Supplement to J. K. Lasser's 1,001 Deductions and Tax Breaks 2019

By Barbara Weltman

The tax law is not static. Since the publication of this book, the IRS has provided guidance on some of the changes for 2018 returns that were made by the Tax Cuts and Jobs Act of 2017 (TCJA). And there's been additional legislation, court cases, and other IRS pronouncements that affect 2018 returns as well as planning for taxes in 2019.

Here are the key developments, some of which can apply to your 2018 return while others impact your 2019 withholding and estimated taxes. **At the time this Supplement posted, Congress had not yet addressed the tax rules that expired at the end of 2017. This Supplement notes those measures that could still be extended retroactively for 2018 and perhaps for 2019 as well.**

The changes presented in this Supplement are tied to the chapters in the book.

Introduction

Above-the-line deductions. The above-the-line deduction for educator expenses of up to $250, which can be adjusted for inflation, will remain unchanged for 2019. The deduction for tuition and fees expired at the end of 2017; it was not yet extended for 2018.

The alimony deduction remains for 2018. However, for alimony paid under decrees and agreements made or changed after 2018, the deduction won't apply (and the recipient won't be taxed on alimony payments).

Standard deduction amounts. The basic standard deduction amounts which were greatly increased for 2018 due to TCJA are increased in 2019 due to cost-of-living adjustments:

- Married filing jointly and surviving spouses: $24,400 (up from $24,000).
- Heads of households: $18,350 (up from $18,000).
- Singles and married filing separately: $12,200 (up from $12,000).

Additional standard deduction amounts. For 2019, the additional standard deduction amount for age and/or blindness increases due to cost-of-living adjustments to $1,650 for single filers and heads of households, and remains at $1,300 for married filers (filing jointly or separately) and surviving spouses. So for singles, the additional standard deduction amount is higher in 2019 by $50; there’s no change for married persons and surviving spouses.

Chapter 1—Your Family

Dependents. While the personal and dependency exemptions are not deductible in 2018 through 2025, the definition of dependent continues to apply for various tax breaks (e.g., child tax credit; head of household status). The amount of income for a qualifying relative taken into account in determining dependent status in 2019 is $4,200 (up from $4,100 in 2018).

Child tax credit. There is no change in the child tax credit for 2019. The refundable credit amount remains at $1,400 per eligible child.

Earned income credit. The earned income credit amounts, including adjusted gross income limits, have been increased for 2019.

Dependent care credit. There have been no changes in this tax credit.

Adoption credit. The adoption credit limit increases to $14,080 for 2019 (up from $13,810 in 2018). The modified adjusted gross income limits on eligibility for the credit have also been increased slightly for 2019.

Alimony. Payments under divorce decrees and separation agreements entered into after December 31, 2018, and those modified after this date to make the new law applicable, are not deductible by the payer; they are not taxable to the recipient.

Chapter 2—Medical Expenses

Individual mandate. The requirement that individuals and their dependents must pay a penalty if they do not have minimum essential health coverage does not apply after 2018. Thus, individuals who go without coverage in 2019 will not be penalized.

Premium tax credit. This refundable tax credit, which continues to apply despite repeal of the individual mandate, is designed to help individuals pay for the cost of health coverage for themselves and their dependents. To be eligible for the premium tax credit, your household income must be at least 100%, but no more than 400% of the federal poverty line for your family size. Eligibility for the credit in 2019 is based on 2018 federal poverty guidelines for the 48 contiguous states and District of Columbia as shown in the following table.

Persons in the family/household	***Poverty guideline (100%)***
1	$12,140
2	$16,460
3	$20,780
4	$25,100
5	$29,420
6	$33,740
7	$38,060
8	$42,380
More than 8	Add $4,320 for each additional person

*The guidelines are higher in Alaska and Hawaii; see https://aspe.hhs.gov/poverty-guidelines.

