December 2019

Dear Valued Client:

We are pleased to provide you with this year-end letter outlining important guidelines for compliance with federal and state rules of taxation and reporting requirements. The letter contains useful information regarding some of the more significant changes to the tax code from the Tax Cuts and Jobs Act, passed on December 22, 2017. The letter also contains 2019 and 2020 payroll tax requirements, employee benefits reporting, informational return filing requirements, and other information for tax planning. A copy of this letter can be found on our website, www.tonneson.com, along with other helpful tools such as financial calculators, calendars of important dates, and links to state taxing authorities. Official federal and state forms, publications, and other information can be obtained from the specific agencies' websites.

Please note that this letter is designed to provide an overview of selected tax rules that we believe to be of interest to our clients. Tax rules are very complex and can be subject to interpretation. There are many special rules and exceptions that have not been addressed here. In addition, the contents of this letter are subject to change as new tax laws are passed. We will do our best to keep you updated as new information becomes available.

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I. Individuals

Federal Income Tax Brackets for Ordinary Income

Married Filing Jointly and Surviving Spouses:

Taxable Income	2019 Tax Rate
$0 - $19,400	10% of taxable income
$19,401 - $78,950	$1,940 plus 12% of the amount over $19,400
$78,951 - $168,400	$9,086 plus 22% of the amount over $78,950
$168,401 - $321,450	$28,765 plus 24% of the amount over $168,400
$321,451 - $408,200	$65,497 plus 32% of the amount over $321,450
$408,201 - $612,350	$93,257 plus 35% of the amount over $408,200
$612,351 or more	$164,709.50 plus 37% of the amount over $612,350

Single:

Taxable Income	2019 Tax Rate
$0 - $9,700	10% of taxable income
$9,701 - $39,475	$970 plus 12% of the amount over $9,700
$39,476 - $84,200	$4,543 plus 22% of the amount over $39,475
$84,201 - $160,725	$14,382.50 plus 24% of the amount over $84,200
$160,726 - $204,100	$32,748.50 plus 32% of the amount over $160,725
$204,101 - $510,300	$46,628.50 plus 35% of the amount over $204,100
$510,301 or more	$153,798.50 plus 37% of the amount over $510,300

Head of Household:

Taxable Income	2019 Tax Rate
$0 - $13,850	10% of taxable income
$13,851 - $52,850	$1,385 plus 12% of the amount over $13,850
$52,851 - $84,200	$6,065 plus 22% of the amount over $52,850
$84,201 - $160,700	$12,962 plus 24% of the amount over $84,200
$160,701 - $204,100	$31,322 plus 32% of the amount over $160,700
$204,101 - $510,300	$45,210 plus 35% of the amount over $204,100
$510,301 or more	$152,380 plus 37% of the amount over $510,300

Married Filing Separately:

Taxable Income	2019 Tax Rate
$0 - $9,700	10% of taxable income
$9,701 - $39,475	$970 plus 12% of the amount over $9,700
$39,476 - $84,200	$4,543 plus 22% of the amount over $39,475
$84,201 - $160,725	$14,382.50 plus 24% of the amount over $84,200
$160,726 - $204,100	$32,748.50 plus 32% of the amount over $160,725
$204,101 - $306,175	$46,628.50 plus 35% of the amount over $204,100
$306,176 or more	$82,354.75 plus 37% of the amount over $306,175

Long Term Capital Gains Tax Brackets

Long term capital gains are taxed at a rate determined by your taxable income and filing status:

Tax rate	Married Filing Joint & Surviving Spouse	Single	Head of Household	Married Filing Separately
0%	$0 – 78,750	$0 - $39,375	$0 – 52,750	$0 - $39,375
15%	$78,751 - $488,850	$38,601 - $434,550	$52,751 - $461,700	$39,376 - $244,425
20%	$488,851 and up	$434,551 and up	$461,701 and up	$244,426 and up

Short term capital gains are taxed at the ordinary income tax rates.

Standard Deduction & Personal Exemptions

In 2019, taxpayers cannot claim a personal exemption. The standard deduction has been increased to the following amounts:

Filing Status	Standard Deduction
Married Filing Joint & Surviving Spouses	$24,400
Single	$12,200
Head of Household	$18,350
Married Filing Separately	$12,200

Alternative Minimum Tax (AMT)

AMT is a supplemental income tax imposed on high income earners to prevent them from significantly reducing or eliminating their tax liabilities with available deductions and certain tax preferences.

An individual calculates their taxable income under the regular income tax rules, then calculates their alternative minimum taxable income (AMTI) under the AMT rules, and pays the higher of the regular tax or the AMT. AMT is calculated on the amount that AMTI exceeds an exemption amount. The AMT exemption has been increased to the following amounts:

Filing Status	AMT Exemption
Married Filing Joint & Surviving Spouses	$111,700
Single & Head of Household	$71,700
Married Filing Separately	$55,850

Phase out: The AMT exemption gets reduced if AMTI exceeds $1,020,600 for married taxpayers filing jointly and surviving spouses, or if it exceeds $510,300 for married filing separately or single taxpayers.

Qualified Business Income (QBI) Deduction

QBI Deduction (with no limitations)
The QBI deduction is equal to the lesser of:

Combined qualified business income;

Or

20% of the individual's taxable income minus net capital gains.

Combined qualified business income is 20% of the individual's qualified real estate investment trust (REIT) dividends, plus 20% of the individual's qualified publicly traded partnership (PTP) income, plus the deductible amount (up to 20%) of qualified business income from all qualified trades or businesses.

QBI Defined
QBI is the net amount of a business's qualified items of income, gain, deduction, and loss to the extent they are effectively connected with the conduct of a trade or business within the United States. QBI does not include capital gains or losses, certain dividends, and interest.

