Great outcomes. Done well.

BAIRD

5 Tax Traps for 2019

Wealth Management Insights | February 2019

If you've been following the news, you probably know your 2018 tax returns will look a little different following the passage of 2017's tax reform legislation. But those changes aren't the only ones you need to look out for. Here are five tax traps that could snare unsuspecting filers in 2019.

For more on how the new tax reform legislation impacts investors, check out **January's Wealth Strategies webinar** or visit **rwbaird.com/taxreform**.

What you should know:

Tax Trap 1: A New 1040

The 2018 Form 1040 has undergone a makeover: At only 23 lines, it now contains only the items used by most taxpayers, like wages, retirement income and interest. Taxpayers who need to report additional information, like capital gains income or child care credits, will need to fill out supplemental schedules that will accompany your 1040. Also, the IRS has eliminated Forms 1040A and 1040EZ, meaning all tax filers will use the slimmed-down Form 1040.

Tax Trap 2: The Tax Cuts and Jobs Act of 2017

2017's tax reform legislation has resulted in meaningful changes on this year's returns, including the elimination of several common deductions. Generally, taxpayers will see a higher level of taxable income but lower tax rates compared to last year's returns. The tax cut also resulted in lower withholding amounts throughout 2018, so you should expect a smaller refund – or larger payment – when filing this year.

Tax Trap 3: Qualified Charitable Distributions

IRA owners who are 70½ or older can make a gift directly from their IRA to a favorite charity. While the IRS does not consider these qualified charitable distributions as taxable income, the entity holding the IRA will report the distribution as such, like any other IRA withdrawal. The onus is on the taxpayer to report the distribution as a QCD by filling out lines 4a and 4b on Form 1040 and writing "QCD" to the left of line 4b.

Tax Trap 4: Nondeductible IRA Contributions

While any taxpayer earning an income can contribute to an IRA, such a contribution is only tax-deductible if your income level does not cross a certain threshold. Rather than not reporting their nondeductible IRA contributions, these higher-income taxpayers should file Form 8606. Nondeductible IRA contributions can be withdrawn tax-free so long as they were identified as such on Form 8606. If you've neglected to fill in this form in the past, the IRS will accept late forms – with a penalty.

Tax Trap 5: Alternative Minimum Tax Credits

Changes in how the alternative minimum tax is applied will likely result in far fewer taxpayers paying this additional tax. Under the new legislation, taxpayers may be able to recover previous years' AMT through an AMT tax credit. Taxpayers can only use this credit in a year they are not otherwise subject to the AMT, and not all kinds of AMT can be recovered. Form 8801 can help you determine how much of the AMT paid in a prior year can be claimed as a credit.

What you should do now:

While Baird does not prepare tax returns on our clients' behalf, our in-house experts are adept at identifying opportunities to align your taxes with your broader wealth management plan. Contact your **Baird Financial Advisor** to learn more. ■