PREPARING NOW FOR 2019

TAX STRATEGIES & ESTATE PLANNING

INCOME TAX PLANNING

Given all the tax change, it's more important than ever to plan for income taxes. CPAs will be busy heading into year-end, so we advise that you set up a time to speak with your CPA as soon as possible.

When it comes to the new tax laws, there's a lot to consider. The topics listed here are a good place to start.

Alternative Minimum Tax Planning. This has always been a source of confusion for taxpayers, and one of the more critical items to plan for, but the situation has changed. The exemption has dramatically increased and it's expected that very few taxpayers will ultimately be subject to AMT. As a result, please consult with your tax advisor before taking any of the traditional steps to avoid or reduce exposure to AMT.

SALT Deductions. One of the more recognizable changes is the capping of state and local income tax (SALT) deductions at $10,000. There are a number of high-tax states attempting to challenge the SALT cap; in July, a group of attorneys general from New York, New Jersey, Connecticut and Maryland formally filed a lawsuit to eliminate the cap. We'll have to wait and see how this and similar lawsuits play out. For the time being, traditional strategies (such as making extra estimated income tax or property tax payments early) may not be useful.

Hidden Capital Gains Tax Increase. As part of the SALT cap noted above, those who live in states that levy their own capital gains tax will no longer be able to claim deductions at the federal level, effectively resulting in increased capital gains taxes. (This applies to all but nine states: Arkansas, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming.)

Bundling Deductions. Given that several itemized deductions were reduced or eliminated, it makes sense to evaluate those that were not. That's where the charitable deduction comes in. The charitable deduction was not reduced or eliminated — in fact, it was increased. Taxpayers can now deduct cash gifts up to 60 percent of adjusted gross income (AGI). That said, one potential strategy is to bunch two or more years of gifting into a single year, possibly using a donor-advised fund to help spread out the actual gifts. There may also be state tax advantages to making charitable contributions, depending on your situation.

Medical Deductions. It's worth noting that deductions for medical expenses must exceed seven and a half percent of AGI in 2018, but this limit will go up to 10 percent in 2019 and beyond. If you're considering an elective surgery or have other significant expenses that can be pre-funded, it may make sense to do this in 2018.

Home Equity Lines. The new federal tax law created a lot of confusion over whether tax filers may still deduct the interest they pay on their home equity loans and home equity lines of credit. The new law suspends the deduction for interest for the next eight years, but the extension doesn't apply to all home equity loans. Lines that were used for acquisition indebtedness (generally defined as funds used to buy or improve a property) remain deductible, as long as total debt is below the new $750,000 limit.

Mortgage Interest Deduction. As noted above, this deduction is limited to interest paid on the first $750,000 of acquisition indebtedness. Note that loan balances before Dec. 15, 2017 will be grandfathered in and considered under the old $1,000,000 limit.

Timing of Income. Be sure you understand the modified income tax rates and thresholds as well as which brackets you fit into for both income and capital gains purposes. Your CPA can help you to adjust your paycheck withholdings, or there's a free calculator available on the IRS website.

Qualified Charitable Distribution. The QCD provision is now a permanent part of the Internal Revenue Code. This means you can plan your charitable giving and begin reviewing your tax situation earlier each year. For those 70 1/2 and older, you can directly transfer funds up to $100,000 from an IRA custodian to a qualified charity. The funds can't be included in your taxable income or Medicare cost calculations. You'll get a charitable deduction, and these distributions will count towards satisfying your required minimum distribution (RMD). QCDs don't hit income and therefore don't get a double bite at the apple for a charitable deduction.

529 Plans for Elementary or Secondary Schools. The tax reform package expanded 529 plan benefits to $10,000 per year, per child, to be used to fund tuition at public, private or religious elementary or secondary schools. If you have excess funds in your 529 plans or have additional plans through relatives, this is a great way to soak up some of the balance. However, be mindful that while funds pulled for this purpose will be exempt from federal taxes, the withdrawal may still be subject to state taxes.

OTHER CONSIDERATIONS

Tax-Loss Harvesting. There could be opportunities to sell out of a down position to book the tax loss. You could repurchase the security after 31 days while owning the index in between to maintain market exposure.

Estate Planning. While the lifetime exemption for federal estate taxes has risen to a level where even fewer people will be affected, state estate regimes still require proper planning. Control and asset protection remains a critical factor in any estate plan no matter what the tax policies are. Additionally, many states are going through fundamental changes in their estate tax laws. For instance, the New Jersey tax has been eliminated while Connecticut and New York are steadily increasing exemption amounts. Illinois, on the other hand, has not increased its exemption amount since 2013.