



List of Changes

Cover Image Not Yet
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Fundamentals of Taxation 2019 Edition

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Changes to the 2019 edition as a result of the Tax Cuts and Jobs Act of 2017 include the following:

Chapter 1

- Income tax rates and applicable taxable income ranges will change for all taxpayers.
- The standard deduction increases to \$24,000 for married taxpayers and \$12,000 for single taxpayers.
- The Affordable Care Act penalty for lack of qualifying coverage will expire for tax year 2019 and later.

Chapter 2

- Income tax rates and applicable taxable income ranges will change for all taxpayers.
- The standard deduction increases to \$24,000 for married, \$12,000 for single, and \$18,000 for head of household. The additional standard deduction for elderly and blind remains.
- The personal exemption is eliminated.

Chapter 3

- Income tax rates and applicable taxable income ranges will change for all taxpayers.
- Moving expense reimbursements are no longer excluded from gross income.
- Qualified tuition program withdrawals can be used for tuition at elementary or secondary schools.

Chapter 4

- Income tax rates and applicable taxable income ranges will change for all taxpayers.
- Moving expenses are no longer deductible, except for military personnel moving because of orders related to a permanent change of duty station.
- For divorce agreements executed or modified after December 31, 2018, alimony payments are not deductible, and receipts are not taxable. Existing unmodified agreements will be grandfathered under currently-existing rules.

Chapter 5

- Income tax rates and applicable taxable income ranges will change for all taxpayers.
- Medical expenses are an itemized deduction to the extent they exceed 7.5% of AGI in 2018. The threshold will be 10% in 2019 and later.
- The itemized deduction for state & local taxes is limited to a maximum of \$10,000. This includes state or local income tax, sales tax, and property tax.
- Interest expense on home equity indebtedness is no longer deductible except in limited circumstances.
- Mortgage interest is deductible only on home acquisition indebtedness of \$750,000 or less, down from \$1 million. This change is effective for new indebtedness incurred on or after 12/15/17.
- The itemized deduction for mortgage insurance premiums has been eliminated.
- The AGI limitation for cash contributions to public charities is increased to 60% from 50%.
- An itemized deduction for casualty & theft losses is only permitted if the losses were attributable to a presidentially-declared federal disaster.
- All miscellaneous itemized deductions (those subject to a limitation of 2% of AGI) are no longer permitted.
- The limitation to total itemized deductions for high-income taxpayers (the "Pease" limitation) is eliminated.

Chapter 6

- For businesses with average annual gross receipts (in prior 3 years) over \$25 million, business interest expense is only allowed to the extent it does not exceed 30% of Adjusted Taxable Income (ATI). In general, ATI is taxable income before interest, depreciation, amortization, and depletion.

- For property acquired and placed in service after 9/27/17, the bonus depreciation percentage is increased from 50% to 100%, effectively resulting in full deduction for property so acquired. Applies to new or used property.
- Section 179 depreciation deduction limit increased to \$1 million from \$500,000. This limit is reduced dollar-for-dollar if Section 179 property placed in service in the year exceeds \$2.5 million.
- No deduction is allowed for expenses related to business entertainment, amusement, and recreation. Membership dues are not deductible. 50% limit for food and beverage expenses of trade or business remains. However, meals provided as de minimis fringe or for the convenience of the employer are deductible only at 50%.
- No deduction is allowed for the cost of providing qualified parking and transportation fringe benefits to employees. These items remain a nontaxable fringe benefit to employees.
- Depreciation limits are increased for luxury autos placed in service in 2018 or later.
- Taxpayers are allowed deduction of 20% of income from a partnership, Sub S, or sole proprietorship. The deduction is a “from AGI” deduction, but is not an itemized deduction. Deduction may be limited for taxpayers with income over \$315,000 (married filing jointly) or \$157,500 (all other taxpayers). Deduction does not reduce income subject to self-employment tax.
- Home office expenses of employees are no longer deductible. Previously, these were reported as a miscellaneous itemized deduction. Home office expenses of self-employed taxpayers are still permitted.

Chapter 7

- Income tax rates and applicable taxable income ranges will change for all taxpayers.
- The income breakpoints for taxability of net capital gains and qualified dividends have increased.
 - Capital gains/dividends are taxed at 0% for taxable income less than \$77,200 (MFJ), \$51,700 (HoH), or \$38,600 (all other taxpayers).
 - Then, capital gains/dividends are taxed at 15% for income up to \$479,000 (MFJ), \$239,500 (MFS), \$452,400 (HoH), or \$425,800 (single).
 - Above those amounts, capital gains/dividends are taxed at 20%.

