Key Year-End Planning Considerations

Wealth Planning Insights

November 19, 2018

As thoughts turn to holiday gatherings, now is a perfect time to consider important year-end opportunities to minimize your tax obligations and make the best use of your employment benefits:

1. Recognizing Losses and Taking Gains

Year-end is an opportune time to consider revisiting your capital gains budget for the year, especially in light of the equity markets' success over the past few years and recent volatility. If your portfolio contains unrealized losses, it may make sense to recognize some of those losses to decrease your overall current-year capital gains tax burden. Recognizing capital losses to offset recognized capital gains, referred to as "loss harvesting," is an important strategy to consider at year-end.

Your portfolio may include positions that have embedded capital losses, but continue to be good long-term investments. If you are considering selling those holdings now in order to recognize capital losses, you must observe a 30-day window between purchase and sale activity in order to recognize the loss. Complexities such as this demonstrate that it is important to consult your tax and investment advisors to ensure that you follow the required rules and maintain the appropriate market exposures when executing loss harvesting.

Learn More:

For more insights or information on Fiduciary Trust visit:

www.fiduciary-trust.com

or contact:

John Morey
info@fiduciary-trust.com
617-292-6977

Consider making charitable gifts before year-end, especially if you will be able to itemize deductions

Learn More:

For more information on the 2017 Tax Cuts and Jobs Act visit:

FidTrustCo.com/new-tax-law

2. Itemized Deductions or the Standard Deduction

One likely result of the 2017 Tax Cuts and Jobs Act (the Act) is that fewer couples will itemize deductions on their individual income tax returns. This is the result of changes to both the standard deduction and to the itemized deduction rules. The Act raised the standard deduction to $24,000 for a couple that is married filing jointly, $18,000 for head-of-household, and $12,000 for individuals. In order to itemize deductions, allowable deductions must be in excess of the standard deduction amounts.

The Act's changes to the itemized deduction rules include limiting the deduction for state and local income and real estate taxes to $10,000. For higher income taxpayers and for those with significant real estate tax bills, this change will limit the amount they can deduct, and should result in fewer individuals itemizing deductions unless they have a combination of deductible charitable gifts, medical expenses, and mortgage interest that exceed their standard deduction when combined with their deductible state and local taxes. Also keep in mind that home equity interest is no longer deductible and that interest on new real estate acquisition indebtedness incurred after December 15, 2017 is only deductible for the first $750,000 of debt. Miscellaneous itemized deductions have also been eliminated.

3. Charitable Giving

Consider making charitable gifts before year-end, especially if you will be able to itemize deductions. If you are itemizing this year but may not be in future years, consider "gift bunching" by accelerating what would be your 2019 charitable gifts to the current year. If you are not ready to have the amounts gifted pass to individual charities immediately, you could also consider contributing to a donor-advised fund, which may allow you to receive the current-year tax deduction while retaining the ability to request that the donated funds be distributed to qualified charities during future years.

Donations of appreciated securities held for more than one year continue to be a tax-advantaged way to make charitable gifts. As always, it is important to consider the various Adjusted Gross Income percentage limitations that apply to the charitable deduction in planning your charitable giving.

If you are over age 70½ and have not taken the required minimum distribution (RMD) from your individual retirement account (IRA), consider making gifts directly to qualified charities (but not to donor-advised funds) from your IRA. Charitable gifts from an IRA of up to $100,000 per year allow you to avoid recognizing the ordinary income normally associated with RMDs, and can be an excellent way to achieve your charitable giving goals.

4. Estimated Taxes

In prior years, many have found it beneficial to pay their fourth quarter state estimated income taxes by December 31 rather than waiting until the mid-January deadline (which will be January 15, 2019). The Act's changes limiting the deduction for state and local income and real estate taxes to $10,000, however, mean that many individuals will not benefit from paying their state and local income taxes by December 31.

5. Alternative Minimum Tax (AMT)

With the changes in the tax law, fewer individuals will be subject to the AMT in 2018. If you determine that you will still be subject to the AMT, you may be able to decrease its impact by accelerating ordinary income or by investing in taxable bonds instead of tax-exempt municipal bonds.

