ADVANCED PLANNING PERSPECTIVES

2019 Year-End Planning Considerations

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With year-end quickly approaching, now is an appropriate time to work with your team of advisors to put the finishing touches on your financial and tax planning for the 2019 tax year. The second tax year under The Tax Cuts and Jobs Act (TCJA) of 2017 has brought to light additional considerations that were either unclear or overlooked in 2018. Outlined below are some year-end planning strategies for individuals, Schedule C taxpayers and business owners to consider. To further assist your year-end planning, we also include a checklist highlighting common tax planning ideas and an appendix with 2019 tax tables and figures.

Executive Summary

Bunching Deductions in Alternate Years

Because of the larger standard deduction and the limitation on state and local tax (SALT) deductions, most individual taxpayers will now find that their standard deduction will be greater than their allowable itemized deductions. Therefore, you should consider bunching itemized deductions in specific tax years to get the most out of your deductions and possibly exceed the standard deduction.

Using an HSA to Deduct Medical Expenses

Medical expense deductions may be significantly limited, however, a Health Savings Account should be considered under certain circumstances which may allow you to take advantage of a deduction that you otherwise would not have had.

Exercising and Holding Incentive Stock Options (ISOs)

If you are considering exercising and holding ISOs between now and year-end, evaluate whether it makes sense to postpone the option exercise until early January 2020. This may allow you to better manage your 2020 year-end tax planning.

New Kiddie Tax Rules

Parents should discuss with their tax advisor the best way to report income of children under age 19 or full-time students under age 24. There may be opportunities to reduce the overall income tax liability by reporting the income on the parent's return.

Retirement Plan Contributions

You have an opportunity to save for retirement while also managing your current and future tax liability. You have the option to contribute to various retirement plans such as 401(k)s, Roth 401(k)s, IRAs, ROTH IRAs and others. You should explore your options with your tax advisor to determine which plan is right for you.

Schedule C Taxpayers
Under current law, employees are no longer permitted to deduct home office expenses as an itemized deduction. However, the home office deduction is still available for Schedule C (Sole Proprietorship) taxpayers. Review and analyze with your tax advisor the benefits of filing form Schedule C, if applicable.

Planning for the Qualified Business Income (QBI) Deduction
One of the most significant changes to come out of TCJA is the qualified business income (QBI) deduction under Code Section 199A. Although this deduction can provide substantial tax savings to those who qualify, the rules can be quite complex. You may qualify for the full 20% deduction on qualified business income, no deduction, or something in between. Work with your team of professionals to determine whether your business income qualifies for the QBI deduction.

Deferring and Reducing Capital Gains Taxes via Qualified Opportunity Funds (QOFs)
The Qualified Opportunity Zones (QOZ) program was enacted as part of TCJA to encourage long-term private investment in economically-distressed communities with the intention to help boost the local economy and increase employment opportunities. There are special tax incentives that allow you to reinvest your recognized capital gains and defer the taxes on those gains for a period of time. You may also be able to reduce the amount of capital gain tax you are required to pay on the sale of such reinvestment. Proper tax counsel should be consulted before implementing such strategy.

Social Security "Restricted Application" Phase-Out
The "restricted application," is being phased-out, but is still available for certain individuals born prior to January 2, 1954. If you were born prior to that date and have a spouse currently collecting their own Social Security benefit, you may file a "restricted application" to claim a spousal benefit upon reaching your Full Retirement Age (FRA) (e.g., age 66 for those born between 1943 and 1954).

Strategies to Consider: Expanded

Bunching Deductions in Alternate Years

Because of the larger standard deduction (now $12,200 for single or married filing separate, $18,350 for head of household, and $24,400 for married filing jointly or surviving spouses in 2019) and the $10,000 limitation on state and local tax (SALT) deductions under TCJA, most individual taxpayers will now find that their standard deduction will be greater than their allowable itemized deductions. As a result, you may find that claiming certain itemized deductions (such as medical expenses and charitable contributions) will no longer provide incremental tax savings.

However, by carefully timing discretionary medical expenses and/or charitable contributions so that your deductions are "bunched" in tax years in which your itemized deductions exceed the standard deduction, you can improve your overall tax savings from a multi-year perspective. For example, if you expect that your total itemized deductions will approach, but not exceed, the standard deduction in 2019, you might consider accelerating discretionary medical expenses and/or charitable contributions into 2019 (instead of in 2020).