Chapter 8

- Income tax rates and applicable taxable income ranges will change for all taxpayers.
- Taxpayers are allowed deduction of 20% of income from a partnership, Sub S, or sole proprietorship. The deduction is a “from AGI” deduction, but is not an itemized deduction. Deduction may be limited for taxpayers with income over \$315,000 (married filing jointly) or \$157,500 (all other taxpayers). Deduction does not reduce income subject to self-employment tax.

Chapter 9

- Income tax rates and applicable taxable income ranges will change for all taxpayers.
- Child Tax Credit is increased to \$2,000 per child (up from \$1,000), of which \$1,400 is refundable. Adds a \$500 nonrefundable credit for qualifying dependents other than children. Phase out

limits increased to \$400,000 for married filing jointly and \$200,000 for single taxpayers.

Chapter 10

- No change

Chapter 11

- Section 529 plans can now be used for qualified expenses for elementary and secondary schools.

Chapter 12

- Like-kind exchange treatment (Section 1031) is limited only to real property.

Chapter 13

- AMT exemption amounts, and phase-out thresholds are increased for all individual taxpayers.

Chapter 14

- For businesses with average annual gross receipts (in prior 3 years) over \$25 million, business interest expense is only allowed to the extent it does not exceed 30% of Adjusted Taxable Income (ATI). In general, ATI is taxable income before interest, depreciation, amortization, and depletion.
- Taxpayers are allowed deduction of 20% of income from a partnership, Sub S, or sole proprietorship. The deduction is a “from AGI” deduction, but is not an itemized deduction. Deduction may be limited for taxpayers with income of \$315,000 (married filing jointly) or \$157,500 (all other taxpayers). Deduction does not reduce income subject to self-employment tax.

Chapter 15

- The corporate tax rate has been reduced to a flat 21%.
- The corporate alternative minimum tax is repealed.
- The 80% dividend received deduction is reduced to 65% and the 70% dividends received deduction is reduced to 50%.
- For businesses with average annual gross receipts (in prior 3 years) over \$25 million, business interest expense is only allowed to the extent it does not exceed 30% of Adjusted Taxable Income (ATI). In general, ATI is taxable income before interest, depreciation, amortization, and depletion.
- For net operating losses (NOLs) created in 2018 and later: (a) loss carryback is not permitted, (b) any loss carryforward is limited to 80% of taxable income in the carryforward year, and (c) unused carryforwards do not expire. NOLs created in tax year 2017 or before are accounted for in accordance with pre-2018 rules. The rules related to capital loss carrybacks and carryforwards are not changed.
- Gross receipt threshold to permit use of cash basis accounting increases from \$5 million to \$25 million. Also, if business has inventories and is under the same \$25 million threshold, it can account for inventories as either non-incidental materials and supplies (thus permitting the cash basis) or the business can use the inventory method used in their financial statements.

Chapter-by-chapter enhancements that have been made in the 2019 edition include the following:

Chapter 1

- Eliminated Form 1040EZ and replaced with new Form 1040 and Schedules.
- Revised line number references for new Forms.
- Updated text for new social security limit.
- Updated text for new household income thresholds for health care tax.

Chapter 2

- Eliminated Form 1040A and replaced with new Form 1040 and Schedules.
- Revised line number references for new Forms.

Chapter 3

- Included updated inflation-adjusted phase out amounts for interest income exclusion for savings bonds.

Chapter 4

- Revised the limits for Health Savings Accounts (HSAs)
- Moving expense mileage rates were revised.

Chapter 5

- Modified coverage of deductible medical expenses to reflect that the 7.5% AGI threshold now applies.
- Medical-related mileage rates were revised.
- The maximum deductible premiums for long-term care were revised.

Chapter 6

- The depreciation expense limits for luxury automobiles were revised.
- Revised the mileage rate for travel expense.

Chapter 7

- Capital gains tax rates and income thresholds were updated.

Chapter 8

- No change

Chapter 9

- Education credit income phase out limitations were revised.
- Revised modified adjusted gross income thresholds for the retirement savings contribution credit.

- Adoption credit amount and income phase out limitations were revised.
- Revised income and phase out limitations for the Earned Income Tax Credit.
- Revised poverty level amounts used to calculate the premium tax credit.

Chapter 10

- Updated withholding allowance amounts and withholding tables.
- Revised the income threshold for filing a Schedule H for household employees.
- Revised penalty amounts for filing incorrect or late Form W-2s.

Chapter 11

- Added detailed coverage of Qualified Tuition Plans, also known as Section 529 plans.
- Revised contribution limits for defined contribution plans.
- Updated benefit limits for defined benefit plans.
- Revised phase out thresholds for traditional IRA and Roth IRA plans.