It Isn't Too Late to See if You Can Rollback Your Tax Burden

Year-End Tax Planning Tips

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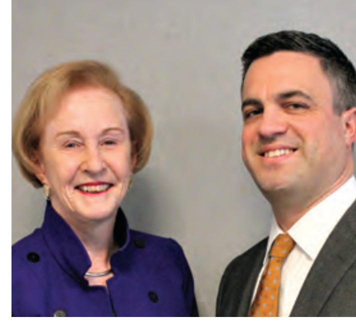

Although December often lends itself to thoughts of family and the holidays, it's important to consider practical matters as well. It may not be the most warm and fuzzy topic, but we recommend you take time to look at your tax situation before you get too caught up in the holidays. Better to do it now rather than next year at tax time, when it's too late to make changes or implement new strategies.

Below we discuss some ways you can reduce your 2019 tax burden, particularly in light of the new tax bill passed at the end of 2017.

Understanding Marginal Tax Rates

Let's start with your tax rate. At right you can see the tax schedule for 2019. For example, if you're married filing a joint return and you estimate your taxable income after all deductions is $75,000, your federal income tax will be $8,612 (**$1,940 + 12% of $55,600 = $6,640**). If your income is over $78,950 but is less than $151,900, any of this additional income will be taxed at 22%. So your goal would be to figure out how to stay in the 12% bracket.

Federal Income Tax Rates

Single	Pay	Plus	Of the Amount Over
Up to $9,700	$ 0	10%	$ 0
9,700 – 39,475	970	12	9,700
39,475 – 84,200	4,543	22	39,475
84,200 – 160,725	14,382	24	84,200
160,725 – 204,100	32,749	32	160,725
204,100 – 510,300	46,629	35	204,100
501,300 and up	153,799	37	510,300

Married, Filing Jointly	Pay	Plus	Of the Amount Over
Up to $19,400	$ 0	10%	$ 0
19,400 – 78,950	1,940	12	19,400
78,950 – 168,400	9,086	22	78,950
168,400 – 321,450	28,765	24	168,400
321,450 – 408,200	65,497	32	321,450
408,200 – 612,350	93,257	35	408,200
612,350 and up	164,710	37	612,350

Long- and Short-Term Capital Gains Tax Rates

Long-term capital gains on securities (those held for more than one year) are currently taxed at a lower rate of between 0% and 20%. Previously, the capital gains tax rate that applied to you was based on your tax bracket. But even though the tax brackets changed for 2019, the capital gains thresholds did not, making planning a bit more complicated. (*See bottom chart at right.*)

Taxpayers who make less than $39,745 (single) or $78,950 (married filing joint) won't be taxed on their long-term gains. Filers with income above those thresholds but below $434,550 (single) or $488,850 (married filing joint) will pay 15% on long-term capital gains.

In addition, there's a separate Medicare surtax of 3.8% on net investment income applied using a third set of income thresholds. Single taxpayers who make over $200,000 and married couples who make more than $250,000 will be subject to this 3.8% surtax on net investment income, in addition to the capital gains tax noted above. Note that these thresholds aren't increased each year for inflation, the way the income and capital gains tax brackets are.

Gains from the sale of short-term holdings (those owned for one year or less) will be taxed as ordinary income — at a federal rate as high as 37% depending on your other sources of income.

Capital Gains Tax Rate

Single	Married, Filing Jointly	Capital Gains Tax Rate
Up to $38,600	Up to $77,200	0%
38,601 – 425,800	77,201 – 479,000	15
Over 425,801	Over 479,001	20

To work your way through all this, start by figuring out your year-to-date gains and losses, grouping the short-term and long-term transactions separately. If you don't have this information, ask your financial adviser to provide you with a gain/loss statement for this year to date.

Next, include any carryforward capital losses from last year's federal tax return, found on Schedule D. If your overall capital losses exceed your capital gains, you can deduct up to $3,000 of that excess loss each year from ordinary income. Unused capital losses above that amount can be carried forward indefinitely to be used in future years.

Taking Tax Losses

If you have an investment showing a loss, you may consider selling the shares to realize the loss and reduce your taxes. If you believe the holding is still a good long-term investment and you still want to own it, there are two ways to do this.

First, you can sell the stock for a loss and buy it back in 31 days. The IRS requires you to wait 30 days to do so to avoid erasing the tax loss — this is the so-called wash rule.

Alternatively, if you're concerned about the stock moving up during the 30-day waiting period, you could double up on your position, wait 30 days and then sell the top-costing shares assuming they're still at a loss. Obviously, you need to make the purchase before the end of November to wait the 31 days and still take the loss in the 2019 tax year. Trades completed on the last business day of the year count for 2019, even if they don't settle until 2020.

Accelerating Deductions

Before 2018, there were often significant tax savings to be had by accelerating itemized deductions into the current year. Tax changes put in place in 2018 eliminated or limited many itemized deductions, however, in favor of an increased standard deduction of $12,000 for single filers and $24,000 for married couples. If you're over 65 you get a slightly higher deduction: $13,600 for single filers, $26,600 for married filing joint.

As a result, you must have significant deductions, including state and local taxes, medical expenses, charitable contributions and mortgage interest, to itemize.