Overview:

- Individual taxpayers can receive QBI from their S-corporations, partnerships, sole proprietorships, trusts and estates.
- Income earned through services performed for a C-Corporation does not qualify for the deduction.
- QBI must be calculated for each qualified trade or business. That QBI is then allocated to the business owners based on ownership.
- A taxpayer can receive QBI from multiple qualified businesses, aggregating into an amount called combined QBI.
- Up to 20% of an individual's combined QBI can be used to reduce taxable income.
- An individual's QBI deduction may be limited if their taxable income falls within a certain range:

	Single + Head of Household	Married Filing Joint	Married Filing Separately	Limitation
Below	$160,700	$321,400	$160,725	None
Between	$160,700 - $210,700	$321,400 - $421,400	$160,275 - $210,725	Partial
Over	$210,700	$421,400	$210,725	Limits apply

Specified Service Trade or Business (SSTB) Limitation

- An SSTB is any trade or business where the principal asset is the reputation or skill of one or more of its employees. These include but are not limited to: health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, and brokerage services.
- Income from an SSTB:
    - Can be QBI for individuals whose taxable income is below the limitation threshold (see table on previous page). If taxable income is between the lower and upper limitation thresholds, a portion of SSTB income can be QBI.
    - Cannot be QBI for individuals whose taxable income is above the limitation threshold.

Wage and Capital Limitation

For individuals with taxable income over the upper limitation threshold, the QBI amount from each qualified business is limited to the lesser of:

- 20% of the business's QBI;

  Or

- The greater of:

    - 50% of the W2 wages paid;

      Or

    - 25% of the W2 wages paid plus 2.5% of the business's unadjusted basis in all qualified property (tangible, depreciable property, held and available for use by the business, used to produce QBI, and not fully depreciated at year end).

PTP income and REIT dividends are not subject to the wage and capital limitation.

For taxpayers with taxable income between the lower and upper thresholds, the wage and capital limitation is phased in. For taxpayers with taxable income below the lower threshold, the wage and capital limitation does not apply.

Itemized Deductions

Pease Limitation Repealed

The Pease limitation limited the total amount of itemized deductions that high-income taxpayers could claim. This limitation was repealed in 2018 and remains repealed.

Medical and Dental Expenses

Beginning in the 2019 tax year, for all taxpayers, expenses over 10% of adjusted gross income (AGI) are deductible.

> Example: Your 2019 AGI is $100,000. Your medical expenses are $11,000. 10% of your AGI is $10,000. The medical expenses over $10,000 are deductible. Your deduction is $1,000.

State and Local Taxes Paid (includes real estate taxes)

The maximum allowable deduction for 2019 remains $10,000. The $10,000 can be made up of state and local property taxes paid and state and local income taxes paid, OR sales taxes paid in lieu of income taxes paid. For married taxpayers filing separately, the deduction is split $5,000 on each spouse's tax return.

Home Mortgage Interest Paid

The interest paid on up to $750,000 of principal is deductible for any mortgages acquired after December 15, 2017. For mortgages acquired on or before December 15, 2017, the old rule still applies: the interest paid on up to $1,000,000 of principal is deductible. The deduction is allowed for mortgage interest paid on primary and secondary residences. The deduction for interest paid on home equity loans has been suspended. Beginning in the 2026 tax year, the principal limitation will revert back to $1,000,000 regardless of when the mortgage debt was incurred.

> Note: If you obtained a mortgage before December 15, 2017 and then refinance after December 15, 2017, then that refinanced mortgage will be subject to the new $750,000 limit.

Charitable Contributions

A taxpayer can deduct up to 60% of adjusted gross income (AGI) on cash donations made to qualifying charities during the 2019 tax year. If a taxpayer donates more than 60% of her AGI to charity, then the excess amount over the 60% limit can be carried forward and deducted on future returns for up to five years. Additional limitations apply for donations of non-cash items or for donations made to certain foundations.

Personal Casualty Losses

A deduction can only be taken for personal property losses incurred as a result of federally declared disasters. All other casualty loss deductions have been suspended until 2026.

Miscellaneous Itemized Deductions Subject to the 2% AGI Limitation

These deductions have been suspended, meaning they cannot be deducted again until the 2026 tax year or until Congress legislates otherwise. Some of the more common miscellaneous deductions that are no longer deductible are unreimbursed employee expenses, tax preparation fees, and investment fees.

Child Tax Credit

This credit is $2,000 per child under the age of 17. In addition, a $500 nonrefundable credit is available for each qualifying dependent of the taxpayer other than qualifying children. The credit begins to phase out at $400,000 of income for married joint filers and $200,000 for all other taxpayers. Although the tax credit is $2,000, the maximum amount refundable may not exceed $1,400 per qualifying child; this means if a taxpayer has no tax liability to offset, then the most she can be refunded for the child tax credit is $1,400 per qualifying child.

Kiddie Tax

The purpose of the kiddie tax is to prevent parents in higher tax brackets from shifting income (generally investment income) to children who are usually in lower tax brackets. A child's earned income (i.e. W-2 wages, business income, tips) is taxed at the rates for single individuals. A child's net unearned income (i.e. interest, dividends, capital gains, rents, royalties) over a threshold amount of $2,200 is taxed at the rates applicable to trusts and estates (discussed in later section of letter).

Education Credits

American Opportunity Tax Credit (AOTC)

A credit of up to $2,500 per eligible student is available for qualified education expenses paid. The credit is reduced for married taxpayers filing jointly with income over $160,000 and over $80,000 for all other taxpayers. The credit is disallowed if income is over $180,000 for joint filers and over $90,000 for all others. Students should receive a Form 1098-T tuition statement which will help figure the credit.

Eligible students must:

- Be pursuing a degree or other recognized education credential
- Be enrolled as at least a half time student
- Not have finished the first four years of higher education at beginning of tax year
- Not have claimed the AOTC for more than four tax years
- Not have a felony drug conviction at the end of the tax year

Qualified education expenses include:

- Tuition
- Fees
- Books, supplies, and equipment required for a course of study
- Other expenses that are required for enrollment or attendance at an eligible educational institution

Expenses that do not qualify include:

- Room and board
- Insurance
- Medical expenses, student health fees
- Transportation
- Personal and living expenses

Lifetime Learning Credit (LLC)

This credit is for 20% of the first $10,000 in qualified tuition expenses paid by the taxpayer, effectively capping the credit at $2,000 per taxpayer (not per student). Unlike the AOTC, there is no limit on the number of years the LLC can be claimed, and it can be used for graduate degrees and courses taken to acquire or improve job skills. The student must be enrolled in one or more courses at an eligible educational institution, and the student must be the taxpayer, a spouse, or a dependent listed on the taxpayer's return. The credit is reduced for married taxpayers filing jointly with income over $116,000 and over $58,000 for all other taxpayers. The credit is disallowed if income is over $136,000 for joint filers and over $68,000 for all others.

