MANTELL, PRINCE & REYNOLDS, P.C.

Year End Tax Planning

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Year End Tax Planning

As the end of the year approaches, it is a good time to consider planning moves that will help lower your tax bill. The Tax Cuts and Jobs Act (TCJA) brought about significant changes to individual income taxes, and federal estate and gift tax laws. For individuals, these changes include lower income tax rates, a boosted standard deduction, severely limited itemized deductions, no personal exemptions, an increased child tax credit, and a watered-down alternative minimum tax (AMT). For estate purposes, the TCJA significantly increased the federal estate and gift tax exemption amount, albeit temporarily. Despite these major changes, the time-tested approach of deferring income and accelerating deductions to minimize taxes still applies for many taxpayers. In this Newsletter, we address some planning that you should consider to minimize your tax liability in 2019, 2020 and beyond.

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Estate and Gift Taxes

The Estate and Gift tax exemption for 2019 is $11.40 million per individual, and is set to increase to $11.58 million per individual in 2020. However, under current law, the estate and gift tax exemption will decrease dramatically on January 1, 2026. Accordingly, before the end of the year, you may want to consider making gifts that are sheltered by the annual gift tax exclusion i.e. the amount you can gift without utilizing any of your estate tax exemption or requiring the filing a gift tax return.

The annual gift exclusion amount remains the same for 2019 and 2020, whereby an individual can make a gift of up to $15,000 to each of an unlimited number of individuals per year. A husband and a wife can each make a $15,000 gift to the same individual. An individual cannot carry over unused exclusions from one year to the next. Such gift transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets, who are not subject to the Kiddie tax (generally children with unearned income exceeding $2,100 who are under age 18 and some children up to age 23 meeting certain requirements).

Additionally, when making a gift to an individual, it is important to be aware of the timing of the gift at the end of the year. In order to qualify as a completed gift for 2019, a gift in the form of a check to an individual must by cashed by the end of the year, and a gift in the form of stock(s) has to be settled by the end of the year.

In addition to annual exclusion gifts, individuals or families of significant wealth should consider making larger gifts to take advantage of the temporary estate tax exemption. If your donees are minors or if creditor protection is a concern, creating trusts to which the gifts are made should be strongly considered.

Income Tax Planning

Generally, tax deductions allow an individual to subtract certain expenses from his or her taxable income, which reduces his or her overall tax bill. The IRS allows an individual to either add up all of their deductible expenses or simply deduct a flat amount, also known as the standard deduction. Many taxpayers will not be able to itemize their deductions in 2019 because of the high basic standard deduction amounts under the TCJA, and because many itemized deductions have been reduced or abolished under the TCJA.

For 2019, the standard tax deduction amount for a single taxpayer and married taxpayers filing separately is $12,200. Married couples filing jointly can claim a standard deduction of $24,400, and taxpayers filing as "head of household" can claim a standard deduction of $18,350. In light of the limitations set by the TCJA, including a cap on the deduction of no more than $10,000 of state and local taxes, individuals may want to consider the planning opportunities discussed below to help lower their 2019 tax bill.

Bundling Charitable Gifts

Charitable donations are deductible only if you itemize, which, as discussed above, may be a less likely scenario for many taxpayers given today's higher standard deduction ($12,000 for individuals and $24,000 for married couples). If you find yourself short on itemized deductions, consider consolidating a few years' worth of charitable donations into a single year to help cross the standard deduction threshold.

For example, consider a married couple that donates $10,000 to charity each year. This $10,000 donation will not create an additional tax benefit if their total deductions do not exceed the standard amount. However, by saving up several years' worth of donations and making a bigger donation in a single year, they can itemize in that year and receive a tax benefit for their donation.

Additionally, making a larger donation in a single year versus spreading smaller donations across several years can be worthwhile from a tax perspective, even if you are already able to itemize. That's because only the amount you itemize that's above the standard deduction makes a difference; anything below goes to 'waste' since you would have deducted up to that amount anyway.

Bundling your donations into a single year allows you to take full advantage of the 'free' standard deduction amounts in other years, while more fully benefitting from your itemized deductions in the year you take them. That said, you may only deduct donations up to 60% of your adjusted gross income if you are donating cash, and up to 30% if you are donating securities.

Qualified Charitable Distributions

People older than 70½ can transfer up to $100,000 per year from their traditional IRAs to charity, which can count as their required minimum distribution but is not taxable if they follow the rules for a qualified charitable distribution (QCD). The gift stays out of your adjusted gross income only if you make a direct transfer from your IRA to the charity. It doesn't count as a tax-free transfer if you withdraw the money first and then make a donation to the charity.

If you are in a position to not need the funds from your IRA distribution for living expenses and have a desire to donate to charity, qualified charitable distributions may be a tax saving tool you can use.

Legislative Watch

We are closely monitoring proposed legislation, known as the SECURE (Setting Every Community Up for Retirement Enhancement) Act that was passed by the House of Representatives in late May 2019, by a vote of 417 to 3. The Secure Act is a bipartisan bill intended to boost retirement savings that would impact almost every individual that has retirement savings.

The SECURE Act makes significant changes to retirement plan contributions and distributions rules, including a repeal of the prohibition on contributions to traditional IRAs by an individual older than 70½. The SECURE Act also raises the age at which retirement plan participants need to take required minimum distributions (RMDs) to age 72 from age 70½.

Most significantly, the SECURE Act would require many non-spouse beneficiaries of an inherited retirement plan to liquidate the account by the end of the tenth year following the death of the account owner, subject to certain exceptions. This is a drastic change in the "stretch rules" that currently allow a non-spouse beneficiary of an inherited IRA to stretch out RMDs over his or her own life expectancy.

This proposed change would have a profound impact on the value of inherited retirement accounts and the tax consequences of inheriting and withdrawing from a retirement account. The SECURE Act may also affect the administration of trusts that receive retirement assets.

We will continue to monitor the SECURE Act if, and when, it advances through the Senate.

Conclusion

In light of the major changes to allowable deductions under the TCJA and the increased standard deduction amount, now may be an optimum time to have your specific tax situation and estate plan reviewed to determine whether certain steps or modifications need to be made to minimize your current 2019 tax liability, if any, and any future tax planning.

If you would like to discuss your specific tax situation and any of the recommended planning moves in this Newsletter, please do not hesitate to contact us.

About the Firm

Mantell, Prince & Reynolds, P.C. specializes in matters relating to tax and business planning for entrepreneurs, professionals and closely held businesses, mergers and acquisitions, estate planning, administration of estates and trusts, trust and estate litigation, taxpayer representation in connection with federal and state tax controversies and litigation, employee compensation and pension plans, and providing expert advice and expert witness support in tax, business, probate, and trust-related litigation.

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