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THE STRAUSS REPORT

Fall 2019

October: A Recap of what we know and a look ahead…..

After the difficult and confusing tax filing season, many of us chose to try and "forget" the many changes from the new tax law passed at the end of 2017. We hung in there with a very up and down stock market, hoping our investments and savings would hold up during this time of uncertainty. We got notices from the IRS and IL and letters regarding changes in our health care and long-term care premiums. All - while we were trying to live and work and stay healthy!

But the new tax law and its many changes impacting most of us did not go away. It is with us until 2025 when it sunsets- and we need to remember what it is and then plan for how we can manage our taxes and our finances during this fall season.

In this issue of **The Strauss Report**, we will briefly review the provisions of the new Tax Law and some of the new forms/changes for this year and the tax filing season ahead. We will also focus on strategies for "managing" this law which you can still do during the last three months of this year. We will address questions we are seeing- from selling your home to health care and stress the importance of identity protection – for you and by us. And finally, a reminder about IL - our state income tax rate is now at 4.95% for the entire year in 2019.

So, what has and is changing?

- **The confusing 1040** with its six back up schedules for 2018 has been revised to now only have three back up schedules for 2019 with some information back on the regular 1040 such as capital gains and separate lines for IRA withdrawals and pensions.
- **There is a new 1040 (for Seniors).** Drafted to be easier for aging eyes to read, the two-page Form 1040-SR uses a bigger font than the standard Form 1040 and includes a prominently displayed chart for calculating taxpayers' standard deduction, IRS spokesperson Eric L. Smith says. It is mostly for older taxpayers who file by paper still (less than 10%).
- **There is an all new W-4 Withholding Form** (released August 9th). Since the "old" form was so confusing, and withholding was adjusted based on the new lower tax rates with many taxpayers coming up way short at tax time, this new form is designed to incorporate two wage earners and investment income. It can be used online as well- **https://www.irs.gov/individuals/tax-withholding-estimator.** (We still find it better to review your pay stubs and help you revise your withholding to protect against owing at tax time.)
- **The penalty for not having health insurance (from the Affordable Care Act)** is gone beginning in post 2018 years, but the health care premium tax credit for lower income taxpayers is still with us for those who buy insurance through the exchanges.
- **The threshold for deducting medical expenses on Schedule A** jumped from 7.5% of AGI, **to** 10% in 2019. The limits for deducting long term care premiums have also jumped substantially.
- **Changes from 2018 which we should remember are: The Standard deduction in the new law** is nearly double to $24,400 for couples, $12,200 for Singles and an extra $1300 each if over 65. There are no exemptions. The popular deduction for state and local taxes and real estate taxes was limited to $10,000. **Home mortgage** interest can only be deducted on up to $750,000 on a primary or second residence for mortgages begun after December 14, 2017. **NO** write off is allowed for interest on existing or new home equity loans from which the proceeds are used to buy a car, pay off credit card debt and the like. **Charitable Contributions are still deductible if you itemize. Tax-free distributions from IRAs donated to charities are now permanent.** The **low-income tax rates** for qualified dividends and long-term capital gains are now permanent for most of us. **The law keeps**

seven tax brackets but with different/lower rates and break points. The **Child credit** for dependents under the age of 17 is now refundable - it is up to $2000/child and many more taxpayers will get it since the phase out is up to $400,000. Many of our clients with children get a big break – until their kids hit 17! There is also a $500 credit for each dependent who is not a qualifying child, i.e. an elderly parent or a disabled adult child.

What did we learn from filing under this new law?

- **The importance of tax planning**- including the timing of contribution and medical expenses – to itemize in one year and take the standard deduction the next.
- **The importance of reviewing withholding** both on wages and retirement income.
- **The impact of substantial long-term capital gains at year end from mutual funds on our taxes. (This may not happen in 2019 given the muddling stock market!)**
- **Most of us saved a very small amount from this new tax** law with most of the tax savings going to businesses large and small and higher income taxpayers. Taxpayers with large real estate taxes or more than one home paid more, sometimes a lot more tax.
- **Donating to your church or other charities** can save taxes if you do not itemize.
- **The new forms are/were not easy to understand or follow.**

Social Security, Medicare and you….

