
The IRS today released an advance version of Rev. Proc. 2018-57 providing the annual inflation adjustments for more than 60 tax provisions to be used by individual taxpayers on their 2019 returns (and generally filed in 2020).


Background

The new law introduced a new method for indexing the tax rate thresholds, standard deduction amounts, and other amounts for inflation. Previously, the annual inflation adjustments were made by reference to the consumer price index (CPI). The new tax law, however, uses “chained CPI” which takes into account consumers’ preference for cheaper substitute goods during periods of inflation.

Chained CPI will generally result in smaller annual increase to indexed amounts. The change to chained CPI for inflation indexing is effective for tax years beginning after 2017.

Tax rates for individual taxpayers

With the inflation adjustment, Rev. Proc. 2018-57 provides that for tax year 2019:

- The top income tax rate is 37% for individual single taxpayers with incomes greater than $510,300 and for married couples filing jointly is $612,350.
- The other income tax rates are:
• 35% for incomes over $204,100 ($408,200 for married couples filing jointly)
• 32% for incomes over $160,725 ($321,450 for married couples filing jointly)
• 24% for incomes over $84,200 ($168,400 for married couples filing jointly)
• 22% for incomes over $39,475 ($78,950 for married couples filing jointly)
• 12% for incomes over $9,700 ($19,400 for married couples filing jointly)

• The lowest rate is 10% for incomes of single individuals with incomes of $9,700 or less ($19,400 for married couples filing jointly).

Standard deduction

The standard deduction amounts for 2019 increase, as follows:

• For married filing jointly—$24,400 (an increase of $400 from the prior year)
• For single taxpayers and married individuals filing separately—$12,200 (up by $200)
• For heads of households—$18,350 (an increase of $350)

The personal exemption for tax year 2019 remains at $0 (the personal exemption was suspended for tax years 2018 through 2025 by the new U.S. tax law).

For 2019, there is no limitation on overall itemized deductions (referred to as the “Pease” limitation under prior law) because that limitation was suspended by the new tax law for years 2018-2015.

Other items

• The alternative minimum tax (AMT) exemption amount is increased* for tax year 2019 is $71,700 and begins to phase out at $510,300 (for married couples filing jointly, the AMT exemption amount is $111,700, and the exemption begins to phase out at $1,020,600).

*For 2018, the AMT exemption amount was $70,300 and began to phase out at $500,000 ($109,400 for married couples filing jointly and began to phase out at $1 million).

• The qualified transportation fringe benefit for tax year 2019 will have a monthly limitation of $265 for qualified parking (up from $260 for tax year 2018).

• The adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit for 2019 is $116,000 (up from $114,000 for 2018).

• The foreign earned income exclusion for 2019 is $105,900 (up from $103,900 for 2018).

• The maximum credit allowed for adoptions is the amount of qualified adoption expenses up to $14,080 (up from $13,810 for 2018).
Estate and gift exclusions

- The basic exclusion amount for estates of decedents who die during 2019 is $11,400,000 (up from $11,180,000 for estates of decedents who died in 2018).

- The annual exclusion for gifts is $15,000 for calendar year 2019—the same as for 2018.

Medical and health-related amounts

- The dollar limitation for employee salary reductions for contributions to health flexible spending (FSA) arrangements is increased to $2,700 (up $50 from 2018).

- Concerning medical savings accounts (MSAs), for tax year 2019, participants who have self-only coverage in a MSA, the plan must have an annual deductible that is not less than $2,350 (up $50 from 2018), but not more than $3,500 (up $50 from 2018).

- For self-only coverage, the maximum out-of-pocket expense amount is $4,650 (up $100 from 2018).

- Participants with family coverage, for 2019, the floor for the annual deductible is $4,650 (up from $4,550 in 2018); however, the deductible cannot be more than $7,000 (up $150 from the limit for 2018).

- For family coverage, the out-of-pocket expense limit is $8,550 for tax year 2019 (up $150 from tax year 2018).

Read a related IRS release—IR-2018-222

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