

2019 Tax Law Changes

This is a summary of recent changes to federal tax law that will most likely impact taxpayers typically served by Tax-Aide volunteers. Several provisions may warrant filing amended returns for prior years. TaxSlayer will presumably reprogram current year software as needed – whether the changes will be added to prior years is unknown. This is a summary and does not address all the requirements in the Spending Bill [here](#) (see pages 621-628, 642-647 and pages 694 onward) and is pending further guidance from the IRS.

Effective for 2019 and prior tax years

- Resurrects the extenders retroactively to tax year **2018** and through **2020** – additional information is in the *Legislative Extenders* section of IRS Publication 4012:
 - Tuition and fees adjustment to gross income of up to \$4,000.
 - Itemized deduction for mortgage insurance premiums (PMI).
 - Exclusion of up to \$2 million of discharged qualified principal residence indebtedness.
 - Residential energy credit of up to 10% of qualifying costs of certain energy-efficient property in principal residences.
- Treats nontaxable "difficulty of care payments" received by certain home health care workers as compensation for qualified plan and IRA contribution purposes. Effective for plan years beginning after December 31, **2015**. Do not know if the IRS will grant an extension of time to make a deductible contribution for any prior years that are affected.
- Provides assorted relief for major federal disasters similar to the California wildfire relief passed in 2018. Not all are in scope for Tax-Aide. Effective January 1, **2018** through 60 days after enactment (February 18, 2020):
 - Access to retirement funds, and permitted re-contribution.
 - Deduction of casualty loss even if not itemizing and with no 10% threshold.
 - Use earned income for the prior year instead of the current year for earned income credit purposes, if beneficial.
 - Allow unlimited charitable contributions related to qualified disaster relief.
 - Automatic 60-day extension for required tax filings.

Effective for 2019 tax year

- Reduces the threshold for itemized medical deductions to 7.5% of AGI effective January 1, **2019**. The threshold reverts to 10% on January 1, 2021.
- Allows distributions from Section 529 education savings accounts for expenses associated with registered apprenticeship programs and up to \$10,000 of qualified student loan repayments. Effective for distributions made after December 31, **2018**.

- Increases the penalty for failing to file a tax return. Effective for filing dates after December 31, **2019** (e.g., tax year 2019 filings in 2020).

Effective for 2020 tax year

- Reverts the "kiddie tax" to pre-2018 law. A child's unearned income is again taxed at the parents' top marginal rates. The change is effective for taxable years beginning after December 31, **2019**, although taxpayers can elect to have it apply retroactively to taxable years beginning after December 31, **2017**.
- Allows one-time penalty-free withdrawal of up to \$5,000 from an IRA or qualified retirement plan to cover expenses associated with the birth or adoption of a child if made during the one-year period beginning on the date on which a child is born or the adoption is finalized (but does not include the child of the taxpayer's spouse). Also permits re-contributions of the withdrawn amount. Effective for distributions made after December 31, **2019**.
- Treats certain taxable non-tuition fellowship and stipend payments to graduate and postdoctoral students as compensation for IRA contribution purposes. Effective for taxable years beginning after December 31, **2019**.
- Increases the age for beginning required minimum distributions from a defined contribution plan or IRA to 72 from 70½ for individuals who reach age 70½ after December 31, **2019**.
- Repeals the maximum age (currently 70½) for making contributions to a traditional IRA. Effective for tax years beginning after December 31, **2019**.

Other tax developments that require further guidance from the IRS:

- **Medicaid Waiver Payments (MWP):**
Payments by state or county to a caregiver to provide nonmedical support services to an individual if both live in same home and care is for no more than 10 children or 5 adults (19 or older). Draft 2019 Form 1040 Instructions (posted December 16, 2019) allow including MWP as earned income for credit calculations no matter how or even if the payment is reported to the taxpayer and not including MWP as taxable income if the taxpayer so chooses. These changes may be retroactive to the prior three years.
- **Strike Benefits:**
Typically reported on Form 1099-MISC in box 3 – Other Income (and then if more than \$600). Strike benefits are not subject to self-employment tax, but are **earned** income for tax credit purposes.

State Returns. State income tax implications of these federal changes may vary by state.