- **Social Security recipients should see a 1.2% - 1.6% rise** in their benefits for 2020, down from the 2.8% increase for 2019 due primarily to lower gas prices, but all of it and more will likely be taken away by the increase in Medicare premiums of 6.5% or $8.80/month to close to $144.30. It is expected that our SSA increases will disappear into the higher Medicare premiums for years to come.
- **Upper income seniors also pay more for Medicare Part B and Part D coverage in 2020,** depending on adjusted gross income- over $170,000 for joint filers or $85,000 for Singles. You get a **letter in November of each year** when the IRS and SSA share tax information if your premiums are going up- and they are deducted from your Social Security deposited in your bank account. This is a year by year computation - so if your income increased for just one year, your premiums should go back down the next. (Since many of us had higher adjusted gross income due to long term capital gains from mutual funds at the end of 2018, you may see your Medicare premiums increase for 2020- after the IRS and SSA share your tax information!)
- **Many of us are getting notices about BIG increases in health insurance premiums as well as premiums for long term care**. This is due to many of us living longer, using more health care and the disappearance of competition from the Affordable Care Act mandate. Many people are switching to Medicare Advantage plans to save money, but watch out for higher deductibles, higher co pays and limited choices in doctors and hospitals. For example, for one person, the long term care premium could stay the same but it comes with a big reduction in the increase in payouts (if nursing homes increase 3.1%/month, the new plan only goes up 1.3% as opposed to over 2.7% with a 35% increase in your premium, so you just may more later when you are using the insurance instead of now for the premium. We have been reviewing plans with clients and helping them choose wisely.
- **Be aware of the so called "skimpy" or substandard medical plans**- sold by brokers that really offer almost no meaningful coverage. Fewer than 100,000 had such plans at the end of 2018 but it is expected that the number will jump by 600,000 in 2019 due to the changes in the Affordable Care Act requirements.
- **Increases are also coming for working taxpayers at re-enrollment time in late fall**. An option might be a high deductible plan ($6,750 for individuals and $13,500 for families) coupled with a health savings account (HSA). The annual cap in 2019 for HSAs is $3,500 for self only coverage and $7,000 for family coverage. We also have been reviewing plans and looking at HSA plans with clients, a truly important retirement and financial planning measure as health care costs continue to rise dramatically.

WHAT CAN YOU DO/ SHOULD DO NOW?

We have been living with the "old" tax law for a long time so adjusting our heads is not easy. However, we cannot assume that we are all winners and working within the new code, requires a **lot** of tax planning. Here are a few things you can do:

1. **DO NOT Forget to withdraw your Required Minimum Distribution (RMD) from your IRA**. It may be less this year than in 2018 due to the slump in the stock market at the end of the year. If you

want to make charitable donations directly from your RMD, it is best to have the investment firm or mutual fund company send the checks directly with a copy or notice to you. One company can give you checks to write to the charities/church yourself; I am less in favor of this since it is much harder to keep track of. Each bank or mutual fund/investment company has a form for this - if you are not sure how to do it correctly, call us. We will need a list of these at tax time in 2020 for your 2019 returns. These contributions reduce the amount of IRA income on your 1040 with a special code QCD (Qualified Charitable Contributions) and is a great strategy if you may not itemize.

