Update
Bormel, Grice & Huyett, P.A.

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HAPPY HOLIDAYS FROM BGH

Thank you to all of our clients, contacts, and staff!

2019 Income Tax Planning Considerations

As the end of the year approaches, it is a good time to think of planning moves that will help lower your tax bill for this year and possibly the next. Year-end planning for 2019 takes place against the backdrop of recent major changes in the rules for individuals and businesses. For individuals, these changes include lower income tax rates, a boosted standard deduction, severely limited itemized deductions, no personal exemptions, an increased child tax credit, and a watered-down alternative minimum tax (AMT). For businesses, the corporate tax rate has been reduced to 21%, there is no corporate AMT, there are limits on business interest deductions, and there are generous expensing and depreciation rules. In addition, non-corporate taxpayers with qualified business income from pass-through entities may be entitled to a special deduction.

Despite these major changes, the time-tested approach of deferring income and accelerating deductions to minimize taxes still works for many taxpayers, along with the tactic of bundling expenses into this year or the next to get around deduction restrictions.

Year-End Tax Planning Moves for Individuals

- Higher-income earners must be wary of the 3.8% surtax on certain unearned income. The surtax is 3.8% of the lesser of: (1) net investment income (NII), or (2) the excess of modified adjusted gross income (MAGI) over a threshold amount ($250,000 for joint filers, $125,000 for a married individual filing separate, and $200,000 in any other case). As year-end nears, a taxpayer's approach to minimizing the 3.8% surtax will depend on his estimated MAGI and NII for the year. Some taxpayers should consider ways to minimize additional NII (e.g., through deferral) for the balance of the year, others should try to see if they can reduce MAGI other than NII, and other individuals will need to consider ways to minimize both NII and other types of MAGI.
- The 0.9% additional Medicare tax also may require higher-income earners to take year-end actions. It applies to individuals for whom the sum of their wages received with respect to employment and their self-employment income is in excess of a threshold amount ($250,000 for joint filers, $125,000 for married couples filing separately, and $200,000 in any other case). Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status. Self-employed persons must consider it in figuring estimated tax. There could be situations where an employee may need to have more withheld toward the end of the year to cover the tax.
- Long-term capital gain from sales of assets held for over one year is taxed at 0%, 15%, or 20%, depending on the taxpayer's taxable income. The 0% rate generally applies to the excess of long-term capital gain over any short-term capital loss to the extent that it, when added to regular taxable income, is not more than the maximum zero rate amount (e.g., $78,750 for a married couple). If the 0% rate applies to long-term capital gains you took earlier this year for example, you are a joint filer who made a profit of $5,000 on the sale of stock bought in 2009, and other taxable income for 2019 is $70,000 then before year-end, try not to sell assets yielding a capital loss because the first $5,000 of such losses won't yield a benefit this year. And if you hold long-term appreciated-in-value assets, consider selling enough of them to generate long-term capital gains sheltered by the 0% rate.
- Postpone income until 2020 and accelerate deductions into 2019 if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2019 that are phased out over varying levels of adjusted gross income (AGI). These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances.
- Many taxpayers will not be able to itemize because of the high basic standard deduction amounts that apply for 2019 ($24,400 for joint filers, $12,200 for singles and for marrieds filing separately), and because many itemized deductions have been reduced or abolished. No more than $10,000 of state and local taxes may be deducted and miscellaneous itemized deductions (e.g., investment fees and unreimbursed employee expenses) are not deductible. Itemized deductions include medical expenses but only to the extent they exceed 10% of your adjusted gross income, state and local taxes up to $10,000, your charitable contributions, plus interest deductions on a restricted amount of qualifying residence debt, but payments of those items won't save taxes if they don't cumulatively exceed the standard deduction.
- Some taxpayers may be able to work around these deduction restrictions by applying a bundling strategy to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, if a taxpayer knows he or she will be able to itemize deductions this year but not next year, the taxpayer will benefit by making two years' worth of charitable contributions this year.
- Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Thus, if you turn age 70½ in 2019, you can delay the first required distribution to 2020, but if you do, you will have to take a double distribution in 2020, the amount required for 2019 and the amount required for 2020. Although, think twice before delaying 2019 distributions to 2020, as bundling income into 2020 might push you into a higher tax bracket.

