2019 Year-End Tax Saving Strategies

As the holiday season approaches and 2019 comes to a close, it is again time to consider year-end tax savings strategies. Unlike last year, there have not been any significant changes to the tax laws and we now have a little more clarity as to the impact of last year's changes resulting from the Tax Cuts and Jobs Act (TCJA). For individuals, these changes included lower tax rates, a higher standard deduction, the elimination of personal exemptions, an increased child tax credit, and limits on itemized deductions. Taxpayers with qualified business income from pass-through entities may also be entitled to a special deduction of up to 20% of business income.

Despite these major changes, the time-tested approach of deferring income and accelerating deductions to minimize taxes will still be the strategy for many of our clients, along with the tactic of bunching deductible expenses into this year or the next to get around deduction limitations. The following is a list of actions based on the current tax rules that might help reduce your tax liability if you act before year-end. Please do not hesitate to contact our office to discuss these items, or any others, and how they may reduce your taxes.

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Individual Income Tax Planning

- Review unrealized loss positions in your investment accounts and consider selling those positions prior to year-end to deduct the loss in 2019. Realized capital losses will off-set capital gains dollar for dollar. If your capital losses exceed your capital gains, up to $3,000 per year can be used to off-set ordinary income with any unused losses carried forward to future tax years. Keep in mind that if you re-purchase shares of the same security within 30 days of selling the shares at a loss, your loss deduction will be denied under the IRS wash sale rules.

- Long-term capital gains from sales of investments held for more than one year are still taxed at the preferential rates of 0%, 15% or 20%, depending on the taxpayer's taxable income. The 0% rate generally applies to the excess of long-term capital gain over any short-term capital loss to the extent that when added to regular taxable income, it is not more than the maximum zero rate threshold (e.g., $78,750 for a married couple; $39,375 for singles and $52,750 for head of household). For example, a married couple with $60,000 of income could sell investments held long-term for a profit of $18,750 and pay no tax on the gain. Note that in this example, there would be no tax benefit from selling additional investments at a loss because the gain is taxed at the 0% rate.

- Consider postponing income until 2020 and accelerate deductions into 2019 if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2019 that are phased out over varying levels of adjusted gross income (AGI). These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances or filing status. Note, however, that in some cases, it may pay to accelerate income into 2019. For example, that may be the case where a person will have a more favorable filing status this year than next (e.g., head of household versus individual filing status), or expects to be in a higher tax bracket next year.

- Since current tax rates under the TCJA are relatively low, you might want to consider a Roth IRA conversion in 2019, particularly if you have investments in your IRA that have declined in value. Converting from a traditional IRA to a Roth IRA won't save you taxes today, but in future years the distributions are tax free. Keep in mind, however, that such a conversion will increase your adjusted gross income (AGI) for 2019, and possibly reduce tax breaks geared to AGI or modified AGI. And unlike in years prior to 2018, a Roth IRA conversion can no longer be undone if you do not like the tax result.

- It may be advantageous to try to arrange with your employer to defer until early 2020, a bonus that may be coming your way. This could reduce the tax due on the bonus depending on your tax bracket and defers the tax until next year. If you are an independent contractor or self-employed individual, consider sending invoices late in December to push the receipt of the income into next year.

- Consider reviewing your year to date tax withholding and projected tax so that you do not experience any unpleasant surprises in April. The IRS modified the tax withholding tables last year for the new tax law, but for many wage earners the adjusted withholding resulted in underpayment of tax on their return. We can assist you in reviewing your current tax withholdings to eliminate underpayment penalties and help you plan for any additional tax due in April.

- Many taxpayers won't benefit from claiming itemized deductions in 2019 because of the increased standard deduction amounts that apply ($24,400 for joint filers, $12,200 for singles and married filing separately), and because several itemized deductions have been reduced or eliminated under the TCJA. The itemized deduction for state and local income, real estate, and personal property taxes combined, is capped at $10,000. Miscellaneous itemized deductions for tax preparation fees, investment fees and unreimbursed employee business expenses are no longer deductible. Medical expenses are still deductible but only to the extent they exceed 10% of your adjusted gross income. Some taxpayers will lose the tax benefit from their charitable contributions because they will claim the higher standard deduction amount instead. Taxpayers may be able to work around these deduction limitations by applying a 'bunching' strategy to pull or push discretionary medical expenses and charitable contributions into one year so that their itemized deductions exceed their available standard deduction. By bunching deductions in one year and taking the standard deduction in the following year, the total deductions over a two year period could be increased and taxes reduced.