6. Fully Fund Your 401(k)

While working, it is advisable to fully fund your 401(k) or a similar retirement plan each year. Doing so will benefit you in the long run by maximizing retirement savings that grow either tax-deferred or tax-free and may help decrease your current tax liability. Even if your cash flow will not allow you to fully fund your plan, making contributions to at least maximize any available employer matching program is compelling. Maximum 401(k) contribution limits will be increasing from $18,500 in 2018 to $19,000 in 2019, with those who are over age 50 allowed to contribute an additional $6,000 per year. Depending on your situation, you may want to consider taking advantage of a Roth 401(k) feature if offered by your employer. Utilizing a Roth 401(k) will likely result in higher current income taxes, but will provide you with tax-free, as compared to tax-deferred, appreciation on at least a portion of your retirement savings.

If you do not have a 401(k) or are already fully funding your 401(k), also consider funding an IRA. The $5,500 IRA contribution limit for 2018 will be increasing to $6,000 for 2019, with an additional $1,000 contribution allowed in both years for those over age 50. A non-working spouse with an employed partner can also fund their own IRA, subject to taxable compensation requirements. All 2018 IRA contributions must be made by the non-extended due date of a taxpayer's individual income tax return.

With the changes in the tax law, fewer individuals will be subject to the AMT in 2018

7. Family Gifts

If you have sufficient assets, and if transferring wealth to the next generation is a goal in your overall financial plan, you should consider making annual exclusion gifts before year-end. Annual exclusion gifts can be a powerful wealth transfer technique over time. Each calendar year an individual can give up to $15,000 to as many individuals as he or she chooses without utilizing any of his or her lifetime gift and estate tax exemption amount (currently $11.18 million.) That $15,000 increases to $30,000 for married couples who either make separate gifts or choose to "gift split."

Contributions to a family member's Section 529 Plan for education can be made with annual exclusion gifts. In fact, you can front load a 529 Plan and elect to spread the gift ratably over a five-year period. If you have a 529 Plan and have incurred unreimbursed qualified educational expenses, you should request reimbursement from the plan before the end of the year. Also recall that beginning in 2018, up to $10,000 of elementary and secondary school tuition costs can be reimbursed from a 529 Plan.

In addition to the annual exclusion gifts noted above, an individual can also pay tuition expenses and qualified medical expenses directly to the institutions without creating a taxable gift. Tuition includes the cost of education from preschool through graduate school, but does not include non-tuition charges such as room and board or books. Qualified medical expenses include health insurance premiums.

Author

Jody R. King, Esq., CPA

Vice President & Director
of Financial Planning

8. Health Savings and Flexible Spending Accounts

If you have a high-deductible health insurance plan, make sure you are fully funding your Health Savings Account (HSA) if you are able. Funds put aside in an HSA do not need to be spent in that calendar year, but can instead be invested and used for future medical expenses. The HSA limit for 2019 is $3,500 for individuals (a $50 increase from 2018) and $7,000 for families (a $100 increase from 2018). If you are over age 55, you can contribute an additional $1,000 whether for an individual or family HSA. (Please note that if an employee is over age 65 and enrolled in any part of Medicare, he or she is not eligible to contribute to an HSA.)

In addition to making contribution elections for 2019 for either Health and/or Dependent Care Flexible Spending Accounts (FSAs), you should review the funds remaining in your FSA account and submit the necessary receipts for qualifying reimbursable expenses. Some plans allow you to carry balances forward to the new calendar year for future expenses, but others do not. Amounts remaining beyond the allowable carryforwards will likely be forfeited, so it is important to properly manage both the use of amounts currently in your FSA as well as elections for future contributions. Maximum contributions to a Health FSA and Dependent Care FSA for 2019 are $2,700 and $5,000, respectively. If you have an HSA, please also make sure your Health FSA is HSA-compatible. An HSA-compatible Health FSA will generally limit reimbursement to items related to dental or vision expenses.

9. Estate Planning Documents and Beneficiary Designations

Year end is also a good time to review your estate planning documents, such as your will, revocable trust, healthcare proxy and durable power of attorney, to be sure that the trusted parties named in the document are still appropriate to serve and that the document terms reflect your current wishes. In addition, it is a good time to review your beneficiary designations to make sure any IRA, 401(k), or insurance policies name your recipient of choice.

As you consider your year-end tax and financial planning, we encourage you to consult with your tax advisor to review the specifics of your situation. As always, you should also feel free to discuss these issues with your Fiduciary Trust officer. Please contact us if you would like to be introduced to one of our officers.

Learn More:

For more insights or information on Fiduciary Trust visit:

www.fiduciary-trust.com

or contact:

John Morey
info@fiduciary-trust.com
617-292-6977

FIDUCIARY™ TRUST