Health Insurance Mandate

The Affordable Care Act mandated that all individuals obtain health insurance in 2018 or pay a penalty tax. This mandate and associated penalty have been repealed for the 2019 tax year.

Alimony

For divorce or separation agreements executed or modified after December 31, 2018, alimony paid is not deductible by the payor, and alimony received is not includable as income by the payee.

Moving Expenses

The deduction for moving expenses remains suspended until 2026 unless otherwise legislated by Congress. However, the deduction is generally still available for active duty members of the U.S. Armed Forces.

100% Gain Exclusion on Qualified Small Business Stock (QSBS)

As a provision of the PATH Act of 2015, QSBS acquired by non-corporate taxpayers after September 27, 2010 qualifies for a 100% capital gain exclusion when sold if the stock was held for at least five years. The maximum allowable capital gain exclusion is the greater of $10 million or 10 times the adjusted basis of the investment. Trading such stock for other similar stock can be a useful tax planning option to defer gain if the initial stock is not held for the required holding period.

Smaller capital gain exclusion amounts are available for QSBS acquired by non-corporate taxpayers and held for at least five years:

- 75% exclusion if the stock was acquired after February 17, 2009, and on or before September 27, 2010.
- 50% exclusion if the stock was acquired after August 10, 1993, and on or before February 17, 2009.

Limitation on Losses from a Trade or Business

An excess business loss is the amount of loss from a trade or business over $510,000 for married taxpayers filing jointly and over $255,000 for all other taxpayers. This excess business loss is disallowed and will be carried forward as a net operating loss (NOL) to the next tax year. However, these NOLs can only offset up to 80% of taxable income, meaning an NOL can never fully eliminate a tax liability in a given year.

> Example: In 2019, a married taxpayer has $600,000 in investment income and a $700,000 loss from a pass-through business. Only $510,000 of the pass-through loss can be used to offset the $600,000 investment income, resulting in $90,000 of taxable income and a $190,000 disallowed excess business loss that will be carried forward as an NOL.
>
> In 2020, the taxpayer's taxable income is $100,000. Even though the taxpayer has a $190,000 NOL from 2019, only $80,000 can be used to offset the $100,000 taxable income, because NOLs can only offset up to 80% of taxable income in a given year. The resulting 2020 taxable income will be $20,000 and the remaining NOL carried forward to other tax years will be $110,000.

529 Plans and ABLE Accounts

Taxpayers can roll over amounts from 529 plans into ABLE accounts without penalty if the ABLE account is owned by the designated beneficiary of the 529 plan or a member of the beneficiary's family.

529 plans are tax-advantaged investment accounts that allow parents to save money for their children's tuition at elementary or secondary public, private, or religious schools and college. Income earned by the account is tax free upon distribution if the distributions are used to pay qualified education expenses. Annual contribution limits vary by state. Current tax law allows up to $10,000 of cash distributions per year for elementary and secondary school expenses.

Achieving a Better Life Experience (ABLE) accounts are tax-advantaged investment accounts that allow families of disabled young people to set aside money for their care. Income earned by the account is tax free upon distribution if the distributions are used to pay qualified disability expenses. The annual contribution limit is $15,000.

Net Investment Income Tax (NIIT)

Individuals who have modified adjusted gross income over a certain threshold must pay a 3.8% tax on either their net investment income or the amount of total income over the threshold, whichever is lower. The threshold amounts are:

Filing Status	Income Threshold
Married Filing Jointly & Qualifying Widow(er) with a dependent child	$250,000
Single & Head of Household	$200,000
Married Filing Separately	$125,000

Investment income includes, but is not limited to: interest, dividends, capital gains, rental income, royalty income, annuity income, and other passive activity income.

For trusts and estates, the amount subject to this tax is either the undistributed net investment income or the amount of total income over $12,750, whichever is lower.

It should be noted that when the NIIT is added to the top income tax brackets, the individual's tax rate could be as high as 40.8% (37% + 3.8%) for ordinary income and short-term capital gains and 23.8% (20% + 3.8%) for long-term capital gains.

Additional Medicare Tax

Individuals with income from wages, self-employment, active trade or business income, and other compensation over a certain threshold are subject to a 0.9% additional Medicare tax on the amount of income over the threshold. The threshold amounts are:

Filing Status	Income Threshold
Married Filing Jointly	$250,000
Single, Head of Household, & Qualifying Widow(er) with a dependent child	$200,000
Married Filing Separately	$125,000

This tax does not apply to net investment income. However, taxpayers can be subject to both the additional Medicare tax and the net investment income tax if their income types and amounts meet the criteria.

II. Estates and Trusts

Federal Income Tax Brackets

Taxable Income	2019 Tax Rate
$0 - $2,600	10% of taxable income
$2,601 - $9,300	$260 plus 24% of the amount over $2,600
$9,301 - $12,750	$1,868 plus 35% of the amount over $9,300
$12,751 and up	$3,075.50 plus 37% of the amount over $12,750

Lifetime Exemption and Annual Exclusion

The lifetime gifting exemption is now $11.4 million per individual. Therefore, a married couple can shield $22.8 million from the estate and gift tax. In addition, donors may be entitled to the annual exclusion, the medical or education expense exclusion, the charitable deduction and the marital deduction.

The annual gift tax exclusion for 2019 is $15,000. This means that an individual can give a tax-free gift to any number of other individuals up to $15,000 each, and a married couple can gift up to $30,000.

III. Businesses

Federal Tax Rate Remains 21%

The 21% flat rate applies to all C-corporations for the 2019 tax year.