If you are considering paying off your mortgage, consider working with your tax advisor to analyze whether keeping your mortgage interest deduction would increase the likelihood that your itemized deductions will exceed your standard deduction and allow you to deduct your SALT, medical and charitable contribution expenses.

If you are planning to make donations to charities over the next few years, consider making an upfront lump sum contribution to a donor advised fund (DAF) instead, especially if you expect to be subject to higher tax rates in 2019 than in future years and are looking to accelerate deductions into the current year. By contributing to a DAF, you can take an upfront charitable deduction (subject to limitations) while postponing distributions to the ultimate charitable beneficiaries until future years.

Using an HSA to Deduct Medical Expenses

In 2019, medical expenses are now only deductible as an itemized deduction to the extent they exceed 10% of adjusted gross income (AGI). (TCJA temporarily reduced the deduction threshold to 7.5% of AGI for 2017 and 2018.) Most taxpayers are effectively prevented from deducting medical expenses as an itemized deduction, either because their medical expenses do not exceed the 10% of AGI threshold or because their standard deduction is greater than their total itemized deductions. However, one alternative way to receive a medical expense-related tax deduction is to establish a health savings account (HSA) to pay for medical expenses.

Contributions to an HSA are deductible from gross income up to a maximum annual amount, which is adjusted yearly for inflation. (HSA contributions made through employee payroll deductions offer the additional benefit of saving FICA taxes while non-payroll contributions do not.) Since HSA contributions are a deduction from gross income, there is no need to itemize deductions in order to get this tax benefit. To be eligible for an HSA, an individual must be covered under a high-deductible health plan and have no other health coverage except certain permitted coverage. For 2019, the maximum deductible contribution to an HSA for individuals with self-only coverage is $3,500, while the maximum deduction for those with family coverage is $7,000. Many employers provide some kind of matching contribution to employee HSA accounts.

Exercising and Holding Incentive Stock Options (ISOs)

If you are considering exercising and holding ISOs between now and year-end, evaluate whether it makes sense to postpone the option exercise until early January 2020. Waiting until the beginning of a tax year to exercise ISOs can help you better manage your potential alternative minimum tax (AMT) liability. In particular, if the share price declines precipitously after you exercise the ISOs, you could sell the shares in the same tax year and convert a potentially large AMT liability into a smaller regular income tax liability. However, if the share price maintains its value or, better yet, appreciates in 2020, then you can hold onto the shares and receive preferential long-term capital gain tax treatment when you sell in early 2021 (assuming that the sale occurs at least 2 years after grant and at least 1 year after exercise).

If you exercised ISOs earlier in 2019 (and still hold the resulting shares), review the current share price relative to the price when you exercised the ISOs. If the share price has declined significantly since exercise (and you do not anticipate a recovery), consider selling the shares in a disqualifying disposition before year-end to avoid triggering unnecessary alternative minimum tax (AMT) exposure. Please consult your tax advisor before implementing any strategy.

New Kiddie Tax Rules

As a result of TCJA, children’s unearned income over $2,200 is taxed at trust and estate tax rates. In some cases, depending on the level of income being taxed, this “kiddie tax” can result in higher taxes than if that income had been taxed at individual tax rates. However, if the child is under age 19 or a full time student under age 24, and both the child and the parent meet certain qualifications, the parent can elect to report the child's income on the parent's return. Depending on the level of income being reported, this strategy could reduce overall taxes. Be sure to discuss your specific situation with your tax advisor.

Retirement Plan Contributions

Money contributed to a qualified retirement plan can substantially reduce taxable income. For 2019, employees can defer up to $19,000 of income into a 401(k) (plus up to $6,000 of catch-up contributions if they are age 50 or older). Alternatively, business owners can establish a simplified employee pension (SEP) plan for themselves and contribute the lesser of $56,000 or 25% of net self-employment earnings (not including contributions for themselves). Still other options include contributions to various types of IRAs, but be aware that the contribution limits are much lower, income limitations may apply, and contributions to Roth IRAs are not deductible.

