1040 News

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Quarterly news & tips for folks in every tax bracket

Introduction:

The dog days of summer are gone and our attention turns to year-end tax topics. Page 1 of *1040 News* will explore two topics that are gaining popularity: 1. Cryptocurrency and 2. Roth conversions.

Page 2 will cover a variety of year-end tax tips to consider.

CryptoCurrency:

A recent survey by the Global Blockchain Council estimates that 5% of Americans invest in Bitcoin (Bitcoin is the most popular type of cryptocurrency). However, other estimates indicate that less than 0.05% of tax returns report gains or losses from cryptocurrencies. This hints that there could be millions of Americans that are not correctly reporting cryptocurrency on their tax returns. The IRS knows this and has sent letters to a small sampling of known cryptocurrency investors to inform them of compliance rules.

Let's first take a look at what is required by the IRS. After that, we'll explore what you can do to comply with the rules.

What does the IRS require? Simply stated, if you earn or sell cryptocurrency you must report it on your tax return. The details of the actual tax forms and schedules are beyond the scope of this letter. Rather, lets focus on what to prepare for your tax appointment.

What will you need for your tax appointment? Unlike regular brokerage accounts, cryptocurrency accounts do not provide 1099-B tax documents. Therefore, it is up to you to keep track. Keep ledgers with details about every acquisition or sale of cryptocurrency. It is wise to keep separate ledgers for 'earning' and 'selling' cryptocurrency because they have different tax treatments.

For earned cryptocurrency record the following in your ledger:

1. Name of the cryptocurrency earned (e.g. Bitcoin, Etherium, Litecoin, etc.).
2. Number of shares earned.
3. Date shares were earned.
4. Price per share (in dollars) at the time the shares were earned.
5. Describe how you earned the shares.

For sold cryptocurrency record the following in your ledger:

1. Name of the cryptocurrency sold
2. Number of shares sold.
3. Date shares were sold.
4. Proceeds from the sale.
5. Brokerage fees paid for the sale.
6. Date shares were originally acquired.
7. How the shares were originally acquired (earned vs. purchased).
8. How much you originally paid for the shares. Note: If the shares were earned, record their dollar value at the time they were earned.

How to avoid complications? Keeping track of all this isn't easy. Here are some tips to avoid further complications:

- Have just one account for all of your cryptocurrencies.
- Work with a cryptocurrency exchange that provides summary statements for all transactions.
- Make fewer transactions.
- Avoid purchasing goods or services with cryptocurrency. This is especially true for frequent purchases.
- Explore alternatives to owning cryptocurrency directly. For example, there are Exchange Traded Funds (ETFs) that invest in blockchain, the underlying technology behind cryptocurrency. ETFs trade on a stock exchange and are reported by your brokerage firm like regular investments. As always, work with an investment advisor to understand the risks.

Roth Conversions:

A Roth conversion is a taxable transfer of funds from an eligible pre-tax retirement account into a Roth IRA. The Tax Cuts & Jobs Act affected Roth conversions in two important ways:

1. It made them irreversible, so you can no longer undo a Roth conversion.
2. It reduced the cost (in tax) for most taxpayers due to lower federal tax brackets.

Regarding point #1… Don't do a Roth conversion without professional tax advice. Consider the following points when asking if a Roth conversion is right for you:

How much tax will it cost? The answer will depend on your tax bracket, so you will need to provide a complete picture of all sources of taxable income for the year.

What are the potential future benefits?

- Roth distributions are not mandatory during your lifetime (mandatory distributions from other types of retirement accounts begin at age $70^{1/2}$).
- Qualified Roth distributions are tax free. This is true even if the account has grown in value.
- Inherited Roth IRA distributions are tax free to heirs (as long as they follow mandatory distribution rules).

Who should consider converting?

- Low income taxpayers.
- Retirees, especially those that haven't started collecting social security or taking their mandatory distributions.
- Young people (money has time to grow)
- People who anticipate being in a higher tax bracket in the future.
- People who can afford to pay the tax.
- People concerned about mandatory distributions starting at age $70^{1/2}$.

Turn the page for 4th quarter tax saving tips.