Income from S-corporations, partnerships, and sole proprietorships will continue to flow through to the individual owners and be taxed at the owners' individual rates.

The corporate-level alternative minimum tax (AMT) remains repealed for 2019.

Depreciation

Section 179 provides a first-year expense deduction for certain qualifying property placed in service during the tax year at an annual limit of $1,020,000. This expense is reduced dollar for dollar by the amount that the total cost of qualifying property placed in service exceeds $2,550,000. In addition, bonus depreciation can be taken after the Section 179 spending cap is reached.

Bonus depreciation remains at 100% for new and used property acquired and placed in service during the tax year. The 100% bonus provision currently extends until January 1, 2023, after which the provision is subject to a 20% phase-down schedule.

Massachusetts currently conforms to the Federal Section 179 rules. However, Massachusetts does not conform to the Federal bonus depreciation rules, which can result in differing Federal and Massachusetts depreciation deductions. Other states have varying conformity rules regarding Federal Section 179 and bonus depreciation. Please consult your tax executive to determine the proper depreciation treatment as it applies to the states in which you are required to file.

Cash Method of Accounting

In general, the cash method cannot be used by C corporations, partnerships that have one or more C corporation partners, and tax shelters. However, the cash method can be used for certain farming and timber businesses, qualified personal service corporations, and any corporation or partnership with average annual gross receipts of $26 million or less for the prior three tax years. Businesses with inventories generally cannot use the cash method unless they too have average annual gross receipts of $26 million or less for the prior three tax years.

Net Operating Loss (NOL)

NOLs generated in tax years after 2017 are limited to 80% of future year taxable income. This means that if a business has a net loss of $100,000 in 2019, and taxable income of $50,000 in 2020, the 2020 NOL deduction is limited to $40,000 ($50,000 x 80%) even though there is still available NOL from the 2019 loss. The remaining NOL carryover to future years is $60,000.

NOLs generated in tax years beginning in 2018 can no longer be carried back to offset taxable income in prior years. However, these NOLs can be carried forward indefinitely.

Business Interest Deduction

The TCJA Act limits the deduction for business interest to the sum of business interest income, 30% of adjusted taxable income, and the taxpayer's floor financing interest for the tax year.

Adjusted taxable income does not include:

- Any item of income, gain, deduction, or loss that is not properly allocable to a trade or business
- Any business interest income or business interest expense
- The amount of any net operating loss deduction
- Any deduction under Section 199A with respect to qualified business income of a pass-through entity.

Taxpayers with average annual gross receipts of $26 million or less for the prior three tax years are exempt from the limitation. Any disallowed interest deduction may be carried forward indefinitely.

Uniform Capitalization (UNICAP) Rules Exemption

Taxpayers with average annual gross receipts of $25 million or less for the prior three tax years are exempt from the UNICAP rules, regardless of entity structure or industry.

Meals and Entertainment

No deduction is allowed for entertainment, amusement, or recreation. No deduction is allowed for membership dues for a club organized for business, pleasure, recreation, or other social purposes, or for a facility used for any of these activities.

A deduction is allowed for 50% of food and beverage expenses directly associated with operating a trade or business. Through 2025, this deduction includes employer expenses associated with providing food and beverages to employees through an eating facility that meets the de minimis fringe requirements.

Travel Expenses

No deduction is allowed for expenses associated with providing transportation fringe benefits to employees, or reimbursements for transportation costs related to employees' commute between their residences and place of employment. However, a deduction is allowed for transportation expenses incurred by an employer to ensure employee safety.

Research Tax Credit

The research and development (R&D) tax credit, a provision of the PATH Act of 2015, is available to taxpayers with specific increases in business-related qualified research expenditures, and for increases in payments to universities and other qualified organizations for basic research. The PATH Act permanently extended this credit and modified it to enable certain businesses to offset the credit against and payroll taxes.

Work Opportunity Tax Credit (WOTC)

The WOTC, a provision of the PATH Act of 2015, was extended through 2019. The credit is available for wages paid by employers who hire individuals from certain targeted groups of hard-to-employ individuals including, but not limited to: qualified veterans, qualified ex-felons, vocational rehabilitation referrals, qualified summer youth employees, qualified food stamp recipients, qualified supplemental security income recipients, and long-term unemployment recipients. Employers can claim the credit for workers who begin work by December 31, 2019, and are employed for at least 120 hours.

Employer Credit for Paid Family and Medical Leave – 2018 & 2019 Only

For the 2018 and 2019 tax years only, businesses that provide paid family and medical leave to employees can claim a general business credit of between 12.5% and 25% of the wages paid to employees on leave. Employers must provide a minimum of two weeks leave and pay at least 50% of regular wages during the leave period to be eligible for the credit. The credit can be claimed for up to 12 weeks of leave per employee, and only for employees who have been employed at least one year and earn less than $72,000 per year.

If 50% of an employee's wages are paid to her while she is on leave, then the credit is 12.5% of wages paid. For each 1% increase in wages paid to an employee on leave, the credit increases 0.25%. Following this progression, the maximum credit available would be 25% of wages paid, if 100% of wages are paid to an employee on leave.

IV. Payroll Taxes and Withholding

Social Security and Self-Employment Taxes

Description	**2019**	**2020**
Social Security:		
Maximum Earnings	$132,900	$137,700
OASDI Tax Rate	6.2%	6.2%
Self-employment Tax Rate	12.4%	12.4%
Medicare:		
Maximum Earnings	Unlimited	Unlimited
Medicare Tax Rate	1.45%	1.45%
Self-employment Tax Rate Tier one: on the first $200,000 (single) and $250,000 (married) of SE income Tier two: on SE income over $200,000 (single) and $250,000 (married)	2.9% 2.9% + 0.9%	2.9% 2.9% + 0.9%
Earnings Ceiling for Social Security:		
Under full retirement age	$17,640/yr. ($1,470/mo.)	$18,240/yr. ($1,520/mo.)
The months preceding retirement age in the year an individual reaches full retirement age	$46,920/yr. ($3,910/mo.)	$48,600/yr. ($4,050/mo.)
Beginning the month an individual attains full retirement age	None	None

Payroll Withholding Requirements

Employers should report personal use of a company vehicle as fringe benefit income on a regular pay period using a reasonable basis so long as it is at least annually. Employers need not use the same period or method for all employees and may change their reporting period at any time. The Internal Revenue Service does not require a formal election.

