Top 10 Tax Facts for Individual Clients in 2019 You Need to Know

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1. Standard Deduction

The 2019 standard deduction is $12,200 per individual and $24,400 per married couple, so most clients will now take the standard deduction rather than itemizing on their tax returns post-reform. Clients should be made aware of this early in the year, especially those clients who usually take advantage of the deduction for state and local sales taxes.

2. Itemized Deductions: The SALT Cap

Because of the doubled standard deduction, many clients will no longer itemize when filing their 2019 tax returns. Further, the deduction for state and local taxes remains capped at $10,000—and the $10,000 limit applies even to married couples, so married taxpayers who file separate returns are subject to a $5,000 per person cap. Thus far, most state and local "workaround" strategies have been rejected by the IRS, although states continue to challenge the viability of the SALT cap.

3. New Mortgage Interest Rules

The mortgage interest deduction was also limited under tax reform, so only interest on up to $750,000 on mortgage debt is deductible for new mortgages taken out between 2018 and 2026. Interest on home equity loans may be deducted to the extent that the home equity loan does not exceed $750,000 only if the proceeds of the loan are used to repair or improve the home securing the loan.

4. Medical Expense Deduction

The 2017 tax reform legislation modified the previously existing medical expense deduction so that, for tax years beginning after December 31, 2016, and ending before January 1, 2019, a more generous 7.5% floor applied to the medical expense deduction. For 2019, the floor is once again 10%.

5. Personal and Dependency Exemptions

Under the 2017 tax reform legislation, the personal exemption was suspended for tax years beginning after 2017 and before 2026. This also means that the dependency exemptions were suspended, so clients who typically rely upon dependency exemptions will no longer be able to claim those amounts (usually around $4,000 per dependent) for the next few years).

6. Child Tax Credit

Although the personal exemption was suspended for 2018-2025, the 2017 tax reform legislation increased the child tax credit to $2,000 per child under age 17. $1,400 of this per-child credit is refundable, and a Social Security number is required to claim the credit. A new family tax credit was created to provide a $500 nonrefundable credit for parents and other non-child dependents.

7. Affordable Care Act Individual Mandate Repeal

The 2017 tax reform legislation repealed the Affordable Care Act individual mandate that required individuals to purchase health insurance or pay a penalty for tax years beginning after December 31, 2018, so the penalty will no longer apply in 2019.

8. Charitable Giving

Although the charitable contributions deduction itself was left intact, because clients are required to itemize in order to claim a deduction for gifts to charity, this means that most taxpayers will also no longer receive a deduction for charitable donations without careful planning. Because of the expanded standard deduction, many clients may consider using a "bunching" strategy to consolidate charitable gifts into a single year in order to cross the standard deduction threshold and itemize.

For example, if a client typically donated $15,000 per year to charity, that client may want to consider donating $30,000 in 2019 and forgoing the donation in 2020. The client would then be entitled to claim the itemized deduction in 2019, rather than potentially missing out on the deduction in both years.

9. Alternative Minimum Tax

The 2017 tax reform legislation temporarily increased the AMT exemption amount, so that in 2019, the following amounts will apply: $111,700 for married taxpayers filing joint returns (half this amount if separate returns are filed) and $71,700 for all other taxpayers (other than estates and trusts). The applicable phaseout thresholds are increased to $1,020,600 for married taxpayers filing jointly and $510,300 for all other taxpayers (other than estates or trusts). These amounts are adjusted annually for inflation.

10. Estate Planning

Under the 2017 tax reform legislation, the estate, gift and GST exemption amount was roughly doubled to $11.18 million per individual, and will be adjusted upward to $11.4 million for 2019. Despite this, the provision was made temporary, so that the exemption will revert to its pre-reform level of about $5.6 million in 2026. The IRS and Treasury answered these questions with proposed regulations to clarify that if individuals make large gifts between 2018 and 2025 in reliance on the enlarged exemption, they will not be punished if, after 2025, the exemption is allowed to revert to pre-reform levels.