ISSUE
1
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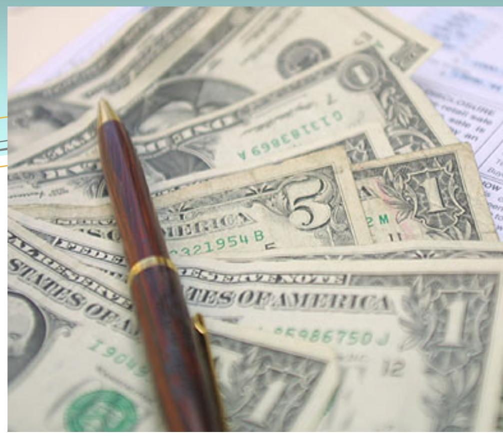
The Successful Dentist™

Dental Tax and Finance



Helping Dentists Make Smart Decisions about Money

Deadlines & Misc.

Fourth Quarter 2019 Estimated Tax Payments are due by Wednesday, January 15, 2020. See Page 4.

INCOME TAX RETURNS

Partnership and S-Corporation tax returns are due Monday, March 16, 2020. Individual and C-Corporation tax returns are due Wednesday, April 15, 2020.

PAYROLL REPORTING

All 1099s, W-2s and W-3s are due Friday, January 31, 2020.

STUDY CLUBS

If you would be interested in having us speak at one of your upcoming Study Club events, we would be happy to do so. We can cover a variety of topics including long-term financial planning, transition planning and most popular the new Tax Act – and how it is impacting dentists.

Contact our office for more details. 425.216.1612 or mail@cpa4dds.com

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2019 TAX EXTENDERS AND CHANGES TO RETIREMENT PLANS

As we have come to expect, Congress managed to squeeze in some last-minute tax legislation in December of 2019 with the passing of the SECURE Act. While the act extended provisions that were otherwise due to expire (tuition deduction, mortgage insurance premium deduction) the biggest changes deal with retirement savings.

REQUIRED MINIMUM DISTRIBUTIONS: Under previous law, the holder of an Individual Retirement Account had to begin taking distributions out the year they turned 70 ½. The amount is determined by the fair market value of all your combined IRAs as of the prior year-end. That amount is then divided by your life expectancy as determined by IRS tables. Failure to take out the required amount could result in significant penalties.

Because people today are working longer and life expectancy has increased, the age at which RMDs begin has now been changed to 72. (Note that if you turned 70 ½ prior to December 31, 2019, you are still subject to the old law and are required to take distributions). Taxpayers were also prevented from contributing to a traditional IRA once they turned 70 ½, even if they were still working. That age limit is now removed completely, so anyone can contribute to a traditional IRA so long as they are working and have earned income during the year.

STRETCH IRA NO LONGER ALLOWED: Non-spouses who inherit an IRA have previously been allowed to take distributions based on their own life expectancy. Thus, a relatively young taxpayer who inherits an IRA from a parent would have many years to take withdrawals, resulting in only a small portion that needs to be removed each year.

Inherited IRAs are now required to be completely withdrawn in ten years, regardless of the age of the beneficiary, with certain exceptions. This could greatly increase the required annual amount, resulting in higher taxes for the beneficiary. Again, this does not have any retroactive impact, so if you inherited an IRA prior to 2020, you can still rely on the previous rules.

401(k) NOW MORE ACCESSIBLE: There are additional incentives for small businesses to offer retirement opportunities for their employees. Among these provisions include a higher tax credit for employers who create a new retirement plan and those with automatic enrollment. It is now easier for part-time employees to participate in a retirement plan.

Administrative changes include simplifications around 401(k) safe harbor and notice requirements, and a reduction in the barriers for joining a multi-employer retirement plan. This should theoretically allow small employers to take advantage of cost savings by sharing administrative costs. Additional disclosures may need to be included the next time your plan is updated.

KIDDIE TAX: Included in the legislation is a provision that changes the kiddie tax rule back to what it was prior to the tax law changes in 2018. Prior to then, children with unearned income over a certain amount were taxed on that income at their parents' marginal tax rate. This prevented parents from shifting portfolio income like interest and dividends to their children who would normally have less income and therefore lower tax rates.

Starting in 2018, such income was instead taxed at the trust tax rates which reach the highest rate at a much faster pace. This had the effect of simplifying the calculation and reporting (you no longer had to wait until the parents' return was done to calculate the children's tax), but it also sometimes resulted in taxing the children's income at rates higher than the parents. The trust rate rule remains in place for tax year 2019, but starting in 2020 unearned income will go back to being taxed at the parents' rate (and you can also elect to use the parents' rate in 2019).

2020 LIMITS AND UPDATES

Several amounts indexed to inflation have changed for tax year 2020.

Amount	2019	2020
401(k) deferral max	19,000	19,500
401(k) catch-up if 50+	6,000	6,500
SIMPLE deferral max	13,000	13,500
SIMPLE catch-up if 50+	3,000	3,000
FICA wage base	132,900	137,700
Business mileage rate	58 cents/mile	57.5 cents/mile
Standard deduction (single)	12,200	12,400
Standard deduction (married joint)	24,400	24,800

While the individual tax rates remain the same ranging from 10% to 37%, the brackets within which each rate begins have been adjusted slightly upward.