Reasonable estimates should be used for the valuation of fringe benefits for withholding and deposits; however, the actual value must be determined by January 31, 2020 for all 2019 fringe benefits.

Federal withholding on the value of the fringe benefit may be computed either with the regular wages for the elected pay period or, if treated as supplemental wages, withheld at a flat rate of 22% (37% if supplemental payments exceed $1,000,000). An employer can elect not to withhold income taxes on the value of employees' personal use of company vehicles provided it tells its employees, in writing, by January 31st of the year for which it elects not to withhold. Either way, the FICA, OASDI, and Medicare taxes associated with the value must be withheld and matched by the employer.

In addition to withholding Medicare tax at 1.45%, you must withhold a 0.9% Additional Medicare Tax from wages you pay to an employee more than $200,000 in a calendar year. You are required to begin withholding additional Medicare tax in the pay period in which you pay wages more than $200,000 to an employee and continue to withhold it each pay period, until the end of the calendar year. Additional Medicare tax is only imposed on the employee; there is no employer share.

The actual value of the fringe benefits must be determined in time to include the amount in the Form 941, *Employer's Quarterly Federal Tax Return* filed for the fourth quarter of the year. To help make a timely determination, an employer can elect to treat personal employee use of a company car during November and December as incurred in the following calendar year. With an employee's consent, you may be eligible to provide copies of their Form W-2 to them electronically, however, the option of paper W-2's must still be provided and certain special disclosures need to be made.

W-2 Reporting of Benefits for S-corporation Shareholders

There are special rules for certain fringe benefits received by S corporation shareholders who own more than 2% of the outstanding stock. Amounts paid by the corporation for certain benefits, such as health, disability and accident insurance, all group term life insurance (including the first $50,000 of coverage) and reimbursed medical expenses must be treated as compensation to the shareholder and be reported on Form W-2. A more than 2% shareholder may be able to deduct 100% of the amount paid for medical insurance for themselves, their spouse, and dependents on their individual tax return. Please note that health insurance is not subject to Social Security and Medicare taxes.

Group Term Life Insurance

The cost of group term life insurance in excess of $50,000 of coverage provided to an employee is included as compensation and is subject to FICA and Medicare taxes. Exhibit E can be used to gather the information needed for the calculation. The cost is based on the employee's age as of December 31st, and is determined by the following table:

Cost per $1,000 of Protection for One Month	
Age	Cost
Under 25	$0.05
25 through 29	$0.06
30 through 34	$0.08
35 through 39	$0.09
40 through 44	$0.10
45 through 49	$0.15
50 through 54	$0.23
55 through 59	$0.43
60 through 64	$0.66
65 through 69	$1.27
70 and older	$2.06

Example: Tom's employer provides him with group-term life insurance coverage of $200,000. Tom is 45 years old, isn't a key employee, and pays $100 per year toward the cost of the insurance. Tom's employer must include $170 in his wages. The $200,000 of insurance coverage is reduced by $50,000. The yearly cost of $150,000 of coverage is $270 ($0.15 x 150 x 12) and is reduced by the $100 Tom pays for the insurance. The employer includes $170 in boxes 1, 3, and 5 of Tom's Form W-2. The employer also enters $170 in box 12 with code "C."

V. Other Items

Tax Return Filing Deadlines

Partnerships and S-corporations	The 15th day of the third month following the close of the tax year.
C-corporations, Individuals, Trusts, and Estates	The 15th day of the fourth month following the close of the tax year.
Tax-Exempt Organizations	The 15th day of the fifth month following the close of the tax year.
FinCEN Report 114 (FBAR)	April 15th with a six-month extension period ending October 15th.

2019 Tax Return Filing Deadlines

For calendar year tax returns reporting 2019 information, the following are the actual due dates based on the 2020 calendar:

Tax Return Type	Initial Due Date	Extended Due Date
Partnerships and S-corporations	March 16, 2020	September 15, 2020
C-corporations, Individuals, and FinCEN Report 114	April 15, 2020	October 15, 2020
Trusts and Estates	April 15, 2020	September 30, 2020
Tax-Exempt Organizations	May 15, 2020	November 16, 2020

Penalties

There are significant penalties for failure to properly report, file, and pay all types of business and employment taxes. Some of the more common federal tax penalties:

Failure to file return – fraud	15% of unpaid tax per month, maximum 75%
Failure to file return – reasonable cause	5% of unpaid tax per month, maximum 25%
Failure to pay tax	0.5% per month, maximum 25%
Substantial understatement of tax	20% of the underpayment
Failure to make timely deposits	From 2% to 15% of the unpaid deposit, depending on the length of time elapsed
FinCEN Report 114 (FBAR)	Up to $10,000 per violation, waived if there is reasonable cause
FinCEN Report 114 (FBAR) – willful failure to report	$100,000 or 50% of the foreign account balance, whichever is greater

