Focus on Withholding

- IRS is feverishly working to get processes, forms, and worksheets in place to ensure more accurate withholdings in light of tax law changes.
- 2018 tax year resulted in many estimated tax underpayments...
IRS Automatically Waiving Estimated Tax Penalty

- On January 15, 2019, IRS lowered the usual 90 percent threshold to 85 percent for purposes of assessing the failure to pay estimated tax penalty.
- On March 22, IRS further lowered that amount to 80 percent.
  - The four-installment requirement was also waived as long as taxes were paid by January.
- Penalty relief was to be originally requested by filing Form 2210 or, if a return was already filed, by filing a Form 843 and requesting a refund by writing “80 percent waiver of estimated tax penalty” on line 7.
IRS Automatically Waives Estimated Tax Penalty

- On **August 14, 2019**, IRS announced that it would now be automatically waiving the estimated tax penalty for more than 400,000 eligible taxpayers who have already filed but did not claim the waiver.

- **No need to request the waiver**, IRS will apply the waiver and send a refund. **No taxpayer action is required or desired.**

  - IRS will mail notices CP 21 granting relief. The refund will follow about three weeks later.
Automatic Waiver Does Not Apply if You Haven’t Filed

- IRS urges those **who have not filed** to claim the waiver on their return.
  - Tax software should handle this properly for electronic extensions.
  - If filing on paper, fill out and attach Form 2210.
New Tax Withholding Estimator

- On August 6, IRS unveiled a new tool called the tax Withholding Estimator, an upgrade from the previous Withholding Calculator:

https://apps.irs.gov/app/tax-withholding-estimator
New W-4

• IRS released another draft version of the 2020 Form W-4 on August 8, 2019.
  • This follows the release of a the first draft on May 30, 2019.
  • In its release, IRS said that there would be no more substantive changes for 2020.
    • Final form will be issued in later fall, but tax software companies can rely on the substance of the latest draft.
Form W-4

• The new draft made more cosmetic changes than substantive changes.
  • Name is now Employee’s Withholding Certificate, not Employee’s Withholding *Allowance* Certificate.
  • Withholding computation did not change.
W-4
Employee’s Withholding Certificate

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.

Give Form W-4 to your employer.

Your withholding is subject to review by the IRS.

OMB No. 1545-0074

2020

Step 1:
Enter Personal Information

(a) First name and middle initial

(b) Social security number

Address

City or town, state, and ZIP code

Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

(c) Single or Married filing separately

Married filing jointly (or Qualifying widow(er))

Head of household (Check only if you’re unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2 through 4 ONLY if they apply to you. To see if you are exempt from withholding or if you have concerns about your privacy, see page 2. Everyone must complete Step 5. See instructions on page 2.

Step 2:
Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do only one of the following.

(a) Use the estimator at www.irs.gov/W4App for most accurate withholding; or

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld.

CAUTION: If you have privacy concerns, choose (a) or (b). If you and/or your spouse have income from self-employment, including as an independent contractor, choose (a).

Complete Steps 3 through 4(b) on Form W-4 for only one of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3 through 4(b) on the Form W-4 for the highest paying job.)
Multiple Jobs Worksheet  (Keep for your records.)

Use this worksheet if you choose the option in Step 2(b) on Form W-4. Complete this worksheet for only one of the jobs in the household and enter the result on the Form W-4 for that job. Withholding will be most accurate if you enter the result on the Form W-4 for the highest paying job.

Note: If more than one job has annual wages of more than $99,000 or there are more than three jobs, see Pub. 505 for additional tables; or, you can use the online withholding estimator at www.irs.gov/W4App.

1 Two jobs. If you have two jobs or you’re married filing jointly and your spouse also works, find the amount from the appropriate table on page 4. Using the “Higher Paying Job” row and the “Lower Paying Job” column, find the value at the intersection of the two household salaries and enter that value on line 1. Then, skip to line 3.  

   1 $ ______________________________

2 Three jobs. If you and/or your spouse have three jobs at the same time, complete lines 2a, 2b, and 2c below. Otherwise, skip to line 3.

   a Find the amount from the appropriate table on page 4 using the annual wages from the highest paying job in the “Higher Paying Job” row and the annual wages for your next highest paying job in the “Lower Paying Job” column. Find the value at the intersection of the two household salaries and enter that value on line 2a.  

