Key Financial Data for 2019

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Our new tax law means annual inflation adjustments for more than 60 tax provisions and changes affecting virtually all tax-paying adults in the country—plus the ongoing debate and additional fixes along the way. With tax reform still in the headlines, here is what you need to know about various tax brackets, thresholds, limitations, and exemptions for 2019.

A little over a year ago, the Republican-led Congress passed the most far reaching tax legislation since 1986. The Tax Cuts and Jobs Act passed without consensus and managed to turn 100 years of tax law on its head. Some of the changes were seemingly minor, like changing the type of CPI that is used to measure inflation. Other changes were more extensive and controversial, such as instituting a cap on state and local tax deductions aimed primarily at the “blue” states. In any event, there is a lot going on here and everyone should be paying attention.

Although portrayed as tax simplification, the TCJA was anything but. Despite some changes that will potentially make life easier, such as doubling the standard deduction, new issues have emerged that must be contended with, such as the loss of many itemized deductions. As a result of these changes, tried and true strategies (such as bunching deductions) are surging in popularity while new strategies are gaining attention. In short, tax law has become a front-and-center issue for every taxpayer (and therefore every advisor), and it pays to be engaged in this area.

Taxpayers will need to be mindful, too, of the fact that numerous provisions were enacted only temporarily. Many are sunsetting at the end of 2025, while others were made permanent. With a newly elected Democratic Congress, and a growing deficit as a result of the TCJA, only time will tell how the less popular (or more controversial) tax law changes will be handled.

The big news is the tax brackets and tax rates for 2019. There are still seven tax brackets along with a 0% tax rate. Table 1 shows how they break out by filing status, and the trust and estates schedule is shown at the end of the table.

Table 1: 2019 Tax Rate Schedule

Taxable income ($)	Base amount of tax ($)	Plus	Marginal tax rate	Of the amount over ($)
Single				
0 to 9,700	0	+	10	0
9,701 to 39,475	970.00	+	12	9,700.00
39,476 to 84,200	4,543.00	+	22	39,475.00
84,201 to 160,725	14,382.50	+	24	84,200.00
160,726 to 204,100	32,748.50	+	32	160,725.00
204,101 to 510,300	46,628.50	+	35	204,100.00
Over 510,300	153,798.50	+	37	510,300.00
Married filing jointly and surviving spouses				
0 to 19,400	0	+	10	0
19,401 to 78,950	1,940.00	+	12	19,400.00
78,951 to 168,400	9,086.00	+	22	78,950.00
168,401 to 321,450	28,765.00	+	24	168,400.00

321,451 to 408,200	65,497.00	+	32	321,450.00
408,201 to 612,350	93,257.00	+	35	408,200.00
Over 612,350	164,709.00	+	37	612,350.00
Head of household				
0 to 13,850	0	+	10	0
13,851 to 52,850	1,385.00	+	12	13,850.00
52,851 to 84,200	6,065.00	+	22	52,850.00
84,201 to 160,700	12,962.00	+	24	84,200.00
160,701 to 204,100	31,322.00	+	32	160,700.00
204,101 to 510,300	45,210.00	+	35	204,100.00
Over 510,300	152,380.00	+	37	510,300.00
Married filing separately				
0 to 9,700	0	+	10	0
9,701 to 39,475	970.00	+	12	9,700.00
39,476 to 84,200	4,543.00	+	22	39,475.00
84,201 to 160,725	14,382.50	+	24	84,200.00
160,726 to 204,100	32,748.50	+	32	160,725.00
204,101 to 306,175	46,628.50	+	35	204,100.00
Over 306,175	82,354.75	+	37	306,175.00
Estates and trusts				
0 to 2,600	0	+	10	0
2,601 to 9,300	260.00	+	24	2,600.00
9,301 to 12,750	1,868.00	+	35	9,300.00
Over 12,750	3,075.50	+	37	12,750.00

Source: *IRS Rev. Proc 2018-57 (pgs 8-11)*

Standard deduction. The standard deduction, shown in Table 2, increases slightly from $24,000 in 2018 to $24,400 in 2019, for married-filing-jointly filers; from

$12,000 to $12,200, for single and married-filing-separately filers; and from $18,000 to $18,350, for head-of-household filers. This is a temporary change, effective only until December 31, 2025.