Retirement Plan and IRA Limits

Description	Plan Type	2019	2020
Max contribution	401(k), 403(b), most 457 plans	$19,000	$19,500
Max contribution	IRA and Roth IRA	$6,000	$6,000
Catch-up contribution for ages 50 or older	IRA and Roth IRA	$1,000	$1,000
IRA deduction phase-out range for single taxpayers covered by workplace retirement plan	IRA	$64,000 - $74,000	$65,000- $75,000
IRA deduction phase-out range for joint filers where the spouse making the IRA contribution is covered by workplace retirement plan	IRA	$103,000 - $123,000	$104,000- $124,000
IRA deduction phase-out range for a contributor not covered by workplace retirement plan and is married to spouse who is covered	IRA	$193,000 - $203,000	$196,000- $206,000
IRA deduction phase-out range for a married individual filing a separate return and is covered by workplace retirement plan	IRA	$0 - $10,000	$0 - $10,000
Income phase-out range for eligibility to make Roth IRA contributions (you cannot contribute to a Roth if your income is too high)	Roth IRA – single and head of household	$122,000 - $137,000	$124,000- 139,000
Income phase-out range for eligibility to make Roth IRA contributions (you cannot contribute to a Roth if your income is too high)	Roth IRA – married filing jointly	$193,000 - $203,000	$196,000- 206,000
Income phase-out range for eligibility to make Roth IRA contributions (you cannot contribute to a Roth if your income is too high)	Roth IRA – married filing separately	$0 - $10,000	$0 - $10,000
Max benefit for defined benefit plan	415(b)(1)(A)	$225,000	$230,000
Max contribution for defined contribution plan	415(c)(1)(A)	$56,000	$57,000
Limitation on exclusion for elective deferrals	402(g)(1)	$19,000	$19,500
Compensation limit	401(a)(17)	$280,000	$285,000
Grandfather rule for certain government plans	401(a)(17)	$415,000	$425,000
Minimum compensation for SEPs	408(k)(2)(C)	$600	$600
Compensation limit for SEPs	408(k)(3)(C)	$280,000	$285,000
SIMPLE plan deferral limit	408(p)(2)(E)	$13,000	$13,500
Highly compensated employee limit	414(q)(1)(B)	$125,000	$130,000
Elective deferral catch-up contributions to an applicable employer plan for age 50 or older	414(v)(2)(B)(i)	$6,000	$6,500
Catch-up contributions for age 50 or older for SIMPLE plans	414(v)(2)(B)(ii)	$3,000	$3,000

Automobile Limitations

Description	**2019**
Automobile Standard Mileage Allowances	
Business	58¢
Charity	14¢
Medical/Moving	20¢
Depreciation limits for passenger autos acquired before September 28, 2017, placed in service during calendar year 2019, bonus claimed	
1st tax year	$14,900
2nd tax year	$16,100
3rd tax year	$9,700
Each succeeding tax year	$5,760
Depreciation limits for passenger autos acquired after September 27, 2017, placed in service during calendar year 2019, bonus claimed	
1st tax year	$18,100
2nd tax year	$16,100
3rd tax year	$9,700
Each succeeding tax year	$5,760
Depreciation limits for passenger autos acquired and placed in service during calendar year 2019, bonus not claimed	
1st tax year	$10,100
2nd tax year	$16,100
3rd tax year	$9,700
Each succeeding tax year	$5,760

At the time of publication of this letter, the IRS has not yet released the standard mileage rates or automobile depreciation limits for 2020. The IRS usually releases the standard mileage rates in mid-December for the following year and releases the automobile depreciation limits in mid-May. These updates will be available on the IRS website, irs.gov.

Automobile Limitations (continued)

The luxury car limits are based on 100% business use. If business use is less than 100%, the limits must be reduced to reflect the actual business use percentage. The term “luxury” is not defined in the Internal Revenue Code and there is no rule expressed in terms of “luxury.” Thus, the depreciation limits listed in the table on page 26 apply to all business autos, with the following exceptions:

Vehicles with gross vehicle weight ratings (GVWRs) of more than 6,000 pounds do not constitute a passenger vehicle for purposes of being limited to the luxury automobile depreciation limits. We advise you to examine the manufacturer’s sticker or the sticker on the inside of the driver’s side car door for the vehicle’s exact GVWR. The maximum allowed Section 179 deduction on these vehicles for tax years beginning in 2019 is $25,500 and $25,900 in 2020. Amounts in excess of the limit can be depreciated over five years starting with the year the asset was placed in service.

Trucks and vans, which are not qualified for personal use, are not subject to annual depreciation limits. “Not qualified” for personal use means the vehicle is designed in such a way that it is not likely to be used for more than a de minimis amount for personal purposes.

Personal Use of Company Owned / Leased Vehicles

Whether your company supplies business automobiles to employees as a personal benefit or as necessary tools to complete their work, an employee's personal use of the vehicle must generally be treated as a non-cash, taxable fringe benefit that is also subject to social security taxes.

There are four valuation methods for valuing the personal usage of a company car:

- The general fair market value method, which is based on what a person would pay locally to buy or lease a comparable vehicle for the same period that the employee has use of the car;
- The lease value method, which assigns an IRS-determined annual lease value to the automobile depending on its value when first provided for the employee's personal use;
- The cents-per-mile method, which values each personal-use mile at the standard business mileage rate designated by the IRS; or
- The $1.50 per one-way commute method.

The first two methods can be used for any automobile and employee. The cents-per-mile method and the $1.50 commute method are only available if certain conditions are met, outlined in further detail in Exhibit D.

Which of the four methods will result in the lowest personal use valuation and the lowest tax bill for employees, will depend on factors such as the annual number of personal miles, value of the automobile, and the ratio of personal miles to total miles.

For your convenience we have included worksheets in Exhibits A, B, C and D to assist you in calculating personal use amounts. Additionally, we can help you navigate these rules to determine which method would most benefit your company.

Year End Reporting to the IRS

Employees vs. Independent Contractors

The tax form employers use to report compensation paid depends on whether the payee is an employee or an independent contractor. The determination of status rests on the degree of control the party paying the compensation has over the person performing the work. As a general rule, you have the right to control, or direct only the result of the work done by an independent contractor, and not the means and method of accomplishing the result. Under certain circumstances you can ask the IRS on Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding* to rule whether a worker is an independent contractor or an employee. Erroneously classifying an employee as an independent contractor can cause the employer, or the employer's representative, to be liable for the employee's payroll taxes and subject the employer to significant penalties and interest.

1099-MISC Reporting

A business paying at least $600 during the calendar year to a non-employee, a partnership, or a trust for services or rents, must report these payments to the Internal Revenue Service and to the recipient on a Form 1099-Misc. The filing of Form 1099-Misc, *Miscellaneous Income*, is also required for payments of $600 or more made by a trade or business in 2019 to attorneys and law firms, physicians, and members of other professions. If you are reporting nonemployee compensation payments in box 7, you are required to file Form 1099-Misc on or before January 31, 2020, using either paper or electronic filing procedures. For all other reported payments, file Form 1099-Misc by February 28, 2020, if you file on paper, or March 31, 2020, if you file electronically.