Individual health care mandate for 2018. The IRS has announced that certain hardship exemptions can be claimed on 2018 returns in order to be excused from a penalty for not having health coverage in 2018; obtaining an exemption certificate from the Marketplace is not required. For details, see Notice 2019-5.

Itemized medical expenses. The adjusted gross income (AGI) floor for deducting itemized medical expenses in 2019 is 10% (up from 7.5% in 2018). This floor applies for all taxpayers (not merely those age 65 and older as in the past).

For 2019, the IRS medical expense mileage rate is 20¢ per mile (up from 18¢ per mile in 2018).

Long-term care coverage. The portion of long-term care insurance premiums that are treated as a deductible medical expense has increased in 2019 for each age group. The cap for those who are age 70 and older in 2019 is $5,270.

Flexible spending arrangements (FSAs). In 2019, the maximum salary contribution to an FSA is capped at $2,700 (up from $2,650 in 2018).

Health savings accounts (HSAs) and Archer medical savings accounts (MSAs). The 2019 contribution limits for these medical savings accounts have increased slightly.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2019 is $370 (up from $360 in 2018). Excess amounts are taxable to the extent they exceed actual long-term care costs.

ABLE accounts. This type of savings account is designed to pay certain costs of a disabled individual without costing him or her eligibility for government assistance. The contribution limit for 2019 is $15,000 (unchanged from 2018). However, disabled individuals may be able to increase their contribution as explained in the chapter. As of January 2019, ABLE accounts have gone in live 41 states and the District of Columbia.

Medicare. The "standard' premium for Part B coverage in 2019, the premium paid by most beneficiaries, is $135.50 per month (compared with $130 per month on average for 2018). Those who fall within a "hold harmless" definition pay a lower monthly premium for 2019. The following tables (one for Part B and one for Part D) show the 2019 surcharges and total premiums for higher-income taxpayers, which are based on modified adjusted gross income (MAGI) in 2017. The highest surcharge level in the table (for incomes over $500,000 or $750,000) is new for 2019.

Part B Premiums for 2019:

2017 MAGI for joint filers	*2017 for other filers**	*Part B premium surcharge*	*Total monthly Part B premium for 2019*
Up to $170,000	Up to $85,000	Zero	$135.50 unless held harmless
$170,001 to $214,000	$85,001 to $107,000	$54.10	$189.60
$214,001 to $267,000	$107,001 to $133,500	$135.40	$270.90
$267,001 to $320,000	$133,501 to $160,000	$216.70	$352.20
$320,001 to $749,999	$160,001 to $499,999	$297.90	$433.40
$750,000 or greater	$500,000 or greater	$325.00	$460.50

*Married persons filing separately for 2017 who did not live apart for the entire year are subject to a monthly premium for 2019 of $433.40 (including surcharge of $297.90) if 2017 MAGI was over $85,000 and under $415,000, or $460.50 (including surcharge of $325.00) if 2017 MAGI was $415,000 or over.

Part D premiums for 2019:

2017 MAGI for joint filers	*2017 for other filers**	*Total monthly Part D premiums for 2019*
Up to $170,000	Up to $85,000	Plan premium (no surcharge)
$170,001 to $214,000	$85,001 to $107,000	$12.40 + plan premium
$214,001 to $267,000	$107,001 to $133,500	$31.90 + plan premium
$267,001 to $320,000	$133,501 to $160,000	$51.40 + plan premium
$320,001 to $749,999	$160,001 to $499,999	$70.90 + plan premium
$750,000 and higher	$500,000 and higher	$77.40 + plan premium

*Married persons filing separately for 2017 who did not live apart for the entire year are subject to a monthly premium for 2019 of $70.90 if 2017 MAGI was over $85,000 and under $415,000, or $77.40 if 2017 MAGI was $415,000 or over.

Chapter 3—Education Costs

American opportunity credit. There is no modified adjusted gross income limit change in 2019 for eligibility to claim the credit.

Lifetime learning credit. The modified adjusted gross income thresholds above which the credit is phased out have been increased slightly for 2019 ($58,000, or $116,000 for joint filers).