The tax reform law keeps the **additional standard deduction** amounts as they were for 2018. Thus, people who are blind or over age 65 receive an extra deduction of $1,300 each. The additional deduction for those who are blind or over 65 and unmarried (not a surviving spouse) changes from $1,600 to $1,650.

Table 2: Standard Deductions

Filing status	**2019**	**2018**
Single or married filing separately	$12,200	$12,000
Married filing jointly and qualifying widow(er)s	$24,400	$24,000
Head of household	$18,350	$18,000
Dependent filing own tax return	$1,100*	$1,050

**Cannot exceed greater of $1,100 or $350 plus the individual's earned income*
Source: IRS Rev. Proc 2018-57 (pg 63)

Personal exemption. Remember that the ability to take personal exemptions has been eliminated, a change which to some degree tempers the benefit of the higher standard deduction. The provision to eliminate personal exemptions is scheduled to sunset after December 31, 2025.

Child tax credit. The child tax credit has been expanded to $2,000 per qualifying child and is refundable up to $1,400, subject to phaseouts. There is also a nonrefundable $500 credit for other qualifying dependents. Phaseouts will begin with adjusted gross income of more than $400,000 for married taxpayers filing jointly and more than $200,000 for all other taxpayers.

Limitations on deductions. Before the Tax Cuts and Jobs Act, the Pease and PEP provisions reduced the value of deductions for wealthy taxpayers. The new law ends the limitation on deductions, but only until the end of 2025.

Alimony. Alimony is no longer taxable to the recipient nor is it deductible for the payor.

Capital gains and dividends. Tax rates on long-term capital gains and qualified dividends generally are unchanged, at 0%, 15% and 20%. For 2019, the 15% rate applies to capital gains or dividends that push taxable income above $78,750 for joint returns and surviving spouses, $52,750 for heads of household, $39,375 for single and married-filing-separately taxpayers, and $2,650 for estates and trusts.

The 20% rate applies to long-term capital gains or qualified dividends that propel taxable income past $488,850 for joint filers and surviving spouses, $461,700 for heads of household, $434,500 for single filers, $244,400 for married-filing-separately filers, and $12,950 for estates and trusts.

Tax on net investment income. Some high-income taxpayers owe the net investment income tax (NIIT) of 3.8%, which is levied on the lesser of net investment income or modified adjusted gross income over specific thresholds (see thresholds in Table 3). Net investment income includes taxable interest, ordinary dividends, capital gains and other income categories, and some expenses can be subtracted.

Table 3: 3.8% Tax on Lesser of Net Investment Income or Excess of MAGI Over

Filing status	**2019**
Married filing jointly	$250,000
Single	$200,000
Married, filing separately	$125,000

Source: IRS

Deduction for medical expenses. Taxpayers who itemize can claim a deduction for medical expenses if those expenses exceed 10% of adjusted gross income, an increase from 2018 when it was only a 7.5% floor.

SALT and sales tax deduction is capped. The new tax law limits the total deduction for property taxes, state and local income taxes, and state and local sales taxes to $10,000 a year, whether filing individually or married filing jointly.

Alternative minimum tax. The AMT will continue to affect fewer and fewer taxpayers under the new tax law. In 2019, the exemption amounts rise to $111,700 for married-filing-jointly taxpayers, up from $109,400 in 2018; $71,700 for single filers, up from $70,300 in 2018; and $55,850 for filers who are married filing separately, up from $54,700 in 2018.

The new amounts are indexed for inflation, and scheduled to sunset at the end of 2025. The exemption amount for estates and trusts rises to $25,000 from $24,600 in 2018.

The 28% tax rate applies to income over $97,400 for people who are married filing separately and $194,800 for all other taxpayers. The exemption amounts phase out at an income of $1,020,600 for married-filing-jointly and surviving spouse taxpayers and $510,300 for all others (except estates and trusts which, under existing law, phase out at $83,500 in 2019).

Kiddie tax. The kiddie tax applies to unearned income for children under the age of 19 and college students under the age of 24. Unearned income is income from sources other than wages and salary, like dividends and interest. Taxable income attributable to net unearned income will be taxed according to the generally unfavorable brackets applicable to trusts and estates. For earned income, the rules are the same as before. For qualified unearned income up to $2,600, they pay 10% tax; on qualified unearned income from $2,601 to $9,300, they pay a 24% rate, and on qualified unearned income from $9,301 to $12,750, they pay a 35% rate, and above $12,751, they pay a 37% rate.