Per Diem Travel Expenses

Companies can deduct the amount of ordinary and necessary business expenses incurred by employees while traveling away from home. Necessary business expenses include lodging, transportation, meals, and other incidental expenses. The employer has two options of reporting these expenses. The first option, an accountable plan, requires the employee to provide an expense report with receipts for expenses she incurred while traveling. These reimbursements are not includable in adjusted gross income.

The second option of reporting these expenses is under a non-accountable plan. The amount of money the employee received for travel expenses would be added to her compensation and subject to payroll taxes. Please note, while once deductible by the employee, for tax years 2018 through 2025, the itemized deduction for unreimbursed employee expenses is disallowed.

You could also provide the same per diem rates to your employees that apply to federal government employees. The expenses deemed substantiated are the lesser of the per diem allowance the business pays or the amount computed at the federal per diem rate for the locality of travel. The federal per diem rate tables can be found here: www.gsa.gov/perdiem.

Reporting Foreign Financial Accounts – FinCEN Form 114 (FBAR)

United States persons, who have a financial interest in, or signature authority over, foreign financial accounts, with an aggregate value that exceeds $10,000 at any point during the year, must report each account on FinCEN Form 114, *Report of Foreign Bank and Financial Accounts (FBAR)*. Reporting is required whether or not the account generates income. A financial account includes, but is not limited to, a security, brokerage, savings, demand, checking, deposit, time deposit, or other account maintained with a financial institution.

If a United States person owns over 50% of a business based outside of the United States, and the business has a bank account, then the person will need to report the bank account on an FBAR because the person is deemed to have a financial interest in the account as a 50% owner of the business.

The form must be filed electronically and filed separately from the federal tax return. It is due by April 15, 2020 for the 2019 calendar year. The due date can be extended an additional six months up to October 15, 2020. Failure to file may result in civil or criminal penalties.

VI. MASSACHUSETTS HIGHLIGHTS

Paid Family and Medical Leave (PFML)

In 2018, Massachusetts signed into law the PFML Act. It was established to ensure eligible employees are entitled to paid time off, up to between 12 and 26 weeks (given certain circumstances), for a maximum weekly benefit of up to $850, to care for their own serious health condition or that of a family member (including bonding time after birth, adoption and foster placement).

Payroll deductions for the PFML program were set to begin on October 1, 2019, and the first required employer remittance of PFML contributions to the state is January 31, 2020.

For more detailed information, we recommend you visit the mass.gov website which has organized all the necessary information about the law here:
https://www.mass.gov/info-details/paid-family-and-medical-leave-pfml-fact-sheet

We also recommend that employers review the Employer's Guide to Paid Family and Medical Leave here:
https://www.mass.gov/guides/employers-guide-to-paid-family-and-medical-leave

This is a helpful calculator that employers and employees can use to determine how much they need to contribute:
https://calculator.digital.mass.gov/pfml/contribution/

Renters and Homeowners Circuit Breaker Credit

A Massachusetts taxpayer age 65 or older who owns or rents her principal place of residence may qualify for this credit. For tax year 2019, the taxpayer's total income cannot exceed $60,000 for single filers, $75,000 for a head-of-household, and $90,000 for married couples filing jointly. For tax year 2019, the assessed valuation (before residential exemptions but after abatements) of the taxpayer's principal residence may not exceed $808,000. For tax year 2019, the maximum credit amount for both renters and homeowners is $1,130.

Angel Investor Tax Credit

Since 2017, taxpayer investors are be able to receive an income tax credit of 20% of their investment in qualifying Massachusetts businesses that have no more than 20 full-time employees and $500,000 in revenues. Investments in qualifying businesses in “gateway municipalities” – cities where educational attainment and median income are below the state’s average - would qualify for a credit of 30%.

For purposes of the credit, a taxpayer investor may invest up to $125,000 per qualifying business per year up to a maximum of $250,000. A taxpayer investor’s total credits may not exceed $50,000 in a single calendar year. The credit may be taken in either the tax year of the initial investment, or it can be carried forward to any of the three subsequent taxable years, as long as the qualifying business maintains its principal place of business in Massachusetts. If the qualifying business does not maintain its principal place of business in Massachusetts for this three-year period, the taxpayer investor must repay the total amount of credits claimed.

Section 529 Tax Deduction

From January 1, 2017 through the 2021 tax year, Massachusetts residents are allowed up to a $1,000 deduction for contributions to state authorized Section 529 education plans (up to $2,000 for married couples- filing jointly).

Massachusetts Online

The Massachusetts Corporate Division allows you to perform many different tasks through the ease of the Internet. MassTaxConnect is used to organize many types of business entities online, as well as pay your taxes. We recommend that all businesses file their annual reports online. To do so, please visit http://www.mass.gov/dor/e-services/masstaxconnect.html.

In this letter, we have discussed information that may be applicable to the preparation and submission of your 2019 informational returns and to the computation of taxable employee benefits. We have also highlighted some important planning considerations as we move into the 2019 filing season. We will continue to monitor current changes that may affect our clients' filing responsibilities.

Please do not hesitate to contact us if you have any questions regarding this information or if we can be of additional service.