In general, contributions to a Roth 401(k) or Roth IRA may be a good choice for low-bracket taxpayers, especially if they anticipate being subject to a higher tax bracket in retirement. Remember that deductible (pre-tax) 401(k) or traditional IRA contributions, plus any earnings, will be taxed at ordinary income rates when withdrawn in the future. In contrast, Roth contributions are made after-tax and the distributions (including earnings) will be tax-free in retirement if certain criteria are met.

Additionally, a parent can fund a Roth IRA for a child (even a minor child) who has earned income. The maximum contribution is the lesser of the child's earned income or $6,000. Roth IRA contributions are subject to income limitations (with phase-outs starting at $122,000 of modified adjusted gross income for single and $193,000 for married filing jointly), but those limits apply to the child's income, not the parent's income. Note that a transfer by a parent into a child's Roth IRA is a gift from the parent to the child. Such gifts will qualify for (and count against) the parent's $15,000 annual gift tax exclusion with regard to that child and should be coordinated with other gifts from the parent to the child during the calendar year.

Schedule C Taxpayers

Under current law, employees are no longer permitted to deduct home office expenses as an itemized deduction. (Prior to TCJA, employees were able to deduct home office expenses as a miscellaneous itemized deduction, but TCJA suspended the miscellaneous itemized deduction through 2025.) However, the home office deduction is still available for Schedule C (Sole Proprietorship) taxpayers.

Schedule C taxpayers who have been using the simplified method to calculate their home office deduction might consider switching to the actual expense method in light of the SALT and mortgage interest limitations under TCJA. Under the actual expense method, a portion of the taxpayer's mortgage interest and SALT expenses are reported on Schedule C (rather than on Schedule A as itemized deductions), which could result in a larger deduction than under the simplified method. In addition, expenses that would not normally be deductible (such as utilities, home insurance, security systems, and repairs) can be converted to deductible home office expenses on Schedule C. Keep in mind that, if a taxpayer uses the actual expense method, depreciation also needs to be calculated. When the home is later sold, you may be taxed on the depreciation that is recaptured. Lastly, deductible home office expenses cannot exceed income from the taxpayer's Schedule C business. Again, consult with your tax advisor.

Planning for the Qualified Business Income (QBI) Deduction

One of the most significant changes to come out of TCJA is the qualified business income (QBI) deduction under Code Section

199A. Although this deduction can provide substantial tax savings to those who qualify, the rules can be quite complex. Under Section 199A, certain business owners with pass-through income from S corporations, LLCs, partnerships, sole proprietorships, and some estates and trusts (generally any business other than a C corporation) may qualify for the full 20% deduction on qualified business income, no deduction, or something in between. Work with your team of professionals to determine whether your business income qualifies for the QBI deduction.

QBI Deductions for Rental Real Estate Activities

Earlier this year, the IRS indicated that income from a taxpayer's rental real estate activities may be eligible for the QBI deduction if certain conditions are met. Work with your team of professionals between now and the end of the year to determine if adjustments can or should be made to qualify under these new QBI rules.

Deferring and Reducing Capital Gains Taxes via Qualified Opportunity Funds (QOFs)

The Qualified Opportunity Zones (QOZ) program was enacted as part of TCJA to encourage long-term private investment in economically-distressed communities with the intention to help boost the local economy and increase employment opportunities. In June 2018, the Treasury Department certified approximately 8,700 Opportunity Zones throughout the 50 States, Washington, D.C. and U.S territories. The program provides individual and corporate investors with the opportunity to defer and partially eliminate capital gains taxes by reinvesting capital gains into a Qualified Opportunity Fund (QOF).

Investors who reinvest their gains into a QOF within 180 days after the sale of a capital asset can defer capital gains taxation until the investment is sold or exchanged, or December 31, 2026, whichever is earlier. Further, if the QOF investment is held for more than 5 years, investors can qualify for a 10% exclusion on the deferred gain. If the QOF investment is held for more than 7 years, the 10% exclusion becomes 15%, meaning the investor would only pay tax on 85% of the deferred gain. If the investor holds the QOF investment for at least 10 years, the investor would become eligible for a full step-up in cost basis upon the subsequent sale or exchange. As a result, any gain above the original deferred gain will be eliminated if the QOF investment is held for at least 10 years. However, keep in mind that the investor will recognize phantom income on the original deferred gain (minus the 10% or 15% exclusion, if applicable) if the QOF investment is held through December 31, 2026.

