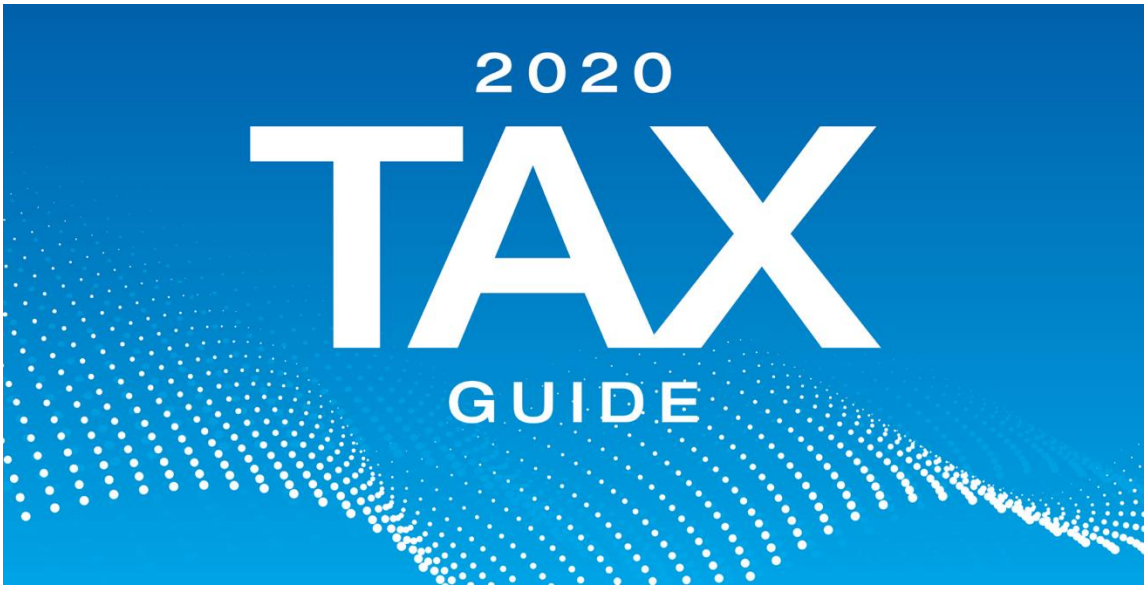

How to Prepare for Tax Season

Presented by JB Bryan

In this guide, we'll explore ways to help you prepare for the upcoming tax season.

Keep in mind, this guide is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying your strategy.

April 15, 2020 is the deadline the Internal Revenue Service sets for filing your 2019 tax returns. If you believe you will miss that deadline, you should consider filing for an extension.

Here's a quick summary of the major changes for 2019:

- The 2017 Tax Cuts and Jobs Act ended the penalties associated with the Affordable Care Act. In most states, people who were uninsured in 2019 will not owe a penalty when they file their tax returns.
- The 2017 Act changed the medical expense deduction. For 2019, the threshold returns to 10%.[1]
- The 2017 Act also changed the rules on alimony payments. Where alimony payments were once tax deductible, that is no longer the case. Likewise, alimony for the recipient spouse won't count as taxable income.[1]

In addition to changes from the 2017 Act, there are larger limits for workplace retirement plan contributions (now $19,000, with an additional $6,000 for those 50 and older) and Health Savings Accounts ($3,500 for self, $7,000 for family).[1]

Remember, if you spend your Health Savings Account funds on nonmedical expenses before age 65, you may be required to pay ordinary income tax as well as a 20% penalty. After age 65, you may be required to pay ordinary income taxes on HSA funds used for nonmedical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

The Tax Brackets

The tax brackets are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.[2] Here are the tax brackets and the corresponding income ranges[2]:

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%	$510,301+	$612,351+

The raising of income requirements for the tax brackets also means wage earners may fall into lower brackets. Here's one example. A single filer at $83,000 in taxable income would fall into the 24% bracket for tax year 2018. The filer would be in the 22% tax bracket in 2019.[2,3]

Another single filer with an income of more than $500,000 (but less than $510,300) would have been in the 37% bracket in 2018. For 2019, they are in the 35% bracket. Meanwhile, a single filer earning between $160,000 and $160,725 in 2018 would have been well within the 32% bracket. In tax year 2019, they are in the 24% bracket.[2,3]

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 is an overview of the standard deductions since 2017[2,4]:

Tax Year	2019	2018
Single	$12,200	$12,000
Married filing jointly	$24,400	$24,000
Married filing separately	$12,200	$12,000
Head of household	$18,350	$18,000
Personal exemption	Repealed	Repealed

The higher standard deductions may make it more attractive (compared to itemizing) for many taxpayers. Taxpayers who had itemized, to take advantage of deductions for high mortgage interest, large charitable 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. This was changed in the 2017 Tax Cuts and Jobs Act.[5]

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

How to Prepare

While the first filing after the 2017 Tax Cuts and Jobs Act came into effect was very different, the process has not changed much from year to year. Filing and other deadlines haven't changed, for instance. You should begin preparing early to avoid any unforeseen challenges.[6]

Get a checkup: As a starter, the I.R.S. urges taxpayers to conduct paycheck checkups. The agency provides tools and resources to help you calculate the correct amount to have withdrawn from your paycheck.

