Wealth Planning **Update**

Three big tax planning strategies for 2019

Discuss these important tax considerations with your advisor before year-end.

We're one year into the Tax Cuts and Jobs Act (TCJA) and the new, inflation-adjusted standard deductions have made it even more challenging for taxpayers to reduce income taxes by itemizing. Fortunately, the end of the year is an ideal time to examine your overall financial situation and talk with your advisor about tax strategies that may not only reduce your 2019 liability but also enhance your long-term wealth plan. We've identified three broad tax planning areas for you to consider.

① Assess the tax-efficiency of your charitable giving strategy

For 2019, the standard deduction is now $24,400 (married) and $12,200 (single) or, if you're 65 or older, $25,700 (married) and $13,500 (single). If your deductions do not exceed these levels, there's no benefit to itemizing. However, with a little planning, you might still be able to realize the benefits of itemizing in certain years.

One strategy to consider is bunching certain itemized deductions into alternate tax years. To the extent practical, in addition to bunching charitable contributions, bunch medical expenses along with taxpayer's annual mortgage interest and SALT deductions so that total itemized deductions exceed the standard deduction in alternate years.

If you're worried about providing a steady stream of donations to charitable organizations, ask your financial professional about setting up a donor advised fund (DAF). You would make a lump-sum contribution into the DAF and then dictate when and to whom the funds are disbursed over time.

Another way to receive a tax benefit from charitable contributions is by making a Qualified Charitable Distribution (QCD) from your IRA. If you are over age 70½, you can annually transfer up to $100,000 from your IRA to charity and you won't owe income taxes on the distribution. Married couples can contribute $100,000 each. The distribution amount counts toward your required minimum distribution (RMD), making it an ideal way to reduce your adjustable gross income.

Keep in mind, a QCD cannot be used as a deductible charitable contribution if you itemize deductions. Also, the funds must be directly transferred from the IRA custodian to an eligible charity approved by the IRS

② Review your tax bracket

Was there a change in your circumstances that might cause you to be in a lower tax bracket this year? Do you expect a change in income next year? If you're in a lower than normal tax bracket, it might be worth accelerating tax-deferred money into 2019 to pay a lower tax rate.

For example, if you're in one of the lower income tax brackets this year (10%, 12%, 22%, or 24%), you could:

- Explore selling highly appreciated stock to take advantage of a lower capital gains bracket. Capital gains tax rates are 0%, 15% or 20%, depending on your income.
- Consider converting a portion of your pre-tax IRA to a Roth IRA, just enough to bring your income to the top end of the tax bracket.

On the other hand, if you're in a higher tax bracket, you might look for tax-loss selling opportunities. The markets have been rising for the longest period in history. If you've sold securities this year for a gain, consider selling others that would produce a loss if you don't expect them to appreciate in the future. You can offset the gains with the losses and reduce your taxable income. If you have more losses than gains, you can offset up to $3,000 of ordinary income and carry over extra losses to offset income next year.

Monitoring pending legislation

Congressional leaders are aiming for passage of an important piece of legislation that could affect your long-term planning.

The SECURE (Setting Every Community Up for Retirement Enhancement) Act includes 20+ provisions. Here are two that we believe have particular significance:

- **Required minimum distributions (RMDs) will be required at age 72,** rather than 70½. This would provide additional time to grow retirement savings before you must start making withdrawals.
- **IRAs inherited by a non-spouse will be required to take RMDs over much shorter time-periods** (5 or 10 years). If this poses a problem for beneficiaries, you could consider leaving IRA assets to charity and earmarking other assets for heirs.

③ Re-evaluate your use of tax-advantaged accounts

Year-end is a good time to review your use of tax-advantaged retirement, health care and education savings accounts. Each of these accounts provides an opportunity to bolster savings with pre-tax dollars, which reduces your taxable income.

Retirement accounts

You have until the end of 2019 to contribute up to $19,000 to an employer plan ($25,000 if you're age 50 or older) and until April 15, 2020 to contribute up to $6,000 to an IRA ($7,000 if you're age 50 or older). Contributions to pre-tax retirement accounts make most sense if your tax bracket is higher now than you expect it to be when you begin withdrawing from the account in retirement.