Important: December 31, 2019 is the last day to defer capital gains into a QOF in order to be eligible for the full 15% gain exclusion (assuming the investment is held through 2026 in order to meet the 7-year holding period). Investors who miss the upcoming deadline may still qualify for the 10% exclusion if the QOF is held for at least 5 years. The deadline to defer gains to qualify for the 10% exclusion for a 5-year holding period is December 31, 2021.

Social Security "Restricted Application" Phase-Out

In 2015, Congress closed some unintended loopholes in Social Security claiming strategies in order to protect the longevity of the Social Security Trust Funds. One popular claiming strategy, known as the "restricted application," is being phased-out, but is still available for certain individuals born prior to January 2, 1954. If you were born prior to that date and have a spouse currently collecting their own Social Security benefit, you may file a "restricted application" to claim a spousal benefit upon reaching your Full Retirement Age (FRA) (e.g., age 66 for those born between 1943 and 1954).

With the "restricted application" strategy, you could collect spousal benefits (up to 50% of your spouse's FRA benefit) while delaying taking benefits on your own work record until age 70. Each year you delay taking benefits beyond your FRA (until age

70) allows you to receive delayed retirement credits of 8% per year (up to a total of 32%). Using this strategy can help spouses maximize their combined lifetime Social Security benefits.

Important: The last major group of individuals who will be eligible for the soon-to-be-phased-out “restricted application” strategy are reaching their FRA of age 66 between now and January 1, 2020. While there is no deadline to file a “restricted application” for spousal benefits, filing as soon as you are eligible (instead of waiting) can help maximize lifetime benefits.

2019 Planning Checklist

Retirement

- ☐ Consider maximizing your 401(k), 403(b) or other company plan contributions. If you are 50 years and older, catch-up contributions are allowed.
- ☐ Maximize your IRA contributions.
- ☐ Consider converting Traditional IRAs to Roth IRAs, especially if you are either 1) in a low tax bracket and can pay the taxes now with other funds available or 2) have a large net operating loss that can offset the income that is triggered on a Roth conversion.
- ☐ If you are 70 ½ or older this year, make sure you review when you must take your required minimum distribution.
- ☐ If you are self-employed, consider opening and funding a SEP IRA or solo 401(k).
- ☐ Check beneficiary designations (both primary and contingent) on all retirement plans.

Gifting to Family

- ☐ Consider using your annual gift tax exclusion amount ($15,000 per person) for cash gifts.
- ☐ Consider using your annual gift tax exclusions to fund 529 plans.
- ☐ Consider using all or a portion of your lifetime federal estate, gift and GST exemption amounts ($11,400,000 in 2019) by creating and funding an irrevocable trust.
- ☐ Before gifting any asset, know the cost basis and tax consequences to the donee.
- ☐ Revisit your gifting strategies and your estate planning documents.

Income Taxes

- ☐ Consider “bunching” your deductions.
- ☐ Work with your tax advisor to prepare an income tax projection for 2019 and 2020.
- ☐ Work with your tax advisor to either accelerate paying expenses in the current year or deferring payment to the following year.
- ☐ Work with your tax advisor to either accelerate income in the current year or defer income to the following year.
- ☐ Work with your tax advisor to determine whether you will be subject to AMT this year and, if so, evaluate ways to minimize exposure.
- ☐ Check your tax withholdings to avoid interest and penalties.
- ☐ Consider ways to minimize the 3.8% Net investment Income Tax (NIIT) by reducing modified adjusted gross income (MAGI) and Net Investment Income (NII).

Insurance

- Review your current insurance policies.
- If you experienced a recent major life event (birth, death, marriage, divorce, etc.), revisit the amount and type of coverage.
- Check the beneficiary designation forms for all insurance policies.
- Request an in-force ledger for all permanent life insurance policies to determine whether those policies are still performing as expected.
- If you are making gifts of premiums to an ILIT, make sure the trustee is providing annual Crummey letters to the beneficiaries.