   2a $ ______________________________

   b Add the annual wages of the two highest paying jobs from line 2a together and use the total as the wages in the “Higher Paying Job” row and use the annual wages for your third job in the “Lower Paying Job” column to find the amount from the appropriate table on page 4 and enter that value on line 2b.  

Deductions Worksheet  (Keep for your records.)

1 Enter an estimate of your 2020 itemized deductions. Such deductions may include qualifying home mortgage interest, charitable contributions, state and local taxes (up to $10,000), and medical expenses in excess of 10% of your income.  

   1 $ ______________________________

2 Enter:  

   • $XX,XXX if you’re married filing jointly or qualifying widow(er)  
   • $XX,XXX if you’re head of household  
   • $XX,XXX if you’re single or married filing separately  

   2 $ ______________________________

3 If line 1 is greater than line 2, subtract line 2 from line 1. If line 2 is greater than line 1, enter “-0-”  

   3 $ ______________________________

4 Enter an estimate of your student loan interest, deductible IRA contributions, and certain other adjustments. See Pub. 505 for more information.  

   4 $ ______________________________

5 Add lines 3 and 4. Enter the result here and in Step 4(b) of Form W-4.  

   5 $ ______________________________
New Draft Publication 15-T

- On August 13, 2019, IRS also published a new draft 15-T.
- The publication provides separate calculation methods for Forms W-4 from 2020 and later and for Forms W-4 from before 2020.
What’s Up with Extenders?

• On August 13, three of six reports were released by Senate task forces established to review expired and expiring tax provisions:
  • Individual
  • Cost Recovery
  • Energy
• No concrete recommendations beyond agreement that temporary policy is not beneficial.
• Senator Grassley has stated that a legislative package should be put together. Aim for September action.
Individual

- Discharge of indebtedness on principal residence excluded from gross income of individuals (sec. 108(a)(1)(E) (expired 12/31/2017)
- Premiums for mortgage insurance deductible as interest that is qualified residence interest (sec. 163(h)(3)(E)) (expired 12/31/2017)
- Above-the-line deduction for qualified tuition and related expenses (sec. 222) (expired 12/31/2017)
  - Little Feedback / No Specific Recommendations
Cost Recovery (expired 12/31/2017)

1. Credit for certain expenditures for maintaining railroad tracks (sec. 45G)
2. Three-year depreciation for race horses two years old or younger (sec. 168(e)(3)(A)(i))
3. Seven-year recovery period for motorsports entertainment complexes (sec. 168(e)(3)(C)(ii) and (i)(15))
4. Accelerated depreciation for business property on an Indian reservation (sec. 168(j))
5. Energy efficient commercial buildings deduction (sec. 179D)
6. Election to expense advanced mine safety equipment (sec. 179E)
7. Expensing of certain qualified film and television and live theatrical productions (sec. 181)
Cost Recovery Recommendations

• Address provisions in a permanent way
• Revisit impact of TCJA on provisions
• Address these in “regular order”
  • Considerations of modifications that stem from task force work
Energy Recommendations

• Credit for certain nonbusiness energy property (sec. 25C) (expired 12/31/2017)
• Alternative motor vehicle credit for qualified fuel cell motor vehicles (sec. 30B(b)) (expired 12/31/2017)
• Credit for alternative fuel vehicle refueling property (sec. 30C) (expired 12/31/2017)
• Credit for two-wheeled plug-in electric vehicles (sec. 30D(g)) (expired 12/31/2017)
• Second generation biofuel producer credit (formerly known as the (sec. 40(b)(6)) (expired 12/31/2017)
• Incentives for biodiesel and renewable diesel (secs. 40A, 6426(c), and 6427(e)) (expired 12/31/2017)
Energy Recommendations

- Credit for electricity produced from certain renewable resources (secs. 45 and 48(a)(5)) (expired 12/31/2017)
- Credit for production of Indian coal (sec. 45(e)(10)) (expired 12/31/2017)
- Credit for construction of new energy efficient homes (sec. 45L) (expired 12/31/2017)
- Special depreciation allowance for second generation biofuel plant property (sec. 168(l)); (expired 12/31/2017)
- Special rule for sales or dispositions to implement FERC or State electric restructuring policy (sec. 451(k)) (expired 12/31/2017)
- Incentives for alternative fuel and alternative fuel mixtures (secs. 6426(d) and (e), and 6427(e)). (expired 12/31/2017)
Expired in 2018