Estate tax. Estate, gift and GST exclusions rise to $11,400,000. The top federal estate-tax rate remains 40%.

Gift tax. The value of gifts one person can give another without reporting it on a gift tax return is $15,000 in 2019.

Tax-free IRA distributions to charity, or qualified charitable distributions (QCDs). People aged 70½ or older can make tax-free distributions of up to $100,000 from an IRA directly to a charity. The distribution will count as a required minimum distribution and should be considered an attractive alternative for all clients taking RMD's.

Education credits and deductions. The law allows up to $10,000 a year in 529-plan distributions to pay for qualified private-school K-12 education costs (excluding homeschooling), a provision which might encourage taxpayers to focus on 529 plans rather than Coverdells. (Previously, for a 529 distribution to be qualified, it had to be used for higher-education costs, whereas K-12 expenses have been a qualified expense for Coverdell plans.) The new law also allows rollovers from 529 plans to ABLE accounts for disabled beneficiaries until December 31, 2025. But, make sure to check with the specific state, because some states are decoupling from the federal and *not* treating the 529 plan withdrawal for K-12 expenses as a qualified distribution.

American Opportunity Tax Credit. Taxpayers with qualified education expenses can reduce their tax bill by up to $2,500 (of which $1,000 is refundable) thanks to the AOTC, if their modified adjusted gross income doesn't exceed $80,000 ($160,000 for married-filing-jointly filers). At that income level, the credit starts to phase out.

Lifetime Learning Credit. This nonrefundable credit is worth up to $2,000. In 2019, the credit starts to phase out for taxpayers with modified adjusted gross income of $58,000 ($116,000 for married-filing-jointly filers) and phases out completely at $65,000 ($131,000 for married-filing-jointly filers). The Lifetime Learning Credit offers two main advantages over the American Opportunity Tax Credit: The LLC can be claimed for an unlimited number of tax years (the AOTC is limited to four tax years per eligible student) and the student doesn't need to be pursuing a degree (the AOTC requires the student to be pursuing a degree or other credential).

Student loan interest deduction. The student loan interest deduction allows an above-the-line deduction of up to $2,500. The deduction starts to phase out once modified adjusted gross income reaches $70,000 ($140,000 for married-filing-jointly filers) and is unavailable to taxpayers with modified adjusted gross income higher than $85,000 ($170,000 for joint filers).

Tax-free savings bond interest. In 2019, the ability to enjoy tax-free interest from savings bonds that are redeemed to pay for higher-education costs starts to phase out for taxpayers with modified adjusted gross income of $81,100 ($121,600 for joint filers) and completely disappears for those with income above $96,100 ($151,600 for joint returns).

Coverdell Education Savings Accounts. Parents and others who want to save for a student's education costs can contribute a maximum of $2,000 to these accounts (contributions are after-tax, like a Roth IRA), and then withdraw the contributions and investment earnings tax-free if the funds are used to pay qualified education expenses. The maximum contribution starts to phase out for taxpayers with modified adjusted gross income of $95,000 ($190,000 for married-filing-jointly filers), while taxpayers with income above $110,000 ($220,000 for joint filers) are prohibited from contributing to such accounts.

Schedule C and pass-through business income. Don't forget about the 20% deduction against qualified business income for pass-through entities and business owners who file a Schedule C. Phaseouts begin at $315,000 and end at $415,000 for those in a specified service trade or business.

Retirement plan contribution limits. Retirement plans (see Table 4) continue to remain in the news and are the subject of much debate. The total amount that employers and employees combined can contribute to a 401(k) or similar defined-contribution plan rises to $56,000 in 2019, up from $55,000 in 2018. The maximum annual employee contribution increases to $19,000, from $18,500 a year ago, while the catch-up contribution for people aged 50 and older remains $6,000. The limit on how much compensation can be counted under a qualified plan rose to $280,000, from $275,000. Meanwhile, the basic annual benefit limit for defined-benefit plans rose to $225,000, from $220,000.