An important note for business owners: be sure you understand how your retirement plan contributions affect the 20% qualified business income deduction created by IRC Sec. 199a. Any amount you contribute to your company's retirement plan is deducted from your business income when calculating the business income deduction (see example below). As a result, a Roth IRA may be a better savings vehicle for business owners.

Business income	401(k) contribution	Allowed business income deduction
$100,000	$15,000	$17,000 ($85,000 x 20%)
$100,000	—	$20,000 ($100,000 x 20%)

A longer term tax planning strategy is the backdoor Roth conversion. If you don't already have an IRA, speak with your financial professional about the potential benefits of contributing to a traditional IRA and then immediately converting it to a Roth IRA. An immediate conversion would have little to no tax implications, and the money earned in the Roth account grows tax free.

A similar strategy, known as a mega backdoor Roth IRA, may also be available. If your employer retirement plan allows it, you can contribute up to $37,000 of retirement plan assets into a Roth IRA.

Health care savings accounts

If you belong to a high-deductible health insurance plan, you may be able to take advantage of a health savings account (HSA) that allows you to contribute pre-tax up to $3,500 for self-only coverage ($4,500 if you're 55 or older) and up to $9,000 for family coverage ($7,000 plus $1,000 each for you and your spouse). Money socked away in an HSA does not have to be used up each year, as it does in a flexible spending account, and the earnings grow tax-free.

Note that the TCJA allows you to deduct unreimbursed medical expenses above 10% of your adjusted gross income. Therefore, it might make sense to pay medical expenses due in early 2020 before the end of 2019 to exceed the required threshold. *(Continued on back page.)*

Considerations for estates

With the lifetime exemption at $11.4 million in 2019 ($22.8 million for married couples), many estates may not be exposed to the federal estate tax. (However, you may still be affected by state tax rules, which vary.) However, you may want to use some of the lifetime exemption in case the amount reverts back to $5 million (inflation indexed) when the TCJA expires in 2026. Be sure to leave yourself enough to live on. Also, leave the lowest basis assets in the estate for heirs. When these assets are inherited, they receive a step up in basis, so heirs could sell the assets tax free.

Another strategy to consider is removing assets from your estate and freezing their values using a Spousal Lifetime Access Trust (SLAT). A SLAT allows one spouse to set aside assets for the benefit of the other spouse and the couple's children. As long as the spouses remain married, the spouse can access it if needed. To insure equality, each spouse can set up a SLAT for the other, as long as they are sufficiently nonreciprocal to avoid IRS scrutiny.

Finally, if you have an older estate plan that uses a formula to divide assets at your death, there could be unintended distribution of funds due to the increase in the lifetime exemption amount. Review your estate plan with a financial professional to confirm it still reflects your intentions.

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Nathan provides customized financial planning solutions to high net worth individuals and families as part of an overall personal wealth management strategy. He joined the organization in 2018 and has over 10 years of experience in the financial services industry. He is a Certified Public Accountant Personal Financial Specialist (CPA/PFS). He earned a BS in Accounting, and an MBA in Finance from University of Wisconsin–Whitewater.

Education savings accounts

Another way to set aside pre-tax money that grows tax-free is in a 529 education savings account (ESA). Use a 529 plan account to:

- Cover college expenses as well as up to $10,000 per year, per beneficiary for elementary or secondary school tuition
- Grow education savings for a child, grandchild, or anyone else who might need the money for education
- Start saving early by opening the account in your own name and changing the beneficiary later on

The annual gift exclusion rules allow you to contribute up to $15,000 to each ESA beneficiary per year ($30,000 if you and your spouse contribute). And, you can make up to five years' of contributions at once if you don't make other annual exclusion gifts over those years.

As 2019 draws to a close, take time to evaluate your tax situation in light of your total financial situation and long-term wealth plan. Working with your trusted advisor through these three tax planning areas may help you avoid pitfalls and identify opportunities.

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