Continued →

- If you are age 70½ or older by the end of 2019, have traditional IRAs, and particularly if you cannot itemize your deductions, consider making 2019 charitable donations via qualified charitable distributions from your IRAs. Such distributions are made directly to charities from your IRAs and the amount of the contribution is included neither in your gross income nor deductible on Schedule A, Form 1040. However, the amount of the qualified charitable distribution reduces the taxable amount of your required minimum distribution, which can result in tax savings.
- Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2019 to each of an unlimited number of individuals. Such transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets.

Year-End Tax Planning Moves for Businesses & Business Owners

- Taxpayers other than C corporations may be entitled to a deduction of up to 20% of their qualified business income passing through to individuals. For 2019, if taxable income exceeds $321,400 for a married couple filing jointly and $160,700 for singles and heads of household, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased-in for joint filers with taxable income between $321,400 and $421,400 and to single taxpayers with taxable income between $160,700 and $210,700.
- Taxpayers may be able to achieve significant savings with respect to this deduction, by deferring income or accelerating deductions so as to come under the dollar thresholds (or be subject to a smaller phase-out of the deduction) for 2019. Depending on their business model, taxpayers also may be able to increase the new deduction by increasing W-2 wages before year-end.
- Businesses should consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2019, the expensing limit is $1,020,000, and the investment-ceiling limit is $2,550,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. The generous dollar ceilings that apply this year mean that many small- and medium-sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. Property acquired and placed in service in the last days of 2019, rather than at the beginning of 2020, can result in a full expensing deduction for 2019.
- Businesses also can claim a 100% bonus first-year depreciation deduction for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service this year. The 100% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year.

These are just some of the year-end steps that can be taken to save taxes. By contacting us, we can tailor a particular plan that will work best for you. ■

The BGH UPDATE is published for our clients, staff, and professional contacts. Copies will be provided to others upon written request. Any action based on information contained herein should be taken only after a detailed review of the specific situation.

The following members of our firm contributed to this edition: Larry Bormel, Marlene Collins, Mike Myers, Steve Hartong, Matthew Bormel, Barry Fields, Mary DeStefano, Bette Anne Sanders, and April Miller.

The Bormel, Grice & Huyett Business Scholarship Fund

Pictured left to right: Luis Puga, Barry Fields, Shamar Laing

The **BGH Business Scholarship Fund** was established in 1999 through generous contributions from our staff, families, friends and the community. The funds are maintained and administered by the Baltimore Washington Corridor Chamber Foundation. Over the years, our firm has awarded an annual scholarship to 31 high school students who are pursuing a business-related degree in college. We congratulate our annual scholarship recipients!

Past area high schools that these scholarships have been awarded to include students from River Hill, Laurel, Pallotti, Reservoir, Hammond, Glenelg, Atholton, Mt. Hebron, and Oakland Mills High Schools.

Congratulations to Luis Puga and Shamar Laing of Hammond High School, the 2019 recipients of the Bormel, Grice & Huyett Business Scholarship Award! Luis is attending Howard Community College and Shamar is attending Frostburg State College.

Our best wishes for future success to the Class of 2019!

Tax Due Date Calendar

January 15

- Final installment of 2019 estimated tax by individuals and trusts due

January 31

- Last day to paper or electronically file W-2's (and 1099-MISC reporting amounts in box 7)
- Last day to receive W-2 forms and most 1099 statements from your employer, banker, broker, etc.
- Fourth quarter 2019 payroll tax returns and annual federal unemployment returns due

February 28

- Paper file Forms 1098, 1099 (except for amounts reported in box 7 of 1099-MISC), W-2G
- If Forms 1098, 1099 (not including Form 1099-MISC with Box 7 entries) or W-2G are filed electronically, the due date for filing with the IRS and SSA is extended to March 31st, 2020

March 16

- S Corporation and Partnership income tax returns for calendar year 2019 due
- Last day for calendar year S Corporations and Partnerships to file Form 7004, an automatic six-month extension of time, for 2019 income tax returns

