GRANITE POINT TAX GROUP, LLC

Annual Newsletter, Vol. 10

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Boy, just when you think a divided Congress means no big changes to the tax code, lawmakers go and pull the rug out from under you. In the last few weeks of the year, the SECURE Act was passed along with a new budget deal. Both contain a bevy of tax rule changes, some of them retroactive to 2018! We'll cover those, plus a few changes to the Oregon and City of Portland rules and the new Oregon Corporate Activity Tax.

We'll also take a look at data security and the rules for reporting digital currency transactions, which has recently become a top priority at IRS.

Retroactive Federal Changes

The year-end federal government funding deal reached by Congress and the president revived and extended a few tax breaks. By doing so, they created the possibility that previously filed tax returns should be amended. The most popular of these tax breaks include the mortgage insurance deduction, the tuition and fees deduction, and the ability to exclude taxable gain from the foreclosure sale of a personal residence. If you think you may be able to use these tax rules to reduce tax you paid for a prior year (particularly 2018) please let us know and we can discuss amending your returns.

New Federal Changes

Congress and the president also passed The Secure Act which made changes to existing tax laws for 2020 and future years. The Act allows traditional IRA contributions to be made after a taxpayer turns age 70 ½ and increases the age for Required Minimum Distributions (RMDs) from age 70 ½ to 72 for account owners that turn 70 ½ after 2019. The Act also allows employees who work past age 72 and do not own more than 5% of their company to delay taking RMDs from their 401k plans with their current employer until after they retire.

It also created a new penalty free IRA and 401k distribution of up to $5,000 for taxpayers having a baby or adopting a child and repealed changes to the kiddie tax made by the 2018 tax law that significantly increased the tax rates applying to investment income earned by children under 18 (under 24 if a student). This repeal applies to returns already filed for 2018 so if you paid kiddie tax last year an amendment might be beneficial.

We also have a few additional education related expenses that can be paid using 529 Plan distributions. The new expenses include fees, books, supplies and equipment for certain apprenticeships and up to $10,000 can be used to pay down student loans.

Employee withholding when you start a new job after 2019 will no longer be determined using personal allowances, since those were eliminated last year. You will use a new Form W-4 that bases the withholding amount on your filing status, number of dependents, whether you have multiple jobs, estimated tax breaks and non-wage income. Your employer's payroll company should be able to help you complete the new form. A new W-4 is not required for continuing employees, but can be used to adjust tax withholdings if desired. If you owe a large amount of tax or are due a large refund at tax time, submitting a new W-4 might be a good idea. The IRS has an online tool to help; click on the "Paycheck Checkup" link at IRS.gov to get started. Note that Oregon is *not* using the new W-4 form, so you may end up filing two; one for federal withholding and another for state.

Oregon and City of Portland

Oregon's surplus kicker is back again for 2019 at the sizeable rate of 17.171% of your 2018 state tax liability. The kicker credit can only be claimed by filing a 2019 tax return and is used to reduce tax you owe or increase your refund; the state no longer issues kicker checks. Oregon has adopted a new subtraction to encourage the purchase of a home - on a joint return you can subtract up to $10,000 of contributions (for up to five years) to a Home Buyer Savings Account. Another big change for Oregon is the switch from a deduction for 529 College Plan contributions to a new tax credit. Joint filers earning $30,000 to $70,000 can use 50% of their contributions to reach the $300 credit limit. So a contribution of $600 is needed to maximize the credit. Joint filers earning $70,000 to $100,000 can use 25% of their contributions to reach the $300 limit, meaning a contribution of $1,200 is needed to maximize the credit. The new credit applies to contributions made after 2019; contributions made before 1/1/20 will be used to compute a deduction under the old rules.

On the business side, we also have a new Oregon Corporate Activity Tax (CAT) for many businesses. The CAT requires every business that has, or expects to have, commercial activity (gross income) of $750,000 to register within 30 days of reaching that threshold, and if commercial activity exceeds $1 million then a return must be filed at year-end. If you have to file a return there is a minimum tax due of $250. You will pay the greater of the $250 minimum or 0.57% of your Taxable Oregon Activity. Taxable Oregon Activity is your gross income less certain deductions. The Department of Revenue is still working on the tax calculation details. Fortunately, this tax is new for 2020 so there is no form to file or tax due until 2021. However, businesses that will owe more than $5,000 in CAT need to make estimated tax payments, so any business that the CAT applies to needs to start working on compliance in 2020 by registering with ODR and determining if estimated tax payments are needed.