Table 4: Retirement Plan Contribution Limits

	2019	2018
Annual compensation used to determine contribution for most plans	$280,000	$275,000
Defined-contribution plans, basic limit	$56,000	$55,000
Defined-benefit plans, basic limit	$225,000	$220,000
401(k), 403(b), 457(b), Roth 401(k) plans, elective deferral limit	$19,000	$18,500

Catch-up provision for individuals 50 and over, 401(k), 403(b), 457(b), Roth 401(k) plans	$6,000	$6,000
SIMPLE plans, elective deferral limit $12,500	$13,000	$12,500
SIMPLE plans, catch-up contribution for individuals 50 and over	$3,000	$3,000

Source: IRS

Individual retirement accounts

In 2019, taxpayers who save for retirement in a traditional IRA or Roth IRA are limited to a $6,000 contribution, plus a $1,000 catch-up for those 50 and older.

Deductible IRA. Taxpayers who aren't participating in a retirement plan at work generally can fully deduct their contributions to a traditional IRA. However, income thresholds limit the deductibility of such contributions for taxpayers who are participating in a workplace plan (or if their spouse participates). Table 5 details the income thresholds, which are slightly higher in 2019, due to IRS inflation adjustments.

Table 5: MAGI Limits for IRA Deductibility in 2018 if Covered by a Qualified Plan at Work

Filing status	**Full deduction**	**Partial deduction**	**No deduction**
Single, head of household	Less than $64,000	$64,000–$74,000	More than $74,000
Married filing jointly	Less than $103,000	$103,000–$123,000	More than $123,000
Married filing jointly—deduction if taxpayer not covered by qualified plan, but spouse is	Less than $193,000	$193,000–$203,000	More than $203,000
Married filing separately	N/A	0–$10,000	More than $10,000

Source: IRS

IRA contributions. Income thresholds limit who can contribute to a Roth IRA (there are no such income limits on Roth conversions), and those limits increase slightly in 2019 for most taxpayers, except for couples who are married, filing separately. Consider "back-door" Roth conversions or partial conversions.

Table 6: AGI Limits for Roth IRA Contributions in 2018			
Filing status	**Full deduction**	**Partial deduction**	**No deduction**
Single, head of household	Less than $122,000	$122,000–$137,000	More than $137,000
Married filing jointly	Less than $193,000	$193,000–$203,000	More than $203,000
Married filing separately	N/A	0–$10,000	More than $10,000

Source: IRS

Health savings accounts

Health savings accounts offer the rare tax trifecta: Contributions are made pretax, enjoy tax-free investment returns, and money comes out tax-free if used for qualified medical expenses. The downside is that such accounts currently are available only to those who are enrolled in a high-deductible health plan, which can pose steep up-front costs for consumers. For 2019, the minimum annual deductible for a qualifying health plan is $1,350 for an individual plan and $2,700 for family coverage. The maximum deductible contribution to an HSA in 2019 is $3,500 for individuals. For family coverage, the maximum deductible contribution is $7,000.

Table 7: Health Savings Accounts 2018				
	Contribution limit	**Minimum annual deductible**	**Maximum out of pocket (deductibles and copays)**	**55+ catch-up contribution**
Single	$3,500	$1,350	$6,750	$1,000
Family	$7,000	$2,700	$13,500	$1,000

Source: IRS Rev. Proc 2018-57 (p. 20)

Long-term-care premiums

Taxpayers who are paying for long-term care generally can deduct a portion of their premiums as a qualified medical expense. The deductible varies based on the taxpayer's age and is subject to the 10% floor for medical expenses. See Table 8 below for the specific amounts, which increase slightly in 2019.

Table 8: Amount of LTC Premiums That Qualify as Medical Expenses		
Age before close of tax year	**2019**	**2018**
40 or younger	**$420**	$420
41 to 50	**$790**	$780

51 to 60	**$1,580**	$1,560
61 to 70	**$4,220**	$4,160
Over 70	**$5,270**	$5,200

Source: IRS Rev. Proc 2018-57

Social Security

Social Security beneficiaries may be glad to learn they're set to receive a 2.8% cost of living adjustment to their benefits, an increase over the 2% cost of living adjustment from 2018. The estimated maximum monthly benefit is $2,861 in 2019. The maximum taxable wage base in 2019 is $132,900, up from 2018's $128,400. The tax rate remains the same: 6.2% each for the employer and employee (12.4% for self-employed people).