April 15

- Individual income tax returns or Form 4868 (automatic six-month extension) plus payment of any 2019 tax liability due
- First quarter individual estimated tax payments due for 2020
- C Corporation income tax returns for calendar year 2019 due or last day for calendar year C Corporations to file Form 7004, an automatic six-month extension of time, for 2019 tax returns plus payment of any 2019 tax liability due
- 2020 Maryland personal property tax returns due
- Last day for making 2019 IRA contributions
- Gift tax returns (Form 709) and payment of any gift tax due for 2019. If your income tax return is extended, the Gift tax return will automatically be extended for six-months, or otherwise file Form 8892
- Calendar year fiduciary income tax returns and requests for 5½ month automatic extensions due
- First installment for corporation estimated income tax due for 2020
- FinCEN 114 is due

New Revenue Recognition ASU 2014-09

New for 2019 is the Revenue Recognition Standard, otherwise known as Topic 606 Revenue from Contracts with Customers. The standard, which was first presented as Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers, is intended to supersede the transactional and industry specific revenue recognition guidance and replace it with a principle-based approach for determining revenue recognition. The Revenue Recognition Standard affects all entities—public, private and not-for profit that enter into contracts with customers. Keep in mind that this is an accounting concept and only should be considered if you or your company has financial statements prepared. If you are a tax-only client and have no financial statements, this standard doesn't directly affect your business.

The mechanics of the Revenue Recognition Standard involve a five-step process: 1) identify the contract(s) with the customer, 2) identify the "performance obligations" in the contract, 3) determine the transaction price, 4) allocate the transaction price to the "performance obligations," and then 5) recognize revenue when the entity satisfies each performance obligation.

Topic 606 applies if you have "customer contracts" or agreements between two or more parties that creates enforceable rights and obligations. A contract only exists if following conditions are met: the contract has commercial substance, all parties have approved the contract and are committed to their respective obligations, and your business will collect substantially all of the consideration in exchange for goods or services in the agreement.

Once you have established that there is a customer contract, understanding and applying "performance obligations" is the next step in the process. A performance obligation is a promise in a contract with a customer to transfer to the customer either a good or service that is distinct (or a series of distinct goods or services). Under the terms of the contract, the performance obligation should be significant enough to generate a material right to the customer.

The transaction price is the amount of consideration to which your company expects to be entitled in exchange for transferring promised goods or services to a customer, which will exclude any consideration of collection issues and that the existing contract will not be canceled, renewed or modified. In determining the transaction price, the company should consider the following: variable consideration (like a performance bonus or rebates and coupons), significant financing components in the contract, and noncash consideration. The contracts with variable consideration can be complex, and in certain cases might need to be revised in the future.

Once a transaction price is determined for the contract, it needs to be allocated to each performance obligation. The amount allocated to each performance obligation has to stand alone and represent the amount for which you would sell the promised good or service reflected. Depending on the circumstances, the transaction price can be allocated using one of three methods: the adjusted market assessment approach, the expected cost plus margin approach, or the residual approach. The adjusted market assessment approach looks to the marketplace to determine what a customer might pay for separate performance obligations. The expected cost plus margin approach requires forecasting the expected costs and then adding a margin. The residual approach only can be used where you sell the performance obligations separately.

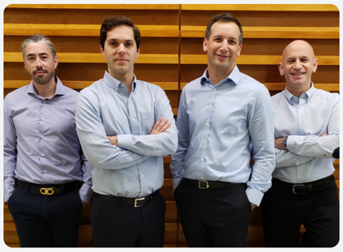
The final step in the process is when to actually recognize income. Simply put, recognize income for each performance obligation when that performance obligation is satisfied. That will occur when the control of goods and services in the performance obligation are transferred to the buyer, where control is defined as direct use of and benefit of the performance obligation. Transfer can occur at a particular point in time or occur over a period of time. Additionally, physical possession may not coincide with control of an asset; legal title and payment by the customer is required.

If the new standard applies, your 2019 financial statements may also require an update and further explanation of your revenue recognition accounting policies in the disclosures. Please reach out to us if you have questions.

Update on the New Leasing Standard Topic 842

Good news: the Financial Accounting Standards Board (FASB) has delayed the implementation of the new leasing standard for non-public companies and not-for-profit organizations for an additional year at its July 17, 2019 Board meeting. This new deadline will be effective for these entities for years beginning after December 15, 2020 (January 1, 2021 for calendar year-end companies). The new Leasing Standard will require changes in the way operating and capital leases are recorded and presented in the year of transition. ■

Bormel-Grice & Huyett, P.A. is Proud to Feature Our Client: Camber Creek



Pictured left to right: Jeff Berman, Casey Berman, Jake Fingert, Mitchell Schear

Camber Creek is the premier venture capital firm in the United States that focuses on "proptech"—namely technology companies offering products and services to the real estate industry. Camber Creek was founded by Casey Berman, who had previously worked alongside his family at Berman Enterprises in the Washington, DC metro region. In 2011, Casey was President of Operations for Berman Enterprises and was struck by how the real estate industry relied exclusively on cell phones and spreadsheets while other sectors of the economy were racing ahead in adopting new technology. He launched Camber Creek to invest in the next generation of entrepreneurs whose companies could bring both value to operating real estate businesses and deliver industry-leading returns for Camber Creek's investors.