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For 2018 the City of Portland required rental property owners to register their rental units by filing new Schedule R with the city business income tax return. For 2019 they have added a $60 per unit fee to be paid with Schedule R. The fee(s) are due by April 15 even if an extension for the business tax form is filed and even if no city or county business tax is owed. It is important to note the city defines a rental unit on a per-family basis, *not* on a per-building basis. Therefore, renting out two bedrooms of your personal residence to two unrelated tenants would create two rental units each subject to the $60 fee.

Data Security

The IRS is (wisely) taking data security very seriously. The tax preparation industry is a common target for hackers and other criminals. Identity theft and fraudulently filed tax returns are the most common issues. Please refrain from e-mailing sensitive tax documents to us in an unencrypted format. Always be on the alert for unexplained activity on your credit report. If you are contacted by the IRS or any other tax authority, please let us know right away. Ignore e-mails or text messages purporting to be from the IRS; the IRS does *not* make initial contact with taxpayers by text or e-mail, these are phishing schemes. Some of these schemes are sophisticated and appear legitimate and, frankly, are pretty scary looking. If you are ever in doubt, call us!

Digital Currency

Under-reporting and underpayment of income tax from digital, virtual, and crypto-currency transactions has hit the radar screen at IRS. They have even added a question to the 2019 tax form asking whether or not you engaged in these types of transactions during the year. The purchase and sale of digital currency/crypto-currency is treated for tax purposes like you were buying or selling personal property. It is not treated like a transaction in fiat currency. For example, if you purchase Bitcoin and later sell it for a profit, you report the capital gain just like you would for a stock or mutual fund. If you held the coin for longer than one year then you report long term capital gains; if you held it less than one year you report short term capital gains. Other transactions that increase your coin holdings, such as airdrops and hard forks (terms unique to the digital currency world), are also taxable. There are detailed rules on the treatment of these transactions to help us determine the correct reporting. There are additional rules that apply if you are mining digital currency. If you have a history of digital currency transactions that have not been reported, we recommend you file amended returns to report those transactions as soon as possible. The IRS is collecting data directly from the digital currency exchange companies, so the potential for an assessment for unreported transactions is increasing as time goes by. It is always better to show voluntary compliance, even if it is late.

Estate and Gift Taxes

In the complex world of inherited IRA payouts, we have a new rule that eliminates the life expectancy payout for most non-spouse beneficiaries and replaces it with a fixed ten year payout period. This rule also applies to 401ks. The rules for spouses and certain non-spouses stay the same. In other news, the 2020 estate and gift tax exemption amount increases to $11,580,000 and the annual gift tax exclusion amount stays at $15,000. We should not be too complacent in federal estate tax planning because of the high exemption amount, however. In 2025 we revert to lower exemption amounts in place before the 2018 tax law. With a growing federal deficit it is possible Congress will let the high amounts expire without extending them to increase federal revenue. Furthermore, most states have their own estate tax provisions, with exemption amounts typically in the range of $1-3 million.

Other News

Although there is technically still a tax penalty for not having health insurance for more than two months, the rate of the penalty has been reduced to zero and the IRS has removed the question from the tax forms. We do still need Form 1095-A from anyone who received advanced premium credits, but otherwise we are effectively done with it. The courts have yet to decide whether a zero-rate tax is the same as no tax, which is surprisingly relevant since the tax penalty was the pillar that most of the rest of the ACA was supported by. If that goes away, it is possible the entire ACA will fall with it.

Alimony established by divorce decrees signed after 2018 is no longer deductible by the payer, nor taxable to the recipient.

Starting in 2020, non-employee compensation (payments to contractors) will be reported on Form 1099-NEC instead of Form 1099-MISC.

Reminder About Cell Phone Photos

Please observe the following if you will be submitting cell phone photos of tax documents to us:

- Ensure the document is flattened – photos of partially folded papers are very difficult to read!
- Align the camera properly – Photo should be straight down, not at an angle.
- Ensure readability – Please LOOK at your photo to ensure it is legible before sending it to us!
- Include the entire document – Be sure the photo captures the entire page. Also be sure to check for relevant information on the *back* of each page!
- Please DO NOT e-mail tax documents. E-mail is generally not secure. Please use our file portal.
- If all this seems like too much work, please just mail us the originals – it's what we'd prefer anyway. Don't worry, we'll send them back to you when we're done with them.

Thank You

This tax season marks a bit of a milestone for us. It will be the tenth season we have worked together as a firm. Looking back on those early years and the challenges we faced, we can see that our success was by no means assured. Above all we have you, our loyal clients, to thank for our success. Thank you!