Tax on Social Security benefits. Sometimes retirees are surprised to find their Social Security benefits are taxed. Table 9 below shows the income thresholds at which benefits start to be taxed. To figure their bill, beneficiaries must compute their "provisional" income, which is also known as "combined" income. Combined income = Income + Nontaxable interest + Half of Social Security benefits.

Table 9: Income Brackets for Tax on Social Security Benefits

Filing status	Provisional income	Amount of Social Security subject to tax
Married filing jointly	Under $32,000 $32,000–$44,000 Over $44,000	0 Up to 50% Up to 85%
Single, head of household, qualifying widow(er), married filing separately and living apart from spouse	Under $25,000 $25,000–$34,000 Over $34,000	0 Up to 50% Up to 85%
Married filing separately and living with spouse	Over 0	Up to 85%

Source: Social Security Administration

Full retirement age. The so-called "full" or "normal" retirement age for claiming unreduced Social Security benefits is 66 for people who were born from 1943 through 1954. For those born after 1954 but before 1960, full retirement age is 66 plus some number of months, depending on the birth year. For those born in 1960 or later, full retirement age is 67.

The earliest anyone can claim benefits is age 62, though claiming before one's full retirement age leads to a permanently reduced monthly benefit amount. On the other hand, delaying benefits past one's full retirement age can lead to higher benefits—as much as 8% a year higher up to age 70. The decision of when to claim benefits is a complex one; the best answer will vary depending on an individual's circumstances. Note that even if someone delays Social Security benefits, he or she should sign up for Medicare at age 65 to avoid a late-enrollment penalty.

Retirement earnings test. When Social Security beneficiaries earn money from working, they risk a temporary reduction in benefits if their earnings exceed a certain amount—this only applies to people who are younger than their full retirement age. For every $2 in earnings above an income threshold, $1 is withheld from their benefits. That earnings threshold is $17,640 in 2019. In the year that the beneficiary reaches full retirement age, $1 of benefits is withheld for every $3 of earnings above $46,290, up from $45,360. There is no reduction in benefits after full retirement age. Once the beneficiary reaches full retirement age the benefit is adjusted to remove the actuarial reduction for those months in which a benefit was withheld.

Medicare

The standard premium amount in 2019 is $135.50, though some Part B beneficiaries pay less (an average of $130 in 2018) due to the "hold harmless" provision that protects them if Social Security benefits rise slower than Medicare premiums. The people who pay the higher figure include: those signing up for Medicare Part B for the first time, those who don't receive Social Security benefits, those who don't have their Part B benefits automatically deducted from their Social Security benefits, and others. Meanwhile, some higher-income beneficiaries will pay more than the standard premium, as shown in Table 10.

Table 10: 2019 Medicare Premiums and Deductibles

	2019	**2018**
Part B (outpatient services) premium	$135.50	$134 (Average of $130 if held harmless)
Part B deductible	$185	$183
Part A (inpatient services) deductible for first 60 days of hospitalization	$1,364	$1,340
Part A deductible for days 61-90 of hospitalization	$341/day	$335/day
Part A deductible for more than 90 days of hospitalization	$682/day	$670/day

Source: Centers for Medicare and Medicaid Services

Medicare premiums for high-income taxpayers. Table 11 shows the higher Part B premiums for wealthier taxpayers, which vary based on income.

Table 11: Medicare Premiums for High-Income Taxpayers			
2017 MAGI single	**2017 MAGI joint**	**Part B premium**	**Part D income-related adjustment**
$85,000 or less	$170,000 or less	$135.50	$0.00
$85,001–$107,000	$170,001–$214,000	$189.60	$12.40
$107,001–$133,500	$214,001–$267,000	$270.90	$31.90
$133,501–$160,000	$267,001–$320,000	$352.20	$51.40
$160,001–$500,000	$320,001–$750,000	$433.40	$70.90
More than $500,000	More than $750,000	$460.50	$77.40

Source: Centers for Medicare and Medicaid Services

Hire a tax pro

These figures are for planning purposes only. Consult a tax professional and encourage clients to do the same before making significant investment or financial decisions.

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