2019 Tax Return Pointers and Reminders

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2019 federal and most state individual income tax returns are due to be filed by Wednesday, April 15, 2020.

Individuals who need additional time to file 2019 income tax returns may file for an **automatic extension** of time to file until October 15, 2020. The extension of time to file is not an extension of time to pay. Failure to pay tax shown on your return is subject to interest and to a 0.5% per month failure-to-pay penalty. You should make a good-faith effort to estimate the amount of tax due and report that amount on your extension form. Failure to do so may invalidate your extension and result in imposition of the failure-to-file penalty—a steep 5% per month of the balance due. You can underestimate the tax by up to 10% on the extension form without incurring penalties, but interest still applies.

As you're compiling your 2019 tax information, give some thought to what information you would need **if your return is selected for audit** and how you would access that information. Most of us are aware that expense documentation is important, but many do not realize we must be prepared to identify and substantiate every deposit appearing on our bank statements.

You should also **consider the format of your records**. Many of us rely upon web-based programs or software to house financial records electronically, but these records may only be available for a few years. We need to think proactively about how we'll retrieve information, if needed, from our electronic information sources.

Remember that **the standard deduction** remains large in 2019 (up to $12,200 for a single filer and $24,400 for married filing jointly). Some common itemized deductions are state and local taxes paid, large medical expenses, certain interest paid, and gifts to charity—all of which have certain limitations. It is more beneficial to claim the standard deduction if all of these items together don't reach the threshold. However, many states (including Kentucky) have much smaller standard deduction amounts. For itemized deductions, Kentucky allows only charitable contributions, mortgage interest, investment interest, and gambling losses to the extent of winnings.

Substantiating records are required for charitable donations of any amount to be deductible on your tax return, but **charitable gifts of $250 or more** also require a timely written gift acknowledgment containing certain information. The charitable organization's letter must state the gift's date and amount and either (1) affirm that no goods or services were provided in connection with the gift, or (2) if such goods or services were provided, identify what they were and their value, and include a statement that the amount deductible is limited to the excess of the amount given over the value received. The deduction also is contingent on the contributor having the acknowledgement letter by the earlier of the filing date or due date (including an extension) of the return.

IRA and HSA contributions, if any, for 2019 must be made by April 15, 2020.

An impact of globalization is a greater incidence of U.S. persons having **financial accounts or owning other property outside the U.S.** Additional reporting requirements are imposed on certain owners of such assets. These reporting requirements may apply if:

- You have a beneficial interest in or signature authority over a foreign bank or investment account.
- You own an interest in a foreign corporation, partnership, or other business entity (not held in an investment account), a note, or other receivable due from a foreign borrower, or any other interest in any foreign financial asset.
- You have an interest in a foreign trust or estate, have ever created a foreign trust, or received a gift or bequest from a foreign person during the year.

If you pay no or minimal state income tax, please note that you can choose to **deduct state sales tax** instead of state income tax as an itemized deduction. Consider whether you made any large purchases, such as vehicles, during 2019.

The Kentucky individual income tax return includes a line to report **use tax** on purchases from out-of-state retailers. If you purchased items online or from a catalog and did not pay sales tax on those items, you would report the use tax on this line. Kentucky ensures that out-of-state purchases are subject to at least Kentucky's sales and use tax rate. For example, if you purchased clothes out of state, paid 5% sales tax, and brought or had the clothes shipped into Kentucky (where the rate is 6%), you would owe Kentucky the extra 1% use tax.

You can check the status of your **2019 tax refund**, if you are due one, at www.irs.gov/refunds. You will need your tax identification number, filing status, and refund amount from your return. For Kentucky refunds, visit refund.ky.gov. Please note that due to rising rates of identity theft, refunds may be delayed.

If you are a W-2 employee who either has a large overpayment or owes a large amount on your 2019 tax return, consider adjusting your 2020 **withholding** by updating your **Form W-4** with your employer. The IRS has revised the W-4 significantly from the previous version to factor in the tax law changes of late 2017. Because the form can be complex, the IRS also provides an interactive calculator to help you determine the ideal withholding amount for your situation. It is available at www.irs.gov/W4App.