Tuition and fees deduction. The above-the-line deduction for tuition and fees of up to $4,000 expired at the end of 2017; it has not yet been extended for 2018.

Student loan interest deduction. The modified adjusted gross income (MAGI) thresholds above which the deduction is phased out for 2019 have increased. For singles, the 2019 phase-out starts at $70,000 and is completed at $85,000. The MAGI phase-out for joint filers starts at $140,000 and is completed at $170,000.

Interest on U.S. savings bonds. The modified adjusted gross income limits on eligibility to claim the exclusion for interest on bonds redeemed to pay qualified higher education costs have been increased for 2019.

ABLE accounts. The annual contribution limit for 2019 is $15,000 (unchanged from 2018).

Chapter 4—Your Home

Mortgage insurance premiums. The ability to treat mortgage insurance premiums as deductible mortgage interest expired at the end of 2017; the deduction has not yet been extended for 2018.

Cancellation of mortgage debt. The exclusion for income resulting from the cancellation of debt up to $2 million on a principal residence expired at the end of 2017; it has not yet been extended for 2018.

Minister's housing allowance. In 2017, a U.S. district court ruled that the housing allowance violates the Establishment Clause of the U.S. Constitution, which prohibits the government from establishing a religion. It enjoined the government from allowing the use of the allowance, but stayed the injunction for 180 days after all appeals have been exhausted. The Seventh Circuit to which the case was appealed has not yet ruled on the matter. And even if there is a decision, it likely will be appealed to the U.S. Supreme Court. The Court may be receptive given that the housing allowance represents about a billion in revenue annually.

Moving expenses. No deduction can be claimed for work-related moving expenses except for certain military personnel. Those who qualify can figure their move-related driving at 20¢ per mile in 2019 (up from 18¢ per mile in 2018).

Energy improvements. The residential energy property credit for making certain improvements, such as adding insulation or installing energy-efficient windows and exterior doors expired at the end of 2017; it has not yet been extended for 2018.

Disaster rules for casualties to your home. See Chapter 13.

Chapter 5—Retirement Savings

Traditional IRAs and Roth IRAs. The basic contribution limit for 2019 is $6,000 (up from $5,500 in 2018). The additional "catch-up" contribution limit of $1,000 for those who are at least 50 years old by the end of the year is unchanged. The modified adjusted gross income (MAGI) limits on eligibility to make deductible contributions to a traditional IRA are increased slightly for 2019, as are the MAGI limits for Roth IRAs.

401(k) and similar plans. The 2019 elective deferral contribution limit increases to $19,000 (up from $18,500 in 2018). The additional contribution limit for those who are age 50 or older by the end of the year for 2019 remains $6,000 (unchanged from 2018).

Self-employed retirement plans. Contribution, benefit, and other limits for these plans for are increased slightly for 2019. For example, the contribution limit for profit-sharing plans in 2019 is $56,000 (up from $55,000 in 2018).

Simplified Employee Pension plans (SEPs). Contribution limits for these plans for 2019 is $56,000 (up from $55,000 in 2018). The earnings threshold for including an employee in a SEP is unchanged at $600.

Savings Incentive Match Plans for Employees (SIMPLEs). The 2019 contribution limit for SIMPLEs and the additional contribution limit for those age 50 or older by the end of the year are $13,000 (up from $12,500 in 2018) and $3,000 respectively (unchanged from 2018).

Retirement saver's credit. The MAGI limits on eligibility to claim the retirement saver's credit for contributions to IRAs, 401(k)s, and similar plans, as well as to ABLE accounts, have been increased for 2019.

Custodial fees. A federal appeals court has effectively killed the Department of Labor's "fiduciary rule." A new rule is expected to be released by September 2019.

