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TAX, ACCOUNTING & FINANCIAL CONSULTING

2018 Year-End Tax Planning

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Year-End Tax Planning - Overview

As year end approaches, it's a good time to consider engaging in tax planning. Essentially, year-end tax planning involves the timing of income and deductions with the objective of eliminating, reducing or deferring tax liability. Unfortunately, in today's changing environment it is not quite that simple. It is important to consider the following when evaluating tax planning strategies:

- The objective should be to achieve your personal financial and/or business goals in the most tax efficient manner possible.

- Minimizing taxes can potentially enhance overall investment and business returns.

- Although tax planning is most effective when done throughout the year, many tax saving strategies can be identified and implemented as year-end approaches.

- New tax legislation routinely presents tax planning opportunities. Recent tax legislation contains provisions that affect subsequent tax years. Therefore, ongoing tax planning is necessary to take advantage of tax saving strategies.

- Effective tax planning requires accurate estimates of taxable income for 2018 and 2019.

- Developing reliable estimates is critical to making planned tax savings.

- Not every tax planning opportunity is appropriate for every person. However, identifying specific planning ideas that work for your profile can potentially reduce your tax liabilities.

Most tax tips, suggestions, and strategies are of little practical help without an understanding of your current tax situation. This is particularly true for year-end planning and why it is important to evaluate your current tax situation while there's still time to affect your bottom line for the 2018 tax year. Tax projections will help you estimate your present tax situation and identify any possible issues you'll need to address.

Basic Tax Planning Strategies

Timing is Everything
The last few months of the year may be the time to consider deferring or accelerating income and deductions, taking into consideration the impact on both this year's and next year's taxes.

Delaying Income & Accelerating Deductions
You may be able to defer a year-end bonus, defer the sale of capital gain property (or take installment payments rather than a lump-sum payment), or delay the collection of business debts, rents, and payments for services. Doing so may allow you to defer paying tax on the income until next year. If there's a chance that you'll be in a lower income tax bracket next year, deferring income could mean paying less tax on that income as well. Similarly, we can consider strategies to accelerate deductions into 2018. If you itemize deductions, you might accelerate some deductible expenses like medical expenses, qualifying interest, or state and local taxes (for those not exceeding the new $10,000 cap) by making payments before year-end. You may also consider making next year's charitable contribution this year instead.

Accelerating Income & Postponing Deductions
What if you'll be in a higher tax bracket in 2019? If you know that you'll be paying taxes at a higher rate in 2019 (say, for example, that an out-of-work spouse will be reentering the workforce in January), you might take the opposite track. Consider whether it makes sense to try to accelerate income into 2018, and to postpone deductible expenses until 2019.

Withholding from Wages
If projected that you will owe a substantial amount when you file this year's income tax return, ask your employer to increase your income tax withholding amounts before the year-end. Even though the additional withholding will come from your last few paychecks, it's generally treated as having been withheld evenly throughout the year. This may help you to avoid paying an estimated tax penalty due to under- withholding. If your situation is the opposite, where you have significantly overpaid your taxes and estimate you'll be receiving a large refund, you can reduce your withholding accordingly, putting money back in your pocket this year, as opposed to waiting for your tax refund to come in the following year.

IRAs and Retirement Plans - A Key Part of Planning

Make sure that you're taking full advantage of tax-advantaged retirement savings vehicles. Traditional IRAs (assuming that you qualify to make deductible contributions) and employer-sponsored retirement plans such as 401(k) plans allow you to contribute funds pretax, reducing your 2018 taxable income. Contributions you make to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) aren't deductible, so there's no tax benefit for 2018, but qualified Roth distributions are completely free from federal income tax, making these retirement savings vehicles very appealing. For 2018, you can contribute up to $18,500 to a 401(k) plan ($24,500 if you're age 50 or older), and up to $5,500 to a traditional IRA or Roth IRA ($6,500 if age 50 or older). The window to make 2018 contributions to an employer plan typically closes at the end of the year, while you generally will have until the original due date of your 2018 federal income tax return to make 2018 IRA contributions.

For 2019, the maximum 401(k) contributions have been increased to $19,000 ($25,000 if age 50 or older). Contributions into the traditional and Roth IRA have been increased to $6,000 ($7,000 if age 50 or older).

The 2018 Tax Planning Environment

In December 2017, Congress passed the most comprehensive tax reform since 1986, the Tax Cuts and Jobs Act (TCJA). The TCJA has already affected the majority of every taxpayer's 2018 tax liability, providing a valuable opportunity to benefit from tax planning. Here are some of the highlights of the TCJA:

Individuals

- The number of tax brackets remain the same, but the graduated rates of each bracket have been reduced.
- The standard deduction increased for individuals and couples to $12,000 and $24,000, respectively.
- Personal exemptions have been eliminated.
- Itemized deductions:
  - State and property tax deductions are limited to $10,000.
  - Miscellaneous itemized deductions are eliminated.
  - Medical expenses are deductible to the extent they exceed 7.5% of income.
- The child tax credit was doubled from $1,000 to $2,000.
- The Alternative Minimum Tax (AMT) exemption phase-outs have dramatically increased.
- The estate and gift tax exemption was doubled to $11,180,000 for individuals and $22,360,000 for married couples.

Businesses

- Section 199A – This code section created by the TCJA allows individuals to potentially deduct up to 20% of combined qualified business income (QBI) from partnerships, S corporations, sole proprietorships, trusts, and estates.
- The corporate tax rate for C-Corporations was reduced from 35% to 21%. It may be beneficial to change the business entity structure to take advantage of this lower rate.

In Summary

The above highlights some of the key year-end tax planning areas for consideration along with changes from the TCJA. Since all these provisions together are quite complicated, we suggest an analysis be performed using tax software to calculate your approximate 2018 tax liabilities between now and the end of the year.

Please contact our office if you have any specific questions or need further guidance. We appreciate the opportunity to be of service to you.

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