2. **Check Your withholding.** While many of us paid a little less tax in 2019, many of us count on our refunds to pay bills or for vacations or big purchases and do not want to either come up short or not get the refund we hope for at tax time. WE have been checking withholding all year long - both when we prepared your 2018 taxes and often again in the summer/fall. If we did a withholding checkup earlier in the year, there is no charge for a review this fall.
3. **"Bunch"** either medical expenses or contributions or both. These are still deductible in 2019 as itemized deductions (the medical with a 10% floor) so if you are buying hearing aids, having major dental work done or even buying into a retirement community do it all within one year. Charges in December DO count as deductions. You can also consider prepaying your church contribution or pledge late in 2019 for 2020 so you get the double deduction this year.
4. **Consider contributing to a ROTH 401K instead of a regular 401K or converting part of your regular IRA to a ROTH when the tax rates are so low now. However, you cannot convert to a ROTH in 2019 and then change your mind and recharacterize- there is no going back after you convert now – all part of the new tax law.**
5. **Do not assume you will not itemize in 2019.** Both **NOW** and at Tax time is the opportunity to review your income, budget and spending for the past year and toward the next. Many of us can pay or prepay medical bills and contributions at the end of the year. Churches are "getting used to" this new income flow- with less every week donations and more IRA contributions and doubling up at year end, i.e. prepaying for the year ahead. We recommend you continue to collect all the same tax records as you have done in the past, so you/we look at what you are spending and make suggestions towards both tax planning and tax savings.
6. **Get your financial, estate and tax records in order.** Review your will or trust and talk with your family and your attorney to see if any changes could/should be made. Have a financial power of attorney and talk to your trustee/executor now - before something happens to you or a loved one. Have a complete list of assets, accounts and IDs/passwords in a safe place. More than I would like, things are not spelled out clearly and cause family issues after the person passes on. While it is scary to think about this, it is truly important, and while I am not an attorney, I can look at your documents and answer questions **from my tax perspective** to help you plan.

Identity and Security Update…

The IRS has been at the forefront of warning taxpayers (and us professionals as well) about identify protection and security not just at tax time. Imposters have been sending out emails and calling land lines and cellphones posing as IRS agents about tax refunds or taxes owed and requesting payment immediately (or the buying of gift cards!). They request that you open an attachment with a one time or temporary password - which then could infect your computer with malware. They request personal information which could lead to identity theft. They pretend to be a charity asking for a donation (fake) and want it using your credit card. They often check obituaries and then get information on the dark web. They can forward your mail with a stolen credit card and invade all your bills and checking/investment accounts. Please be diligent and change passwords often. DO not talk to anyone you do not know and NEVER give out personal information.

The IRS and IL DO NOT call you or email you – they send out notices/letters. If you get one, please call/email us immediately and scan/fax it to you so we can review it and respond to them if required. Often it can be "fixed" with a letter to the IRS with a backup amended return and attached documents. We get power of attorney form 2848 signed by you for this purpose and then "follow up" for you with the IRS. We "solved" one issue at the IRS Forum unresolved case section for a taxpayer just last month! IL sends interest bills all the time for underpayments; we have been working with the IL DOR as well to reduce or eliminate penalties.

In addition, we now have a new firewall and additional identity protection (two factor authentication) from our software for your data in our computer. We also are now emailing any tax information using a new password protected protocol from our software, so your information is not "out there."

JUDI STRAUSS in Print, on Media.

This Fall we are doing a 2019 update workshop at The Downers Grove Library: Tuesday, October 15 at 10 AM. We are also offering our January 2020 Workshops to get ready for tax season at Woodridge Public Library (Tuesday, January 14), Downers Grove Library (Tuesday, January 21), Lisle Library (Thursday, January 23) and Lemont Library (Tuesday, January 281).

Beth and I regularly check the phones and my email and get back to you within a day or two. Make sure you put our contact information in your phone, so you know who we are when we call you back. So many of our clients do not have land lines anymore. In addition, make sure your family knows who we are in case they need to talk with us or us to them.

Both our Website (**www.strausstax.com**) and our Facebook page have up to date tax information and workshop flyers and you can be a "friend" of our FB page without being my personal friend! Tell your relatives, neighbors and friends to check us out for good tax tips and fun too.

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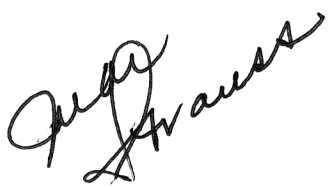
Things to Call us About this Fall:

1. **How do I know what to withdraw for my minimum distribution (RMD) at age 70 ½?**
2. **Estimates for the 4th Quarter after long term capital gains in our mutual funds show up in December.**
3. **I/we sold a stock. How do I compute the Basis?**
4. **Home Sales - your principal residence and other homes too.**
5. **Am I ready for retirement?**
6. **What do I need to do when someone passes on?**



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