Loans and hardship distributions to victims of certain disasters. Special rules apply for victims of Hurricanes Florence and Michael. These include streamlined procedures for obtaining loans and hardship distributions. A retirement plan can allow a victim of Hurricane Michael or Florence to take a hardship distribution or borrow up to the specified statutory limits from the victim's retirement plan. It also means that a person who lives outside the disaster area can take out a retirement plan loan or hardship distribution and use it to assist a son, daughter, parent, grandparent or other dependent who lived or worked in the disaster area. But the tax treatment of loans and distributions remains unchanged. Ordinarily, retirement plan loan proceeds are tax free if they are repaid over a period of 5 years or less. Hardship distributions are generally taxable and subject to a 10% early distribution penalty.

Chapter 6—Charitable Giving

Donating unused leave time to an employer's program. Usually, if you donate vacation, sick, or personal days to an employer's leave-based donation program at work, your donation is taxed as compensation. However, for programs benefiting victims of the Hurricane Michael in 2018, you aren't taxed on your donations to the program. However, you cannot claim a charitable contribution deduction (your employer gets the deduction when cash donations are made to a charity providing relief for these specified disasters).

Chapter 7—Your Car

Business use of your personal car. The IRS announced that the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 58¢ per mile in 2019 (up from 54.5¢ per mile in 2018).

The dollar limits on depreciating passenger cars, trucks, and vans placed in service after 2017 are increased to $10,000 for the year in which they are placed in service (plus an additional $8,000 if bonus depreciation applies),

$16,000 for the second year, $9,600 for the third year, and $5,750 for each succeeding year.

The dollar limit on first-year expensing for a heavy SUV (exempt from the above dollar limits) is increased to $25,500 for 2019 (up from $25,000 for 2018).

Electric drive vehicles. The credit for 2-wheel vehicles expired at the end of 2017; it has not yet been extended for 2018.

The credit for electric drive vehicles is limited or phased out entirely once a manufacturer has sold more than 200,000 electric drive vehicles. Tesla attained this sales threshold in 2018. As a result, the credit for a Tesla purchased between January 1, 2019, and June 30, 2019, is limited to $3,750. The credit for one purchased between July 1, 2019, and December 31, 2019, is $1,875. No credit will be allowed for the purchase of a Tesla after 2019.

Chapter 8—Investing

Taxable income breakpoints for capital gains rates. There is a correction to Table 8.2. The taxable income limit for married persons filing separately (above which the 20% capital gains rate applies) in 2018 should be $239,500.

The following table shows the break points for capital gain rates for 2019:

Rate	Married filing jointly and surviving spouse	Head of household	Single	Married filing separately
0%	Up to $78,750	Up to $52,750	Up to $39,375	Up to $39,375
15%	$78,750 - $488,850	$52,750 - $461,700	$39,375 - $434,550	$39,375 - $244,425
20%	Over $488,850	Over $461,700	Over $434,550	Over $244,425

Gain on empowerment zone assets. The exclusion of gain on the sale of empowerment zone assets that are rolled over within 60 days of the sale expired at the end of 2017; it has not yet been extended for 2018.

Gain on Opportunity Zone assets. It is expected that Opportunity Zone Funds will begin to be offered as investments in 2019.

Chapter 9—Travel

Business travel per diem rates. The maximum federal per diem rate for travel starting October 1, 2018, through September 30, 2019, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $149 per day ($94 for lodging and $55 for M&IE). These rates are higher than the prior 12-month period when the rate was $144 per day ($93 for lodging and $51 for M&IE). The per diem rates for travel to certain areas have been increased. These rates can be found here.

The high-low substantiation rates for areas within CONUS for the period October 1, 2018, through September 30, 2019, are $289 for travel to high-cost localities and $195 for travel to all other areas with CONUS. Of these rates, the meal portion is $71 for high-cost areas and $60 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2018-77 for details).

Driving your car for medical. The IRS standard mileage rate for 2019 is 20¢ per mile (up from 18¢ per mile in 2018).

Frequent flyer miles. The IRS has not made any further determinations affecting the tax treatment of frequent flyer miles.

