

Taxes for Real Estate Professionals

Integrity in Tax & Accounting

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Upcoming Tax Due Dates

Jan. 31 – 1099-Misc & W-2

Mar. 16 – Business Returns

Apr. 15 – Individual Returns

Start Preparing for 2019 Taxes

As tax season fast approaches, getting a head start on gathering documents is key.

Following are documents

Happy New Year!

Income Reminder:

Per Internal Revenue Code Section 61(a), gross income includes all income from whatever source derived, including, but not limited to the following:

W-2 wages, commissions, self-employment, rental property, interest, dividends, royalties, annuities, pensions, share of partnership/S-Corp, and illegal activities.

you should (if you haven't already) have ready for tax preparation:

- Rental property income
- Rental property expenses
- Mileage logs
- Closing statements of rental/flip properties purchased and/or sold
- Property Taxes Paid
- Mortgage Interest Paid
- W-2's (if applicable)

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Standard Mileage Rates 2019/2020

Business = \$0.58/ \$0.575

Medical = \$0.20/ \$0.17

Charity = \$0.14/ \$0.14

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* Standard Deduction:

\$12,200 Single

\$24,400 MFJ

\$18,350 HoH

* Personal Exemption is eliminated for Tax Years 2018 - 2025.

* Child Tax Credit:

Increase to \$2,000 per child under age 17. Dependents over age 17 may qualify for \$500 credit.

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Revised Tax Forms for 2019

The Form 1040 will have a different look to it for the second consecutive year. The tax return is back to two pages but still slightly less information than prior to 2018. Schedules 1-6 have been reduced to just 3 schedules. A new version of the 1040 is called 1040-SR which is an option for taxpayers age 65 & older. It is similar to the 1040 just has larger print.

A thumbnail image of the 2019 U.S. Individual Income Tax Return Form 1040. The form is titled "1040 U.S. Individual Income Tax Return" and includes fields for the taxpayer's name, address, and Social Security number. It also features checkboxes for "Married filing jointly" and "Married filing separately" and a section for "Dependents".

The three schedules are:

Schedule 1: Additional income & Adjustments to income. These are items that were previously reported on page 1 of Form 1040 such as business income, rental income, and capital gain or loss.

Schedule 2: Additional Taxes. These items include Alternative Minimum Tax (AMT), Excess Advance Premium Tax Credit Repayment, self-employment tax, and repayment of 2008 first time home-buyer credit. Note the box to check for healthcare is no longer

required and therefore not on the tax return.

Schedule 3: Additional Credits and Payments. This includes nonrefundable credits such as foreign tax credit, child and dependent care expenses, education credits, and retirement savings credit. It also reports payments such as estimated tax payments, payment made with extension to file, and net premium tax credit.

These schedules do not replace additional schedules and forms required to report income, credits, and deductions. For example, rental real estate properties are still reported on Sch. E that will roll-forward to Schedule 1, Line 5.

Amended Form 1040X remains the same. This is the form that is used to report a new, missed, or incorrect item on a prior year's already filed tax return. These continue to be paper-filed.

2020 Per Diem Rates

The IRS permits taxpayers to use these rates to substantiate business expenses for lodging,

meals, and incidental expenses incurred while traveling away from home. The maximum standard per diem rate has increased from \$149 to \$151 (\$96 for lodging and \$55 for meals and incidental expenses). The updated rates are effective from 10/1/19 through 9/30/20. The per diem rates are released by the General Services Administration (GSA). The per diem rates can be found at <https://www.gsa.gov/travel/pl-an-book/per-diem-rates>.

2020 Cost-of-Living Adjustments (COLA)

The IRS cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2020 are released in Notice 2019-59.

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased from \$19,000 to \$19,500. The catch-up limitation for employees age 50 and older who participate in these plans has increased from \$6,000 to \$6,500.

The limit for SIMPLE retirement accounts has increased from \$13,000 to \$13,500.

The limit on annual contributions to an IRA, remains unchanged at \$6,000. The additional catch-up contribution limit for individuals age 50 and older is not subject to an annual cost-of-living adjustment, thus remains at \$1,000.

The income ranges for determining eligibility to make deductible contributions to traditional Individual Retirement Arrangements (IRAs), to contribute to Roth IRAs and to claim the saver's credit all increased for 2020 (News Release IR 2019-179 and Notice 2019-59).



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Providing Tax Solutions for your Real Estate Biz



Recent Court Cases

A real estate firm can deduct \$41 million of worthless Partnership interest:

The company proved that the partnership first became worthless in 2009, following the mortgage crisis, which led to the recession. Among the factors the Tax Court relied on in reaching the decision: Credible testimony from management including the decision in 2009 to wind down the entity and sell its assets over five years. The Partnership ceased to have liquidating value and potential future value in 2009, declining cash flow projections, the recession and sharp drop in the real estate market, plus the tax return reporting (MCM Investment Mgmt, TC Memo 2019-158).

Failing to meet the substantiation rules disallows the Charitable deduction:

The couple claimed a \$236,000 deduction on their Schedule A for donating real estate to a charity that they ran. The Form 8283 attached to their tax return was incomplete. Although a written appraisal was completed, the couple didn't receive or obtain it by

the due date of their tax return, as required under applicable regulations. Thus, an appeals court found these error fatal and disallowed the entire deduction (Presley, 10th Cir.).

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