Very truly yours,

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EXHIBIT A

2019 Annual Lease Value Table

Automobile fair market value	*Annual Lease Value*
$ 0 to 999	$ 600
1,000 to 1,999	850
2,000 to 2,999	1,100
3,000 to 3,999	1,350
4,000 to 4,999	1,600
5,000 to 5,999	1,850
6,000 to 6,999	2,100
7,000 to 7,999	2,350
8,000 to 8,999	2,600
9,000 to 9,999	2,850
10,000 to 10,999	3,100
11,000 to 11,999	3,350
12,000 to 12,999	3,600
13,000 to 13,999	3,850
14,000 to 14,999	4,100
15,000 to 15,999	4,350
16,000 to 16,999	4,600
17,000 to 17,999	4,850
18,000 to 18,999	5,100
19,000 to 19,999	5,350
20,000 to 20,999	5,600
21,000 to 21,999	5,850
22,000 to 22,999	6,100
23,000 to 23,999	6,350
24,000 to 24,999	6,600
25,000 to 25,999	6,850
26,000 to 27,999	7,250
28,000 to 29,999	7,750
30,000 to 31,999	8,250
32,000 to 33,999	8,750
34,000 to 35,999	9,250
36,000 to 37,999	9,750
38,000 to 39,999	10,250
40,000 to 41,999	10,750
42,000 to 43,999	11,250
44,000 to 45,999	11,750
46,000 to 47,999	12,250
48,000 to 49,999	12,750
50,000 to 51,999	13,250
52,000 to 53,999	13,750
54,000 to 55,999	14,250
56,000 to 57,999	14,750
58,000 to 59,999	15,250

For vehicles with a fair market value over $59,999, the annual lease value is equal to: (0.25 x the fair market value of the vehicle) + $500.

EXHIBIT B

2019 AUTOMOBILE USAGE REPORT

To be completed by All Employees using Company Owned or Leased Vehicle(s)

Employee Name ______________________________

The personal use of company owned or leased vehicles is a taxable fringe benefit. The amount of the benefit must be computed each year in accordance with Internal Revenue Service Regulations. The value of the fringe benefit will be included as additional compensation on your 2019 Form W-2, *Wage and Tax Statement*.

To assist in complying with this law, the following information for 2019 usage must be documented. Your response should be returned as soon as possible.

1. The number of business miles driven (your business miles do not include commuting to and from work). ____________
2. The number of commuting miles driven. __________
3. The number of personal (other than commuting) miles driven ________
4. The total number of personal miles (sum of lines 2 and 3). _________
5. The total number of miles you drove the company car during the year (sum of lines 1 and 4). _________
6. Did you have a second personally owned vehicle available for personal use? Yes ____ No ___
7. Did you maintain written records to document your business and personal use? Yes ____ No ___
8. Do you wish to have federal and state income taxes withheld from your pay based on the taxable fringe benefit amount? Yes ____ No ____

_____________________________ (Signature)

_________________ (Date)

FOR COMPANY USE ONLY

Period Car Used by Employee during Year from: __________ To: __________

Type of Vehicle (Year/Make/Model) __________ __________ __________

Date Vehicle Purchased by the Company ____________________

Original Cost: _______________

Gasoline Paid by Employer: ____ Yes ____ No

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EXHIBIT C

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 2019

Employee: ____

Description of Vehicle: ____

Date Vehicle First Made Available To Any Employee: ___________________________

Date Vehicle First Made Available To This Employee: ___________________________

Select One Method (Note Limitations on Methods II and III)

Usage Period: *(Check One)* 11/1/18 To 10/31/19 ______ Or Calendar 2019 ______

METHOD I – Annual Lease Value Method (For Autos Available 30 Days or More)

Step

1 Fair market value of vehicle (predetermined at the beginning of the first year and every 4th year thereafter) $ ___________

2 Annual lease value, per attached chart $ _________

3 Enter number of days during the year that the vehicle was available x _________ (See Note 1)

4 Divide step 3 by number of days in tax year (365). Place result in the space provided. __________

5 Prorated annual lease value (multiply Step 2 by Step 4) __________

6 Personal use % (personal/total miles, per statement from employee Exhibit B divides line 4 by line 5) x __________%

7 Personal annual lease value (Step 5 x Step 6) $ __________

8 If fuel is provided by employer: multiply personal miles by 5.5 cents (See Note 2) ___________

Personal use taxable income (Step 7 + Step 8) $ ____________

EXHIBIT C (continued)

AUTOMOBILE LEASE FOOTNOTES

(1) For automobiles available less than 30 days, please multiply the number of days the vehicle is available by 4, and place that result in the space provided.

-or-

For automobiles available 30 days or more, enter the days available in the space provided.

Please note that if by treating all periods as 30 days or more results in a lower valuation, then an election can be made to do so for **ALL** periods.

(2) If fuel is provided "in kind," the fair market value may be determined based on all facts and circumstances or, alternatively, 5.5 cents per mile, if vehicle usage is within the U.S., Canada and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost or reimbursement should be used. If employers with a fleet of 20 or more vehicles reimburse or allow employees to charge fuel costs, the fleet-average cents per mile may be used. If the fleet employer determines that both the actual cost or fleet average methods are unreasonable administrative burdens, the 5.5 cents per mile may be used.

EXHIBIT D

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR CALENDAR YEAR 2019

METHOD II – CENTS-PER-MILE VALUATION METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be used primarily by employees, regularly in the employer's business throughout the calendar year, (2) be driven at least 10,000 miles per year, and (3) have a maximum fair market value of $50,400. Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles __________x $0.58 for period 1/1/19 through 12/31/19 = $_________

Deduct:

If fuel is NOT provided by the employer enter personal miles	___________ x $0.055 =	(_________)
Personal use taxable income		$___________

METHOD III – COMMUTING VALUATION METHOD

This method may only be used for vehicles owned or leased by the company, used in the company's business and covered by a written policy that allows commuting but no other personal use. If more than one employee commutes in the vehicle, the value calculated below applies to each employee. DO NOT USE this method if the employee is a 1% or more owner, an officer or board member with compensation equaling or exceeding $110,000 for 2019, an individual with compensation equaling or exceeding $225,000 for 2019, or is a director.

Number of commuting round trips made	___________
Value per round trip	x $3.00
Personal use taxable income	$____________

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EXHIBIT E

GROUP TERM LIFE INSURANCE
(To be Completed by Employers)

Please complete the following for all employees with Group Term Life Insurance coverage over $50,000.

Employee Name			
Insurance Company			
Policy Number			
Amount of Coverage			
Policy Beneficiary			
Policy Premium			
Period Covered			
Employee's Age			

Completed By: ____

________________________________ ______________
Name and Title Date

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