CHANGES TO W-4: Employers and employees are mostly familiar with Form W-4, on which the employee tells the employer how much to withhold from each paycheck for federal income tax purposes. It has historically been based on the number of exemptions claimed on the individual tax return for the taxpayer, spouse, and dependents. However, the tax changes in 2018 removed personal exemptions from the individual income tax calculation. As a result, many employees were not having proper amounts withheld on their paychecks, resulting in large and unexpected tax bills or refunds come filing season.

The IRS has finally gotten around to addressing this by revamping the Form W-4. Gone are the exemptions, and the form instead attempts to calculate what the taxpayer's taxable income will be. It also takes into account the fact that many people now have multiple income sources either because of a working spouse or the so-called "Gig Economy."

Existing employees are not required to complete a new W-4. The IRS has updated their withholding tables to work with either the old or new form. However, *the following are required to use the new 2020 form*: employees hired in 2020, and those wishing to make changes to their existing withholding. However, you may still want to encourage all employees to complete a new form or at least re-assess their personal situations.

OTHER PLANNING OPPORTUNITIES

Bonus Depreciation: Part of the tax reform changes of 2018 greatly enhanced the opportunities for businesses to write off the entire cost of fixed assets in the year of acquisition. Absent this provision, the deductions would come in the form of depreciation over the life of asset. This 100% bonus depreciation remains in place for the next few years before gradually being reduced. As we have seen, the further out we project, there is always a chance that tax laws could change. But as it stands now, here is a reminder of the amount of bonus depreciation you can claim:

Asset placed in service through	Bonus Depreciation
December 31, 2022	100%
December 31, 2023	80%
December 31, 2024	60%
December 31, 2025	40%
December 31, 2026	20%

Section 179: Similar to bonus depreciation is Section 179, which allows the full cost of an asset to be written off in the year of purchase. For years where bonus depreciation is at 100%, there is practically little difference whether one takes a deduction under either bonus or 179.

However, there are limits to how much can be claimed under Section 179, and a business must have positive income to get any 179 benefits. Certain types of assets, such as real estate, may qualify under one but not the other. Furthermore, you can pick and choose which assets to apply Section 179 to, but bonus depreciation must be applied to all assets within a given class (or none, if you opt out). Once bonus depreciation falls below 100%, it will become more important to know the distinctions between the two provisions.

QuickBooks: If you are utilizing a version of QuickBooks older than the 2019 version, it is time to update to 2020 (i.e. you should now be running either the 2019 or 2020 version). Or consider migrating to QuickBooks Online. Despite an initial learning curve, **QBO has many advantages**. Three significant ones are: you do not have to worry about updating; you can give your accountant online access (avoiding the sometimes-cumbersome process of uploading and downloading files) and you can access and work on QBO from any location.

You can acquire QuickBooks Pro 2020 at local or online retailers or at www.intuit.com. ($179.95 to $189.95 plus tax and shipping at Amazon). You may find certain retailers with a slightly lower price.

FOURTH QUARTER 2019 ESTIMATED PAYMENTS

*****THIS IS ONLY FOR THOSE THAT PAY BY QUARTERLY INSTALLMENTS*****

INSTRUCTIONS:

If you do not have pre-printed vouchers and envelopes: (If we have prepared your 2018 return, you will find pre-printed estimated tax payment vouchers in your online secure portal or in your folder if we mailed your tax return to you)

1. Detach or photocopy the voucher below.
2. Complete the name, address and social security number sections.
3. Fill in amount (call us at 425.216.1612 if you have questions regarding the amount).
4. Address your envelope to:

Internal Revenue Service
PO Box 510000
San Francisco, CA 94151-5100

5. Follow the instructions below for pre-printed vouchers.

If you are using pre-printed vouchers:

1. Make your check payable to the **United States Treasury**.
2. Note your social security number and "2019 1040-ES" on the memo line of your check.
3. Enclose the voucher and check in your envelope addressed to the Internal Revenue Service (see above).
4. Mail on or before Wednesday, January 15, 2020.

- ***Want to make future estimated payments on line? Sign up at EFTPS.gov – This very convenient site allows you enter multiple payments and dates in advance. Call us if you need help!***

CUT HERE

INTERNAL REVENUE SERVICE, P.O. BOX 510000, SAN FRANCISCO, CA 94151-5100

Form **1040-ES**
Department of the Treasury
Internal Revenue Service

2019 Estimated Tax

Payment Voucher 4

OMB No. 1545-0074

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "**United States Treasury.**" Write your social security number and "2019 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Calendar year–Due Jan. 15, 2020

Amount of estimated tax you are paying by check or money order. Dollars

ly online at
vw.irs.gov/
pay

mple.
ast.
ecure.

Print or type

Your first name and initial	Your last name	Your social security number
If joint payment, complete for spouse		
Spouse's first name and initial	Spouse's last name	Spouse's social security number
Address (number, street, and apt. no.)		
City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.) WA		
Foreign country name	Foreign province/county	Foreign postal code

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