

2019 Tax Tips - Transcript

Tom Mullooly: I'm Tom Mullooly flying solo today. I wanted to talk about a letter that I received from my accountant this week, and hopefully you have an accountant who's on the ball. If you don't, I'd be happy to give you my own accountant's information. I think she's excellent. She's here in New Jersey. She used to be very local to us. She has now relocated and is a little bit of a drive away. But what we found over the years in working with her is that we would often fax paperwork to her or we would upload documents electronically to the portal, and so her office being a little bit of a drive away from us doesn't really bother us because we enjoy a great relationship and I think the world of this person. Her name is Cheryl Ward. I think she does a terrific job, very professional.

I wanted to just run through some of the points that she raised in her letter that we received this week, as we start to think about doing our taxes for 2019. We're recording this in mid January 2020. As she wrote in her letter and what's become a much too common practice. Congress passed the Consolidated Appropriation Act of 2020 on December 20th of last year, right at the last minute, and this act resurrected some of the expired provisions ... It actually resurrected provisions that go back to 2018, that expired at the end of 2017. It's going to be very important, when you get your taxes done that you give your accountant your 2018 return so that they can take a look. Not your 2019 return, your 2018 return.

In the letter, it was mentioned, there's five extended tax breaks that may impact your 2018, 2019, and now into 2020 tax returns. Things like qualified mortgage debt forgiveness, deduction for mortgage insurance premiums, the seven and a half percent floor for medical expenses instead of 10%. Things like deducting tuition and fees and getting credits for improvements to your residence. Things like getting energy efficient windows and roofs and HVAC systems, things like that. So make sure that your tax preparer is also taking a look at your 2018 return to see if any of these things apply to last years, your 2018 return.

One of the biggest changes, in the last year and now this year, has been the tax form itself. As you probably know from last year, the IRS created this postcard style tax return, it was a lot shorter than what I had ever seen going back to the 1970s. That postcard style has been redesigned again, and now instead of having six supplemental schedules on six different pages, now it's actually three larger schedules. So it doesn't really fit on a postcard anymore, but it's significantly shorter than the original version of the tax return, and probably a lot shorter than what you had seen in the '80s and '90s.

The tax return now includes a question that everyone must answer. Remember, everything that you put on your tax return is subject to a penalty of perjury if you are not honest with your taxes. And so the question is, that everyone's got to answer, "At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?" This is important. The IRS wants us to tell them about Bitcoin and any other form of cryptocurrency that you might have. There's a lot of people who don't even know what Bitcoin and cryptocurrency is, but for the people who do know of it, they probably have transactions that may not have been reported to the IRS.

Here in New Jersey on the state level, the most notable change that New Jersey's made has been increasing the additional exemption for veterans from 3,000 to \$6,000. In addition, the state of New Jersey now imposes a penalty for failure to carry minimum levels of health insurance for yourself and your family, so you have to pay a penalty if you don't carry insurance. Just get the insurance. I don't know what the numbers are, but you've got to pay anyway. Might as well do it. Or at least look into it.

Cheryl also went on to add that if your filing status is head of household, if you received and earned income tax credit or a child tax credit or an education credit, the IRS is now requiring that we request additional information as a tax preparer to substantiate your filing status, or the tax credit that you received. Effective January 2019, the new federal tax law removed the penalty imposed for not having health insurance. However, as I just mentioned a moment ago, state of New Jersey now imposes a similar kind of penalty, so we need to know if you, your spouse, and all your dependents were covered by qualifying health coverage for all of 2019.

If you have foreign bank accounts or foreign investment accounts or other foreign assets, you've got to give the details to your tax preparer. You're required to report certain foreign assets to the IRS, although there may not be any additional taxes due on these assets, there is a penalty for the failure to disclose and they can sometimes be significant. The due date for tax returns for flow through entities like a Subchapter S corporation or a partnership is March 16th. A lot of people screw this up and they think, "Well, I've got to get all my taxes done. I need to see my accountant before the middle of April." That is not accurate, and so you've got to get the business tax returns done a month earlier, so start working on those numbers now.

The other thing that is important to note is that, and this comes up with a lot of accountants, if you are not getting the information to your accountant before the middle of March, there's really no guarantee that you're going to be getting your taxes done on time. In fact, in our letter that we received from our accountant, basically it said, "If we don't have all of your information before March 20th, we're probably going to need to file an extension for you." That should be a pretty good rule for everybody to keep in mind. If you're not getting the information over to your accountant, they can't do miracles. Don't walk into an accountant's office or call up your accountant on April 11th expecting to get all this stuff done. It just doesn't work that way.

Always a good reminder, any tax that you owe is due in full by the filing deadline. Even if you file an extension, you're still going to have to pay everything that you owe. If you don't pay, you're going to start racking up interest and a penalty, and that includes New Jersey as well, not just your federal returns. It's important that you consider filing your income taxes as soon as possible.

Over the last few years, you've probably heard these stories, where identity theft continues to be an issue. So, someone swipes your social security number, they file a tax return with a huge refund coming to them, they basically take the money, and then you go to file your taxes and they already have a tax return filed on your behalf. It's a problem. It's a real problem. So best defense is to file your income tax return early and avoid the possibility that someone else can file a return using your social or social security number of one of your dependents. That's very, very important. The IRS requires that tax preparers now receive a copy of your driver's license

information, or some other form of identification, when they're getting ready to upload your tax return on your behalf.

