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WEALTH OF KNOWLEDGE

NEWSLETTER COVERING THE WEALTH CONTINUUM

Year-End Tax Planning Strategies

As you try to navigate the busy months until year end, financial planning may not be top of mind. However, now is an ideal time to take advantage of tax savings strategies before ringing in 2019.

If you're working, have you contributed all that you can to your retirement accounts and/or retirement work plans? For 401(k) and 403(b) accounts, the maximum contribution is now $18,500 per person if under age 50, or $24,500 if age of 50 or older. Any contributions (not ROTH contributions) made will lower your taxable income. You may also contribute up to a maximum amount of $5,500 to a traditional or Roth IRA, and if 50 or older, another $1,000 (for a $6,500 max contribution). Your adjusted gross income (AGI) and other factors will determine if such traditional IRA contributions are deductible. The ability to contribute to a Roth IRA is strictly governed by AGI.

Another important tool that can be used for those working and planning for retirement is a Health Savings Account (HSA). If you are covered by a High Deductible Health Plan (HDHP), not on Medicare or covered by another health plan, and not able to be claimed as a dependent on someone else's tax return, you may be able to use this strategy. It is inevitable that we will have medical expenses, especially in retirement, and contributions to an HSA are tax deductible (or excluded from income if an employer is contributing for you). Withdrawals for qualified medical expenses are also tax free. Individuals may contribute up to $3,450, families up to $6,900, and 55+ can make a catch-up contribution of an additional $1,000. Talk to your planner to understand the rules around this under-utilized strategy.

We see many retired individuals who need to take their Required Minimum Distributions (RMDs) before the end of the year. If you have not taken yours yet or have not completed taking the full amount, you may direct your RMD to a qualified charity. Qualified Charitable Distributions (QCDs) are not taxable, and using QCDs partially or fully to satisfy your RMD reduces your Adjusted Gross Income, which can be favorable for reducing Medicare premiums and the taxability of Social Security, among other benefits. From a tax perspective, this is the preferred method for giving – especially when some or all of the RMD is not needed.

Still in the mood for gifting? Gifting of appreciated property/securities is still an option retained under the new TCJA legislation. This is a favored tax-advantaged method of giving regardless of whether or not a deduction is given, as neither the taxpayer nor the charity pays tax on the unrealized capital gain. The higher the unrealized gain, the better! Note: timing of this strategy is important – if approaching end-of-life, there is a step up in basis that should be considered first.

If you have a taxable investment account and have realized capital gains from selling securities at a profit, you may sell positions that are at a loss to avoid being taxed on some or all of those gains. Any losses over and above the amount of your capital gains may be used to offset up to $3,000 of ordinary income ($1,500 for married person filing separately). Selling losing positions for the tax benefit is commonly known as "tax loss harvesting" or "harvesting your losses." So, even though tax considerations shouldn't be the primary driver of your investing decisions, there are steps you can take before the end of the year to minimize any tax impacts.

If you're working in New York State and have younger children, you may want to consider adding to their NYS 529 Plan. These plans allow you to contribute up to $15,000 a year ($30,000 if married filing jointly) without triggering the need to file a gift tax return. Up to $10,000 is deductible annually from NYS taxable income for married couples filing jointly, and up to $5,000 annually for single taxpayers. There is also an expanded use available for these funds that now includes certain qualified expenses for children in K-12 plus the normal higher education expenses.

These are just a few of the basics available to most people, you may want to consider by December 31. Before implementing any strategy, I always recommend working with a CERTIFIED FINANCIAL PLANNER™ professional and your tax advisor to ensure that all aspects of the plan are coordinated to meet your goals. If you have any questions, our well qualified Wealth Advisors would love to speak with you.

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