The calculator is designed to help you determine if your employer is withholding adequate amounts from your paycheck.

The calculator asks for your projected gross income, your current withholding number, the current amount of federal taxes withheld, and other paycheck-related questions.[7]

The calculator leads you through various screens that require you to enter requested numbers into boxes. The calculator looks similar to a tax-filing form.

Once the calculator generates the estimated taxes, which you'll either owe or be refunded, it offers suggestions on how to change your withholding amount or request to get additional money withheld from your check.

For Tax Year 2018, the average I.R.S. refund usually exceeded $2,800.

To avoid headaches, mark your calendar with the following key dates[8,9]:

April 15, 2020

2019 INDIVIDUAL TAX RETURNS DUE

Most taxpayers have until April 15 to file tax returns.

INDIVIDUAL TAX RETURN EXTENSION FORM DUE

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

1ST QUARTER 2020 ESTIMATED TAX PAYMENT DUE
Pay your first estimated tax payment for 2020 by April 15.

LAST DAY TO MAKE A 2019 IRA CONTRIBUTION
If you haven't already contributed fully to your retirement account for 2019, April 15 is your last chance to fund a Traditional IRA or a Roth IRA; however, if you received a filing extension, you have until October 15 to contribute to a Keogh or SEP plan.

June 15, 2020
2ND QUARTER 2020 ESTIMATED TAX PAYMENT DUE
Pay your second estimated tax payment for 2020 by June 15.

September 15, 2020
3RD QUARTER 2020 ESTIMATED TAX PAYMENT DUE
Pay your third estimated tax payment for 2020 by September 15.

October 15, 2020
EXTENDED INDIVIDUAL TAX RETURNS DUE
If you received an extension, you have until October 15 to file your 2019 tax return.

January 15, 2021
4TH QUARTER 2020 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, 2021.

If the calculator shows that you are expected to owe taxes at the end of the year, you might consider filing a new Form W-4, Employee's Withholding Allowance Certificate.[10] The I.R.S.-provided calculator is designed to give feedback based on certain assumptions. It is not intended to give specific tax, legal, or accounting advice.

The calculator is not a replacement for real-life advice, so please make sure to consult a professional before modifying your tax strategy.

Advice may include changing the number of allowances you're claiming (line 5) or requesting your employer withhold additional money (line 6).

Taxpayers who receive pension income may use Form W-4P.[10] Once completed, send the form to your payer if you're adjusting or making changes.

What Do You Need to Have to Use the Calculator?

To generate a calculation, the I.R.S. recommends you have these documents:

- A recent paystub
- A recent income tax return
- A copy of a completed Form 1040, which will help you estimate your income

The calculator will not request you provide personal or private information. It will, however, ask you the number of children you expect to claim for the Child Tax Credit and the Earned Income Tax Credit.

Taxpayers with more complex tax issues may follow the instructions in Publication 505, Tax Withholding and Estimated Tax.[10]

Who Should Use the Calculator?

The I.R.S. urges taxpayers who have questions or concerns about changes in the tax code to use the calculator.

Specifically, the agency advises you to check your withholding if you:

- Have a two-income household.
- Have two or more jobs.
- Work only part of the year.
- Can claim child tax and other credits.
- Have dependents who are 17 and older.
- Itemized your deductions last year.
- Are a high earner or have a complex tax return.
- Received a large tax refund or paid a large tax bill for tax year 2018.

Looking at Itemizing

The I.R.S. has revamped the way itemized deductions can be claimed on Schedule A. Schedule A is a separate tax form attached to standard 1040 forms.[11]

Changes to the itemized deductions for 2019 include:

- Itemized deductions are not limited if your adjusted gross income (AGI) exceeds a certain amount. Your adjusted gross income is the portion of your income that is taxable.[12]
- 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, 2018 – are limited to up to $750,000 of the home's loan amount. The new limit doesn't apply if you contracted to close on your home after December 15, 2018, and close before April 2, 2019.
- 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 rose to $2000 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.[13]

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

Here are a few reasons why you may want to consider preparing early:

- 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 reduce or eliminate your tax burden.

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

Items to Remember

Here is a list of other items to start gathering:[14]

- 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 charitable giving and donations
- Mileage logs on cars used for business
- Business travel receipts
- Credit card and bank statements to verify deductions
- Medical bills
- 1099-G forms for state and local taxes
- 1099 forms for dividends or other income

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

Capital losses: You can claim losses only if they exceed capital gains. You're allowed to claim the difference up to $3,000 per year if you're married filing jointly or $1,500 if you're filing separate returns. Net losses that exceed $3,000 can be carried over into future years.[15]

Deductions for capital losses can only be applied to investment property sales, but not the sale of investment property that was held for personal use.

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 concerns later 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.

How Long?

The I.R.S. provides recommended timelines for retaining financial documents[16]:

1. You should keep your tax records for three years if item number 4 (below) 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.

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