Today, eight years later, Camber Creek has more than $100 million under management. The firm has invested in companies like VTS, the leading online leasing platform; Latch, the leading access control company; and WhyHotel, which runs pop-up hotels in luxury residential buildings and was recently named to CNBC's Upstart 100 list. The firm has had eight exits, helping it establish a track record as the leading proptech venture firm in the country. Camber Creek frequently partners with leading generalist funds, and has recently co-invested with Trinity Ventures, Lux Capital, Bessemer, NEA, Highland Capital, SalesForce Ventures, and Goldman Sachs. Camber Creek's team has grown in tandem. Casey continues to serve as managing partner, joined by General Partners Jake Fingert and Jeffrey Berman (also a former executive with Berman Enterprises) and by Executive Partner Mitchell Schear, the former President of Vornado/Charles E. Smith.

Camber Creek distinguishes itself from other venture firms through its unique model. Most of Camber Creek's limited partners (LPs) are real estate owners and operators. These LPs collectively own or manage 1 billion square feet of commercial property and more than 500,000 multi-family units around the U.S. This network lets Camber Creek test out new potential products or services in real time, getting valuable market feedback before making an investment in a new company. Once Camber Creek does invest, the firm adds value by making introductions to new customers and strategic partners. In fact, unless Camber Creek believes it can de-risk an investment through connections to the firm's LP network, it won't make an investment. Casey, Jake, Jeffrey and Mitchell believe there is a long run-way for real estate technology and plan to be investing for decades to come. ■

2019 & 2020 Limits for Retirement Plans & Other Employer Provided Benefits

The IRS has released the 2020 cost-of-living adjustments (COLA) for Social Security, qualified retirement plans, and other-employer provided benefits including health FSA, HSA, HRA and qualified transportation fringe benefits.

Qualified Retirement Plan Limitations

	2019	2020
Taxable Wage Base	$132,900	$137,700
Annual Compensation Limit	$280,000	$285,000
Elective 401(k) Deferrals Limit	$19,000	$19,500
Catch-up Contributions (Age 50 & Older) Limit	$6,000	$6,500
Limitation for Defined Contribution Plan under IRC §415	$56,000	$57,000
Key Employee Officer Compensation Limit	$180,000	$185,000

FSA/HSA/HRA & Other-Employer Provided Benefits Limitations

	2019	2020
Medical Reimbursement	$2,700	$2,750
Qualified Parking	$265/mo	$270/mo
Health Savings Account		
Individual Coverage	$3,500	$3,550
Family Coverage	$7,000	$7,100
QSEHRA *(Qualified Small Employer Health Reimbursement Arrangements)*		
Individual Coverage	$5,150	$5,250
Family Coverage	$10,450	$10,600

BGH News

Pictured left to right

The 2019 BGH Staff Awards were presented to the following very deserving staff members:

Award of Appreciation Dawn Milam
Thumbs Up Award Steve Hartong
Superstar Award Sherrie Williams

BGH welcomed new team member **Mary DeStefano** to our accounting department. She is a graduate of Loyola College in Baltimore and the Catholic University in Washington, DC. Mary currently resides in Germantown, MD.

BGH also welcomed new team member **Marco Torchia** to our accounting department. He is a graduate of the University of Maryland and resides in Silver Spring, MD.

Our firm held a silent auction on July 13, 2019, with all of the proceeds going to the **BGH Scholarship Fund**. Thank you to our staff for their participation and for the many items which were donated to help us raise over $1,700 for the Scholarship Fund. A special thank you to **Dawn Milam** for organizing the auction.

Happy Holidays & a Prosperous New Year!

From our family to yours — the **Partners** and **Staff** of

BORMEL, GRICE & HUYETT, P.A.