Investments

- Review your asset allocation to determine if rebalancing is necessary.
- Confirm whether your investments are aligned with your risk tolerance and investment objectives.
- Consider harvesting capital losses to offset realized capital gains. In addition, you can deduct up to $3,000 of capital losses against ordinary income and carry forward excess capital losses to future years until exhausted.
- If you are planning to purchase a mutual fund in a taxable account before year-end, check whether the fund is expected to make a sizable capital gains distribution. If so, consider deferring the purchase until after the record date of the distribution.

Gifting to Charity

- Consider using low-basis stock or other highly-appreciated assets (held for more than 1 year) to fund your charitable gifts.
- Evaluate whether a charitable vehicle (i.e. donor advised fund, private foundation, charitable trust, etc.) would be appropriate.
- If you are 70 ½ or older this year, consider making a 2019 charitable donation directly from your Traditional IRA via a qualified charitable distribution (QCD). (Note: QCDs cannot be made to a donor advised fund or private foundation.)

Appendix: 2019 Reference Sheet

Income Tax (2019 tax rate tables)	
Taxable income	**Tax rate**
Single	
$0 - $9,700	10% of taxable income
$9,701 - $39,475	$970 plus 12% of the amount over $9,700
$39,476 - $84,200	$4,543 plus 22% of the amount over $39,475
$84,201 - $160,725	$14,382 plus 24% of the amount over $84,200
$160,726 - $204,100	$32,748 plus 32% of the amount over $160,725
$204,101 - $510,300	$46,628 plus 35% of the amount over $204,100
$510,300 or more	$153,798 plus 37% of the amount over $510,300
Married Filing Jointly or Qualifying Widow(er)	
$0 - $19,400	10% of taxable income
$19,401 - $78,950	$1,940 plus 12% of the amount over $19,400
$78,951 - $168,400	$9,086 plus 22% of the amount over $78,950
$168,401 - $321,450	$28,765 plus 24% of the amount over $168,400
$321,451 - $408,200	$65,497 plus 32% of the amount over $321,450
$408,201 - $612,350	$93,257 plus 35% of the amount over $408,200
$612,350 or more	$164,709.50 plus 37% of the amount over $612,350
Married Filing Separately	
$0 - $9,700	10% of taxable income
$9,701 - $39,475	$970 plus 12% of the amount over $9,700
$39,476 - $84,200	$4,543 plus 22% of the amount over $39,475
$84,201 - $160,725	$14,382.50 plus 24% of the amount over $84,200
$160,726 - $204,100	$32,748.50 plus 32% of the amount over $160,725
$204,101 - $306,175	$46,628.50 plus 35% of the amount over $204,100
$306,176 or more	$82,354.75 plus 37% of the amount over $510,300
Head of Household	
$0 - $13,850	10% of taxable income
$13,851 - $52,850	$1,385 plus 12% of the amount over $13,850
$52,851 - $84,200	$6,065 plus 22% of the amount over $52,850
$84,201 - $160,700	$12,962 plus 24% of the amount over $84,200
$160,701 - $204,100	$31,322 plus 32% of the amount over $160,700
$204,101 - $510,300	$45,210 plus 35% of the amount over $204,100
$510,301 or more	$152,380 plus 37% of the amount over $510,300

Source: IRS.gov

Appendix: 2019 Reference Sheet – continued

Trust & Estate Tax brackets	Tax rate
< $2,600	10%
$ 2,601 – $9,300	24%
$ 9,301 – $12,750	35%
$12,751+	37%

Standard Deduction	2019
Single	$ 12,200
Married Filing Jointly	$ 24,400
Head of Household	$ 18,350
Married Filing Separately	$ 12,200
Age 65+ or Blind if Married (per taxpayer)	$ 1,300
Age 65+ or Blind if Unmarried	$ 1,650
Kiddie tax	$ 1,100

Capital Gain & Dividends

Type of Gain or Dividend	Holding Period	Rates
Short-Term Capital Gains or Ordinary Dividends	12 months or less	Taxed as ordinary income

