consideration should be given to consulting with professionals.

2018 REFUNDS LESS THAN 2017 - TRUE OR FALSE?

Early in the tax filing season there was a lot of “talk,” “discussions,” “news reports” and “complaints” that taxpayers were not getting refunds and owed the IRS. While this may be a “fact” it may not be the total story. The IRS released the following from an analysis of the approximate 140 million tax returns that were filed:

- ❖ Total returns filed with IRS for 2017: approximately 140 million about the same for 2018 returns.
- ❖ Self electronically prepared returns increased approximately 4.2% to approximately 56 million.
- ❖ Total refund returns for 2017 was approximately 99.51 million. For 2018 total refund returns was approximately 98.95 million.
- ❖ Average refunds for 2017 returns was approximately $2.77K. For 2018 the average was approximately $2.73K, down on average approximately $40.
- ❖ Total refunds for 2017 returns were approximately $275.73 million. For 2018 returns total refunds were approximately $270 million a decrease of approximately $5.73 million.

So, you be the judge as to the significance of tax reform on taxpayer refund.

Think about it........

“the smallest smile brings the most dividends for the least cost.”

<u>**Disclaimer:**</u> ***This e-mail represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.***