• Medical Expense Deduction (IRC section 213(f)): Floor increased to 10 percent from 7.5 percent in 2019.
Expiring at the End of This Year

- Credit for health insurance costs of eligible individuals (sec. 35(b)(1)(B))
- Beginning-of-construction date for wind renewable power facilities eligible to claim the electricity production credit or investment credit in lieu of the production credit (secs. 45(d) and 48(a)(5))
- New markets tax credit (sec. 45D(f)(1))
- Employer credit for paid family and medical leave
- Work opportunity credit (sec. 51(c)(4))
Third-Party Notice

• Taxpayer First Act Third Party Contact Procedures Now in Place:
  • In all cases involving third-party notice, notice must be sent to taxpayer at least 45 days before contact with third party.
    • Used to be “reasonable.”
  • Interim guidance provides sample letters.
Dear [Name]:

We received information indicating you may be responsible for the unpaid trust fund tax for the business named below. We encourage you to contact us if you have information that would help us determine your personal liability.

**Business name:** [Business name]

The business hasn't paid its employment taxes. A portion of the owed amount relates to trust fund taxes. We're initiating an investigation to determine who may be personally responsible for the unpaid trust fund portion of the total unpaid employment tax.

We'll continue to correspond with you or your authorized representative on this issue. However, we sometimes talk with other persons if we need information that you can't provide or verify information we've received.

We're writing to tell you **we intend** to contact other persons such as a neighbor, a bank, an employer, or employees. When we contact other persons, we generally need to tell them limited information, such as your
New Iowa Rules

• Iowa has just published like-kind exchange rules for 2019:
  • Tax years beginning on or after January 1, 2019, but before January 1, 2020:
    • Generally conforms to federal treatment, but may make an election to use treatment that applied under prior federal law for Iowa purposes.
      • Applies to individuals and corporations.
        • https://bit.ly/2Mjt3iB
New Iowa Like-Kind Exchange Rules

- The election is made by completing the necessary worksheets and forms and making the required adjustments on the Iowa return as described in subrule 40.83(3). No special attachment or statement is required.

- The election only applies to the transactions involved in the like-kind exchange, and the taxpayer may elect or not elect to treat other qualifying transactions as a like-kind exchange for Iowa purposes.
  - Rules gives specific examples.
a. **Like-kind exchange calculation.** The taxpayer must complete Parts I and II of the IA 8824 Worksheet to compute the Iowa recognized gain, if any, the Iowa deferred gain or loss, and the Iowa basis of the like-kind personal property received in the like-kind exchange.

**EXAMPLE 1:** X, a sole proprietor engaged in commercial farming and filing on a calendar-year basis, trades a tractor with a fair market value (FMV) of $25,000 along with $75,000 in cash to Y for a new tractor with an FMV of $100,000. For purposes of this example it is assumed that the tractor trade occurs in 2019 and qualifies as a like-kind exchange and that X elects such treatment for Iowa individual income tax purposes under paragraph 40.83(2) “b.” At the time of the trade, the adjusted basis of X’s old tractor is $0 for federal tax purposes and is $13,680 for Iowa tax purposes. X realizes a gain for Iowa purposes on the exchange of the old tractor in the amount of $11,320 ($100,000 FMV of new tractor - $75,000 cash paid - $13,680 Iowa adjusted basis of old tractor). Because X did not receive any cash or other property that was not like-kind, or assume any liabilities from Y, the entire amount of X’s $11,320 realized gain qualifies for deferral, so X recognizes $0 of gain on the exchange for Iowa tax purposes. As a result, X’s basis in the new tractor for Iowa tax purposes is $88,680 ($13,680 Iowa adjusted basis of old tractor + $75,000 cash paid by X).
Reminder - Truckers

- Owners of most heavy highway vehicles must file Form 2290, Heavy Highway Vehicle Use Tax Return, by September 3.
  - If used July 2019...
Ag Tax Workshop is September 24.