Long-term capital gain rates are based on taxable income

Type of Gain or Dividend	Holding Period	Rate	Married Filing a Joint Return	Head of Household	Single Individual	Married Filing a Separate Return	Estates and Trusts
Long-term Capital Gain or Qualified Dividends	More than 12 months	0%	0 - $78,750	0 - $52,750	0 - $39,375	0 - $39,375	0 - $2,650
		15%	$78,751 - $488,850	$52,751 - $461,700	$39,376 - $434,550	$39,376 - $244,425	$2,651 - $12,950
		20%	Over $488,850	Over $461,700	Over $434,550	Over $244,425	Over $12,950

Gift, Estate and Generation-Skipping Transfer Tax	2019
Annual Gift Tax Exclusion for 2019 and 2020 (per recipient)	$ 15,000
Annual Exclusion to non-US Citizen Spouse	$ 155,000
Gift and Estate Tax Exclusion	$ 11,400,000
Generation-Skipping Tax Exemption	$ 11,400,000
Estate and GST Tax Rate	40%

Appendix: 2019 Reference Sheet – continued

Retirement Account Contribution Limits

Plan Type	Regular	Catch up amount	Total for age 50+
Roth IRA	$ 6,000	$ 1,000	$ 7,000
Traditional IRA	$ 6,000	$ 1,000	$ 7,000
401(k) & 403(b)	$ 19,000	$ 6,000	$ 25,000
457 Plans	$ 19,000	$ 6,000	$ 25,000
SIMPLE IRA	$ 13,000	$ 3,000	$ 16,000
Defined Contribution	$ 56,000	$ -	$ -

Traditional IRA Contribution Deduction Limits

Filing Status	Phase-out begins*	Phase-out for deductible contribution ends
Single	$ 64,000	$ 74,000
Married filing Jointly	$ 103,000	$ 123,000
Married filing Separately	$ -	$ 10,000
Non-active participant married to active participant	$ 193,000	$ 203,000

*Modified adjusted gross income (MAGI) is used to determine IRA eligibility and applies to individuals or spouses of individuals who are active participants in an employer-sponsored plan. MAGI limits on deductible contributions do not apply to individuals who are not an active participant in an employer-sponsored plan.

ROTH IRA Contribution MAGI Limits

Filing Status	Phase-out begins	No Contributions Permitted
Single	$ 122,000	$ 137,000
Married filing Jointly	$ 193,000	$ 203,000
Married filing Separately	$ -	$ 10,000

These limits apply regardless if individual is an active participant in an employer-sponsors plan.

Other Plan and Compensation Limits

Defined Benefit Plan Annual Benefit Limit	$ 225,000
Highly Compensated Employee Under 414(q)(1)	$ 125,000
Foreign Earned Income Exclusion	$ 105,900

Information in tables from IRS.gov unless otherwise specified

Key Year-End Dates

By	Action
11/29	Last day for the wash sale 'double up' strategy.
12/27	Last day to close a short position at a loss in order to be included in the 2019 tax year (trade + 2 settlement).
12/31	Last day to sell and recognize a capital gain or loss in the 2019 tax year (trade date).
12/31	Last day to qualify for the maximum capital gain exclusion of 15% by contributing realized capital gains into a Qualified Opportunity Fund (QOF).
12/31	Utilize the annual gift tax exclusion of $15,000 per beneficiary ($30,000 for married couples).
12/31	Last day to make a 5-year accelerated gift into a 529 Plan.
12/31	Make a charitable contribution to be able to claim a deduction in 2019. Cash contributions must be postmarked by 12/31. Securities must be received by the institution by 12/31.
12/31	Distribute Required Minimum Distributions (RMDs) from retirement accounts.
12/31	Last day to make a Qualified Charitable Distribution (QCD) from an IRA for those age 70 ½ or older.
12/31	Last day to make Roth conversions to include it in 2019 income (dates may vary by financial institution).
1/15/20	Deadline for the 4th quarter 2019 estimated tax payment.
1/30/20	Deadline to close certain open positions to avoid the constructive sale rules for calendar year taxpayers.
3/05/20	Deadline for trustees to distribute trust income to beneficiaries for it to be taxable in 2019 – for calendar year non-grantor trusts.
4/15/20	Deadline for 2019 Traditional and Roth IRA contributions.
Anytime	Pay tuition and medical expenses directly to the institutions as these payments do not count toward the annual or lifetime gift tax exclusion.