One other thing that was mentioned in the review letter was that the state of New Jersey has announced an amnesty program for businesses that haven't complied with the state reporting requirements and now are in a revoked status. You can always check your status of your business by going online to the state of New Jersey website and just checking to get a return. It's a onetime program that this amnesty program is going to be open between March and the middle of June of this year. If you need to reinstate or dissolve a business, you can take care of it online without any penalties or problems. So it's something that's really important to do.

Just a quick reminder. We're not tax preparers. We do get a lot of tax related questions from our clients. We usually preface what we say with that line that we're not tax preparers and you need to check with your own accountant or tax preparer before making a decision that's going to impact your taxes. This is very, very important. And sometimes these items don't come back into question until you receive a letter from the state or the IRS, and that will be sometimes years after you've filed a return. One of the things that we found is that if you're getting letters from the IRS, that means that your return was filed incompletely, or less than completely, and you need to often supply more information. It doesn't necessarily mean that there's an error or a mistake on your return, but it's important to know that information was not complete when you submitted your return or there is some conflicting information.

I often remind clients when we're talking about taxes and things of this matter, that when I got started in the business, you didn't even need a social security number to open a brokerage account. The earliest business that I can remember, back in the early '80s, was opening accounts for very wealthy people who bought tax free municipal bonds. Think about this, nothing was recorded to their social security number. We would often have the bonds delivered to the client's address, so we didn't have the bonds in a brokerage account, but they would receive the bonds with the coupons attached to them. And so every six months they would clip a coupon, they would go down to a federal bank and walk up to the teller with their coupon and they would receive the cash for their interest payment. No trace of who owned the bond or who received the interest. No 1099, nothing. There wasn't even a 1099 form back then. So we've come a long way.

There's a lot of folks that want to ask us about the income tax angles on different types of investments, or should I title this in my name or someone else's name like my children or my spouse, or do I need a trust? A lot of the benefits that used to come with structuring investments a certain way have kind of gone by the boards. The IRS has worked very hard to close a lot of loopholes that used to exist in the '70s and in the '80s, and even into the '90s, so a lot of these things have gone away and they don't really exist anymore. It's important to remember that things like tax deferral make a lot of sense, but tax avoidance is something that is very important. You need to really think about the right ... what's the right approach for you.

One of the issues that comes up every year is the question of 1099s from your brokerage accounts. The first thing that I'll mention is if you didn't receive at least \$10 in dividends or interest income in 2019 and you didn't have a transaction where you sold something in 2019, you will not be receiving a 1099 for your account. That's important to keep in mind. The threshold is

\$10 of dividends or interest. So if you own a growth stock or an investment that doesn't pay dividends, which is totally okay, but if you own an investment that did not have distributions of income or interest or dividends, and you didn't sell it in 2019, you may not be receiving a 1099.

I can tell you, we made very few portfolio changes throughout calendar 2019, so there is the likelihood that clients who received a 1099 in 2017, in 2018, may not actually be receiving one for 2019. It doesn't mean that there's something wrong. It doesn't mean that there's something missing. It just means that we bought in whole and held, and we didn't receive that much in the way of dividends, we're invested for longterm growth, and that's totally okay.

There used to be a deadline for banks and brokerages to distribute their 1099s by January 31st. Please keep in mind that that deadline has not been in existence for at least 15 years, and it might be 20 years, but that January 31st deadline has gone by the boards. In many cases, you'll see it in the month of February, so you kind of need to be aware of the calendar as you're getting your tax documents ready. So look for 1099s to be arriving in February. Sometimes they will even be in March, and don't forget that sometimes you, if this hasn't happened to you in the past, it may happen to you in the future, you may be receiving a corrected 1099.

The reason why you get a corrected 1099 is not because there was a mistake at your brokerage account. What happens is often we have investments, mutual funds and exchange traded funds are good examples of this, where they will receive income right at the end of the year, December 28th, 29th, 30th, 31st, and it's classified as income, but then it's later reclassified as either return of principal, return of capital, or some type of qualified dividend. Sometimes that information needs to be updated and corrected, and so the issuer of the mutual fund or the exchange traded fund or the particular investment that you have, will notify the brokerage firms that, "Oh, this part of the income needs to be reclassified." That's why you receive a corrected 1099. So, important to keep these things in mind as you're pulling together all of your documents.

We kind of reached that time crunch where we're getting our 1099s in mid to late February. Our tax preparers, our accountants want the information by the middle of March, March 20th certainly by the latest, so you have a very small window of time to pull everything together and get to see your accountant. If you are the type of person that needs to sit down with your accountant for a face to face meeting, I would call them and get on their radar sooner, not later. Their time becomes very compressed the closer we get to mid March, late March, and certainly into April.

Getting everything together and over to your accountant ensures that ... well, will hopefully ensure, that you'll have a tax return that's completed by the filing deadline of April 15th. Remember that any taxes that are owed will be due on the tax filing deadline. If you don't have the money, you can expect that penalties and interest will be added to the balance the longer you go. And just like any outstanding bill, the longer you go, the bigger it looms on your balance sheet and in your brain. Don't let that happen to you. If you do run into a situation where you didn't have enough money withheld from your taxes, this is a good time in the first quarter of the year to review what your withholdings are from your paycheck. These are always good tips, things to be doing at the beginning of the year so you don't run into a problem next year when your taxes are due.