Chapter 10—Real Estate

Deduction for energy-efficient commercial buildings. The ability to deduct up to $1.80 per square foot for an energy-efficient building expired at the end of 2017; it has not yet been extended for 2018.

Chapter 11—Borrowing and Interest

Home mortgage interest. See Chapter 4.

Student loan interest. See Chapter 3.

Borrowing from retirement plans. See Chapter 5.

Investment-related interest. See Chapter 8.

Chapter 12—Insurance and Catastrophes

Disaster losses. As of yet, Congress has not created any special rules for victims of 2018 disasters (e.g., Hurricanes Florence and Michael and the November 2018 California wildfires).

Find a list of all federal disaster areas for 2018 disasters from FEMA. Looking ahead, designated disasters in 2019 will be listed on FEMA here.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2019 is $370 (up from $360 from 2018); excess amounts are taxable to the extent they exceed actual long-term care costs.

Chapter 13—Your Job

Educator expenses. See the *Introduction*.

Fringe benefits. A couple of benefits have been adjusted for inflation for 2019:

Transportation fringe benefits. The monthly exclusion for free parking, transit passes, and van pooling for 2019 is $265 (up from $260 in 2018).

Adoption assistance. The exclusion amount in 2019 for employer-provided adoption assistance is $14,080 (up from $13,810 in 2018).

Income earned abroad. The maximum foreign earned income exclusion for 2019 is $105,900 (up from $103,900 in 2018).

Wage withholding. Review your wage withholding for 2019 in light of the various changes listed in this supplement. If desirable, file a new Form W-4 with your employer.

Chapter 14—Your Business

Equipment purchases. The Tax Cuts and Jobs Act made important changes impacting write-offs for equipment purchases. Note the effective dates:

- *First-year expensing.* The deduction limit for 2019 is $1,020,000. This amount begins to phase out when purchases in 2019 exceed $2,550,000.
- *Bonus depreciation.* Bonus depreciation remains at 100% for 2019. The 100% limit applies through 2022; the rate will be 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026. (There is an additional year for property with long production periods.)

Employment-related tax credits. The empowerment zone employment credit and Indian employment expired at the end of 2017; they have not yet been extended to 2018.

Self-employment tax. The wage base for the Social Security portion of the self-employment tax in 2019 is $132,900 (up from $128,400 in 2018).

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving; for 2019 it is 58¢ per mile (up from 54.5¢ per mile in 2018).

Those who own their vehicles and use the standard mileage rate for 2018 must reduce the vehicle's basis by 25¢ per mile (the same reduction as in 2017).

Business-related tax credits. The energy-efficient home credit and the alternative fuel vehicle refueling property credit, which expired at the end of 2016, was extended for 2017. Whether they will be extended retroactively for 2018 is uncertain as of February 1, 2019.

Chapter 15—Miscellaneous Items

Gifts you make. The annual exclusion amount for 2019 is $15,000 per recipient (unchanged from 2018). Of course, the recipient can receive any amount tax free (the exclusion impacts only the gift tax, if any, owed by the person making the gift).

The IRS has made it clear that when the substantial lifetime exemption ($11.18 million in 2018; $11.4 million in 2019), also called the basic exclusion amount (BEA) expires at the end of 2025, there will not be any clawback required. Proposed regulations provide a special rule that will allow estates to compute the estate tax credit using the higher of the BEA applicable to gifts made during life or the BEA applicable on the date of death.

Tax audits. The reasonable reimbursement rate for attorney's fees in 2019 when the IRS's position is not substantially justified and other requirements are met remains at $200 per hour.

Exemption amounts. The AMT exemption amounts for 2019 are:

Filing status	**2019 exemption**
Married filing jointly/surviving spouse	$111,700
Single/head of household	$71,700
Married filing separately	$55,850

Exemption phase-out. The exemption amounts for 2019 start to phase out when alternative minimum taxable income (AMTI) exceeds $1,020,000 for married filing jointly and surviving spouses and $510,300 for other filers.

ABLE accounts. See Chapter 2.