Tax Tips for 4th Quarter, 2019

The days are getting shorter, it's once again time to ponder year-end tax moves. Remember to ask for help as needed:

Is your 2018 return done? The deadline is October 15th (if you filed for an extension). Even if you think the deadline can pass because you are anticipating a refund you should still get it done ASAP.

Final Withholding Check-up: This is your last chance to change your withholding. If you owed last year and didn't make any changes you will probably owe again.

Folks without withholding (primarily business owners) should estimate their tax too, especially if they had a good year and anticipate owing. A summary of estimated income and business expenses is what you will need (for starters).

Are you over age $70^{1/2}$? Make sure that you take Required Minimum Distributions (RMDs) from retirement accounts on time. Technically, you can wait one year AFTER you turn $70^{1/2}$, but if you do that you must take two years worth of RMDs in one year.

The good news for taxpayers older than $70^{1/2}$, however, is that you can get a deduction for charitable contributions even if you don't itemize. In order to get this special treatment you must give to the charity directly from an IRA. This is called a Qualified Charitable Distribution (QCD). QCDs also count toward your RMDs.

Charity & Itemized Deductions: For those under age $70^{1/2}$ charity can only be deducted if you itemize. However, the Tax Cuts & Jobs Act made it harder to itemize due to the increase in the standard deduction. If you are one of the millions that no longer itemize, consider the following non-deductible alternatives:

- **Volunteer more:** Plenty of organizations need your help, especially with the holidays approaching.
- **Gift more:** Increase your year-end gifting to friends, family, GoFundMe campaigns, etc. You can gift up to $15,000 per person without having to file a gift tax return.
- **Skip a few years:** Save your charity money in an interest earning account for several years and give it all at once. This may be enough to push you over the increased standard deduction.

In addition to the above, consider **increasing your pre-tax retirement savings**. This strategy provides two benefits; 1. It is a tax deduction in the current year, and 2. You might retire rich and have the means to give a big portion of your IRA to charity when you turn $70^{1/2}$ (if QCDs are still allowed when you reach that age).

Increase your retirement savings? Aside from saving for future charitable contributions it is wise to save more for yourself as well. You have until 12/31/19 to contribute to qualified plans (401k, 403B, etc.) for tax year 2019.

A few retirement plans give you more time to contribute:

- **Roth IRA:** 2019 contributions allowed until 4/15/20. However, many high income taxpayers aren't allowed to contribute. *Note: Roth "conversions" are different. The deadline for a 2019 conversion is 12/31/19 and there is no income restriction (see page 1 for details).*
- **Traditional IRA:** 2019 contributions allowed until 4/15/20. However, most high income taxpayers can't deduct the contributions.
- **SEP IRA:** 2019 contributions allowed until 10/15/20 (with an extension). However, you must be self-employed. You can shelter up to 20% of your self-employment profits in a SEP IRA.

Are you Self Employed? You have until 12/31/19 to make purchases that count as a business deduction for tax year 2019. This is true even if you pay by credit card. Don't forget to save receipts. Consider using a smartphone app to organize your business purchases and receipts. There are dozens of great apps that make this easy… simply search for "business expenses" in your phone's app store for options.

Have you chosen a 2020 health insurance plan yet? If you pick a plan that is HSA compatible you can shelter some income from tax during 2020 by contributing to an HSA. If you choose a plan that is not HSA compatible ask your employer if they offer a flexible medical spending account (FSA) to shelter income from tax. Ask your employer about all other types of **pre-tax fringe benefit accounts** too (e.g. dependent care, commuting, parking, etc.).

If you are self-employed you can purchase your health insurance anywhere you want. If you choose to buy on the federal exchange (www.heathcare.gov) or state-run equivalent you may qualify for an income based subsidy called the Premium Tax Credit. If you receive this subsidy you will need form 1095-A in order to get your taxes done for the tax year in which you receive the subsidy. The exchange mails these forms to you in January. The open enrollment period for purchasing 2020 health insurance on the exchanges is 11/1/19 through 12/15/19.

For the uninsured there is good news… the penalty for not having health insurance was eliminated (as of 1/1/19).

Are you selling investments? If your taxable income is likely to fall below $39,375 (single) or $78,750 (married) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds. Conversely, it might be wise to check your portfolio for losses to reduce your income. You can offset up to $3,000 of other income with investment losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

Buying Investments? In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

Thanks for reading. Look for our next issue in December.