- Consider using a credit card to pay deductible expenses such as property taxes, medical expenses or charitable contributions before the end of the year. This strategy can increase your 2019 deductions even if you don't pay the credit card bill until 2020.

- A Donor Advised Fund (DAF) can be utilized to 'bunch' charitable contributions into a single tax year. Contributions to a DAF are deductible in the year that you transfer cash and/or securities to the DAF. Later, you can decide when the funds are distributed to the charities and which charities receive the funds.

- Gifting appreciated securities to charities is still generally more tax efficient then selling the securities at a gain and donating the cash proceeds. Gifts of securities held more than one year provide a tax deduction equal to the current market value of the securities and the capital gain is not subject to tax.

- If you're age 70½ or older by the end of 2019, and particularly if your itemized deductions are less than your standard deduction, consider making 2019 charitable donations through a qualified charitable distribution (QCD) from your IRA. QCDs are distributions paid directly to charities from your IRA. The amount of the contribution is neither included in your gross income nor deductible on your tax return, but the amount of the qualified charitable distribution reduces the amount of your annual required minimum distribution from your IRA, which can result in tax savings.

- Business owners should consider making equipment purchases prior to year-end that qualify for 100% bonus depreciation or for Section 179 business property expensing. For tax years beginning in 2019, the Section 179 expensing limit is $1,020,000, and the investment ceiling limit is $2,550,000. There are no dollar limits for 100% bonus depreciation. With these generous dollar limits for 2019, businesses that make timely purchases will be able to deduct most if not all their expenditures for tangible personal property in the current year. Both the 100% bonus and Section 179 deductions are permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, property purchased and placed in service in December 2019 rather than at the beginning of 2020 can result in a tax deduction on your 2019 return for the entire cost of the property.

- Individuals with pass-through business income from an S-corporation, partnership, or sole proprietorship may qualify for a special 20% deduction for qualified business income (QBI). There are several reasons why year end planning is an important consideration for the QBI deduction. Since the QBI deduction can be limited by taxable income, planning for minimizing income should be considered. There are further limitations based on the wages paid to the employees and the cost of property used in the business. Income limitations may apply to certain service based businesses such as accounting, law, health, consulting, financial services, investment management or any business whose principal asset is the reputation or skill of one or more of its owners. The QBI rules are complex, so please contact our office for help in maximizing your deduction.

- Taxpayers with rental activities may also qualify for the Qualified Business Income (QBI) deduction if the level of rental activity and participation constitutes a trade or business versus an investment activity. Under a safe-harbor rule in Notice 2019-07, income from a taxpayer's rental real estate activities qualifies for the QBI deduction if the following conditions are met: (1) separate books and records are maintained that reflect income and expenses for each rental real estate enterprise; (2) 250 or more hours of rental services are performed per year with respect to the rental enterprise; and (3) the taxpayer maintains contemporaneous records, including time reports, logs, or similar documents, regarding the following: a) hours of all services performed; b) description of all services performed; c) dates on which those services were performed; and d) who performed the services. Triple-net lease arrangements do not qualify for the safe-harbor.

Estate Tax Planning

- The combined estate and gift tax exemption for 2019 is $11.4 million per individual for gifts or estates and the current top estate tax rate is 40%. The exemption is indexed annually for inflation and results in a combined estate tax exemption of over $22 million

for married couples until 2025 when the current law sunsets. The annual gift tax exclusion amount is $15,000 per donee for gifts made in 2019. The historically-high exemption amounts, even if temporary, create a rare opportunity to take advantage of strategies for 'locking in' those exemptions and permanently avoiding future transfer taxes, particularly if Congress later changes the estate tax rules yet again. Even with these increased exemption amounts, there are still other non-tax related estate planning issues that should not be ignored, such as asset protection, family business succession planning, guardianship of minor children, and later life planning.

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