10 Things to Consider Before Year End

HIRTLE CALLAGHAN & CO
Chief Investment Officers

As 2019 draws to a close, it is time once again to think about year-end tax planning. Interest rates are low, tax rates remain stable and the lifetime estate and gift tax exemption is at an all-time high. Now is the time to capitalize on tax saving opportunities. Below is a list of the ten things that we think you should consider before year end.

1. **Make Annual Exclusion Gifts –** You may give up to $15,000 per year ($30,000 for a married couple) to an unlimited number of individuals gift-tax free each year. We generally recommend giving cash or assets with a high tax basis to ensure that your beneficiaries are not burdened with additional taxes. For charitable gifts, we recommend gifting low-basis, highly appreciated assets.

   You can pay for another person's educational or medical expenses directly without those costs counting against your annual exclusion gift. For example, a grandparent could pay for their grandchild's tuition and still contribute $15,000 into a trust for that grandchild with no gift tax. It is a powerful way to move assets out of your estate and skip generations.

   A gift must be deposited by the beneficiary before the end of 2019 to qualify as a 2019 gift. A check written in 2019 but deposited on January 2, 2020 will be considered a 2020 gift.

2. **Harvest Tax-losses –** Tax-loss harvesting is when you sell certain investment assets at a loss to reduce your tax liability at the end of the year. You can use tax-loss harvesting to offset capital gains that result from selling securities at a gain. To the extent you have more losses than gains, you can also use tax-loss harvesting to offset up to $3,000 of non-investment income this year. As well, capital losses in excess of $3,000 can be carried forward indefinitely until the amount is exhausted.

   Notably, there is a 30-day wash sale rule which could disqualify a capital loss if the same or "substantially identical" security is purchased within 30 days before or after the sale.

3. **Consider Making Charitable Contributions –** Charitable contributions not only benefit the organizations and causes that you care about, they also are tax-deductible expenses that can reduce your taxable income if you itemize your deductions and therefore do not take the standard deduction ($12,200 for single filers and $24,400 for married couples in 2019).

   If you have significant income in 2019, consider making future charitable contributions at year end to generate current income tax deductions. This can be accomplished by gifting directly to your favorite charity or you can defer the receipt by the charitable organization and/or defer the decision as to which charitable organization to benefit by contributing to a donor advised fund or a private foundation.

   We recommend gifting long-term highly-appreciated securities as charitable gifts to maximize the impact of your gift and to avoid tax on the gain. However, there are limitations on the deductibility of charitable gifts subject to your Adjusted Gross Income (AGI). You should consult with your accountant prior to making any charitable gifts.

4. **Confirm All Required Minimum Distributions Have Been Made –** At the age of 70½, you are required to withdraw a minimum amount each year from all your IRA and retirement plans (except Roth IRAs). Failing to take these required distributions may result in a 50% excise tax on the amount not distributed. Therefore, it is important to confirm that you have taken all your required minimum distributions for 2019.

   If you are 70½ or older, you may transfer up to $100,000 from your IRA directly to a public charity in full or partial satisfaction of your required minimum distribution. The distribution is excluded from your taxable income but is not deductible and not subject to the AGI limitations discussed above.

5. **Establish a Qualified Retirement Plan –** If you are a business owner and are considering a new qualified retirement plan, you must establish the plan by the end of the year. However, you can defer the decision on the funding amount until later in 2020 (generally until at least September 15). The tax-deductible contribution limitation for 2019 for defined contribution plans is $56,000 per participant ($62,000 if the participant is age 50 or older).

6. **Evaluate Converting Your Traditional IRA to a Roth IRA –** If you are in a low tax bracket or have excess deductions, you may want to consider converting your traditional IRA to a Roth IRA. The key benefit of converting to a Roth IRA is that it can lower your taxes in the future. When you convert from a traditional IRA to a Roth IRA, you pay taxes this year on the money that you convert but you will be able to make tax-free withdrawals from the Roth account in the future. Roth IRAs, unlike traditional IRAs, are not subject to required minimum distributions at age 70½. As a result, the money in the Roth IRA can grow tax-free during your lifetime for the benefit of your beneficiaries without having to be distributed.

7. **Consider Trust Income Tax Planning –** Many irrevocable trusts give trustees unfettered discretion to either distribute the income to the beneficiaries each year or accumulate the income. Trustees should consider whether an income distribution to any beneficiary should be made and if so, if it can be made in a tax-efficient manner. This makes more sense when a beneficiary's marginal tax rate is lower than the trust's marginal tax rate or the distribution will avoid the imposition of the 3.8% Net Investment Income Tax (NIIT).

   While trustees generally have 65 days after the end of the tax year to shift trust taxable income to a beneficiary, it is a good idea to get a head start at the end of 2019. In 2019, trusts pay the highest marginal income tax rate of 37% and the 3.8% NIIT on income more than $12,750.

8. **Maximize your Health Savings Account –** A health savings account (HSA) is a tax-advantaged way to save and pay for medical expenses if you have a high deductible medical plan. The IRS defines a high deductible medical plan as any plan with a deductible of at least $1,350 for an individual and $2,700 for a family. Contributions to a HSA are tax deductible and distributions to pay for qualified medical expenses are tax-free. The maximum family contribution in 2019 for a HSA is $7,000 (or $3,500 for individuals) with an extra $1,000 for those who have reached age 55.

   You technically have until April 15, 2020 to fund your HSA for 2019 but it is a good idea to start planning now to ensure that you maximize your 2019 contribution to your HSA.

9. **Use Your Lifetime Gift and Estate Tax Exemption –** As of 2019, individuals can gift $11.4 million gift or estate tax-free. This exemption is at its highest level and is set to automatically revert to $5 million adjusted for inflation on January 1, 2026 under current law and could change sooner under a new presidential administration. Given the temporary nature of the exemption and the uncertain political environment, we encourage our clients to maximize their lifetime gift and estate tax exemption by the end of 2020.

10. **Conduct an Estate Plan Review –** We recommend that our clients conduct a thorough review of their estate plan every three to five years. The goal of this review is to determine if you need to revise your estate plan to account for changes in tax law, your wealth, your fiduciaries or your beneficiaries. While this review does not need to occur at year end, it is a good time to think about any changes you may need to make in the coming year.

    As part of this review, we recommend that clients also review their retirement plan and life insurance beneficiary designations to ensure that they are accurate and up-to-date.

Year-end tax planning can be incredibly complex. While we have provided you with some strategies for tax and philanthropic planning, there is no one size fits all solution. Everyone's tax situation and estate plans are unique. As your investment office, we are here to help you evaluate your taxes in the context of your overall portfolio and goals for charitable contributions and estate planning. For more information, please reach out to your Investment Officer and/or Portfolio Manager.

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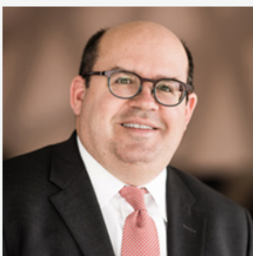

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