YEAR END PLANNING REVIEW

Wrapping Up Your Year and Preparing For 2019

At year end, it's beneficial to review financial objectives in determining whether any last-minute action is warranted to help ensure you remain on track with your financial goals. Below are some of the more common planning items our clients experience, the important considerations that go into addressing those elements prior to 2019, and links to articles that dive deeper into many of these topics.

New to 2018: Tax Code Changes

One of the biggest changes for 2018 was the implementation of the Tax Cuts & Jobs Act of 2017 (TCJA). The new tax code had sweeping changes that altered existing tax brackets, changed standard deduction amounts and generally left a lot of taxpayers wondering how they would be impacted. For many clients, **running a tax projection** is an important step in addressing many of these changes. There is still time to run such a projection, and if your tax situation is relatively simple, it can even be done via the [IRS website](). If your tax return involves a business, multiple entities, or different kinds of complex investments, consider having your wealth advisor review your tax situation and determine if a more in-depth projection would be appropriate.

20 Percent Deduction for Some Small Business Owners

One of the bigger changes resulting from the TCJA is the 20 percent deduction on profits for some small business owners. Meant to encourage growth among small businesses, the rule is applicable to sole proprietorships, LLCs, partnerships and S Corporations. While undoubtedly beneficial to those for which it applies, it's important for individual taxpayers and small business owners to consult a professional tax preparer. There are restrictions that eliminate the deduction for certain types of businesses.

The State of Estates

Whether you experienced a death, marriage, or birth of a child, it's important to consider the impact of those changes on your estate plan. Drafting new wills and durable powers of attorney are critical first steps for newly married couples and new parents. A major part of the review process is making sure beneficiary designations and titles are up-to-date on your various accounts. From IRAs to savings accounts, all of these assets are important elements of an estate plan that can have major ramifications if set-up incorrectly.

- What was formerly a maximum exemption amount of $5.59 million dollars per person ($11.18 million per married couple) has now doubled in the year 2018, meaning that a married couple can potentially transfer $22.4 million at their death without paying any federal estate taxes. Amounts above $22.4 million may be subject to a tax of 40 percent, but with careful planning some of those taxes can potentially be mitigated.

- **Article:** 2017 TC&JA Estate and Gift Tax Changes

Required Minimum Distributions (RMDs)

IRA owners who turn age 70-½ during 2018 have until April 1, 2019, to take their first required minimum distribution. They must take the second distribution by Dec. 31, 2019. IRA account owners already in distribution mode must take their annual RMD by Dec. 31, 2018. It's important to make sure the total RMD amount is satisfied across all qualified retirement plan and IRA accounts. As long as the full RMD amount is satisfied, you are able to withdraw the RMD from a single IRA or a combination of IRA accounts. Required minimum distribution rules for an IRA versus an employer's sponsored qualified plan, such as a 401(k), are treated differently if you are still working. If you are over age 70-½ and still working, you do not need to take an RMD from your employer plan until you retire.

- **Article:** IRA Springtime Reminders

Charitable Giving Directly from your IRA

Qualified Charitable Distributions (QCDs) allow people over 70-½ years old, who are subject to required distributions from their IRA, to redirect up to $100,000 of their Required Minimum Distribution (RMD) to charity.

This is a meaningful benefit for charitably-inclined individuals as any amount contributed to a public charity is now excluded from calculations impacting overall tax rates, taxation of Social Security, income tax phase-outs and Medicare premiums. **One important caveat** to implementing this strategy however, is to ensure that both your Advisor and tax preparer are informed that you have executed a QCD and that you maintain a record of the transaction, typically in the form of a written receipt from the charity.

- **Article:** Making The Most of Your Charitable Giving

Minimize Taxes By Spreading Out Income

If your income varies from year-to-year, or if you expect to be in a different tax bracket in the future, consider using multi-year projections to take advantage of long-term planning opportunities to minimize income taxes. Examples of such tax planning strategies include accelerating the timing of income or recognition of capital gains so that lower tax brackets can be filled or, conversely, postponing the receipt of income or capital gains and accelerating receipt of losses in order to reduce income in higher tax years.

Take Advantage Of The Annual Gift Tax Exclusion And Make A Gift To Family

For 2018, the annual gift tax exclusion allows an individual to give up to a $15,000 ($30,000 for married couples) gift tax-free and without counting toward the individual lifetime exclusion. In 2019, the annual gift exclusion amount will remain the same.

Gifting for Educational Purposes

Parents or grandparents looking to support their children's future educational costs commonly look to 529 accounts as a great way to allow funds to grow tax deferred for several years before being withdrawn tax free to pay for educational costs for the child. Gifts to a child's 529 account are subject to the annual exclusion amount of

$15,000 per person per year, but these accounts also have the unique ability to allow individuals to front load five years' worth of gifts at once, up to $75,000 per person. From a year end planning perspective, families wishing to take advantage of this front-loading rule that haven't contributed to a child's 529 this year can gift one year's worth of annual exclusions before December 31, then gift an additional $75,000 to the child's 529 plan after the first of the year to cover the next five years. With the ever-rising cost of college tuition and expenses, funding these types of tax deferred plans early can pay off immensely down the road.

- **Article:** 2017 TCJA and Your 529 Plan
- **Article:** How Grandparents Can Help With College Tuition

Donor Advised Funds (DAF)

If you are charitably inclined, you might consider a DAF as a way to make a large gift now and take the tax deduction immediately while deferring the decision on which charity will receive the funds. With the standard deduction increasing to $24,000 this year for a married couple, if you plan on making charitable gifts for the next few years, you can instead make one large donation to the fund this year above the standard deduction amount. This allows you to take a tax break this year and utilize the fund to donate to causes over the next few years you would have supported anyway.

Appreciated Securities for Charitable Giving

It is not unusual to look at charitable contributions as a tax strategy. From a wealth-planning standpoint, charitable planning offers a great opportunity to reduce one's tax liability for the year.

An important consideration when planning contributions is whether to donate cash or appreciated securities. By donating appreciated securities, an investor can avoid capital gains on that long-held security. This increases the value of the donation compared to selling the stock, paying the capital gains tax, and then giving the cash proceeds to charity.

Roth IRA Conversion

The end of the year is a good time to consider whether a Roth IRA conversion makes sense. With a traditional IRA, contributions are generally tax-deductible and distributions are taxed at ordinary income tax rates. In contrast, contributions to a Roth IRA are not tax-deductible, but earnings can be withdrawn income-tax free if you are at least 59-½ and have had the Roth for at least five years. Converting a traditional IRA into a Roth doesn't always make sense, but you may consider it if:

- You have a long time until retirement
  - You anticipate being in the same or a higher tax bracket when you begin distributions
  - You can pay the tax from sources other than the IRA