In addition, there's a secondary effect the federal tax code changes may have on your state taxes. In many states, you can only itemize deductions on your state return if you did so on your federal return.

As an example, let's look at Tim and Lisa, who live in Maryland. Tim and Lisa have total potential deductions of $17,000, including mortgage interest and charitable contributions. Remember, the standard federal deduction for married couples is $24,000. Meanwhile, in Maryland the standard deduction is $4,500 for married couples.

Thus, Tim and Lisa would take the higher $24,000 standard deduction when filing their federal income tax return. As a result, when filing their Maryland return, they then would have to use the Maryland standard deduction of $4,500, even though they had $17,000 in deductions they could have otherwise used to reduce their taxes. This would expose an extra $12,500 to Maryland state income tax.

One important note — in 2019, medical expenses are deductible once they surpass 10% of your adjusted gross income. Previously, the threshold for taking a deduction was 7.5% of AGI. If you're close to the standard deduction threshold, you might consider paying for any upcoming medical procedures before year-end to get over the new 10% hurdle and deduct a portion of these expenses.

Make Charitable Donations Count

Whether you contribute cash, stock or other assets, it's important to adhere to the year-end deadlines for 2019 charitable contributions.

If you donate cash to a charitable organization, you can deduct your donation in 2019 as long as you mail your check by Dec. 31. This is true even if the organization doesn't cash your check until 2020. If you charge your donation to your credit card, your donation is treated as occurring on the date the charge occurs.

If you donate stock or other securities by mailing certificates, the date of mailing is the date of the donation. If you have the shares donated electronically, the date your brokerage statement shows it leaving the account is the date of the gift. The value of your donation equals the average of the highest and lowest selling prices for that date.

When donating securities at year-end, we suggest you allow a couple of weeks for the process to be completed. If you donate stocks or other assets that have appreciated in value, note that you must have held them for more than one year to be able to deduct the full market value. If you donate a stock you've held for one year or less, your deduction is limited to the cost of that asset.

Donations of clothing, household items and other goods can be deducted based on the fair market value of the goods. We recommend you make an itemized list and take pictures of your donated items in case your tax return is audited.

If your charitable contributions are less than 20% of your adjusted gross income, you don't need to be concerned with the limits on charitable deductions.

For cash contributions, your deduction is normally limited to 60% of your AGI. Your deduction is limited to 30% if you're donating appreciated stock to a public charity. Excess charitable deductions can be carried forward for up to five years.

In our September and October 2018 articles on charitable gifting, we illustrated how lumping future charitable gifts into the current year can potentially lead to additional tax savings. This can be accomplished either by simply giving more now or by donating to a donor-advised fund.

A donor-advised fund allows you to take a deduction in the current year and then gift from the fund to your preferred organizations over time. In either case, the goal of lumping additional donations into the current year is to increase your overall deductions above the standard deduction.

Contribute the Maximum You Can to a Qualified Retirement Plan

In 2019, you can contribute the lower of $19,000 or whatever you earned to your 401(k) or 403(b) plan. If you're age 50 or older, you

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Women Investing Together of Mountain Home, Arkansas. Front row, from right: Jamie Parnell, Katie Anthony, Sandra Bennett, Alice Reger and Lana Ellibee. Back row: Toni Fisher, Lynn McAlister, LeeAnn Whitlock, Sharon Bryant, Jackie Morrison and Carol Landrum. Members not pictured: Lisa House, Deanna Garretson and Katie Risk.

Women Investing Together has developed a profitable and intriguing portfolio with a heavy concentration in tech stocks and even a marijuana company. Although I had several suggestions for improvement, I always like to see a club willing to take measured risks to find growth and value. I further believe that its portfolio management efforts will be enhanced by a more robust, shared responsibility for locating potential new stocks to consider.

The key to preventing a portfolio from becoming stale is to find exciting new stock possibilities to replace faltering holdings. With a tweaking to its processes, I'm confident that W.I.T. can extend its investment successes.

Scott D. Horsburgh, CFA, president of Provident Investment Management of Novi, Mich., co-authors the Investor Advisory Service newsletter. No investment recommendations are intended for stocks mentioned in this article.

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can add $6,000 to that number. Contributing the maximum lowers your taxable income and the money in the 401(k) compounds tax-deferred. These contributions must be made in the form of payroll deductions before year-end.

If your AGI is below $103,000 as a married person filing jointly or $64,000 as a single/head of household, you can also make a tax-deductible contribution of $6,000 — or $7,000 if you're age 50 or older — to an individual retirement account even if you're covered by a 401(k) plan at work.

Contributions to an IRA for 2019 can be made any time before the normal filing deadline of April 15, 2020, or when you file your 2019 tax return on extension, whichever date comes first. This is one area where you have time after year-end to make a decision.

Consulting Your Tax Adviser

This time of year is an excellent time for you to check in with your accountant about your situation — the earlier, the better! Based on the information you provide, he or she can advise you as to whether you should be making estimated federal or state tax payments by year-end or in January. By taking some steps now, you may be able to reduce your tax bill somewhat. In addition, it will be easier for you to put together your tax information in January. Good luck and best wishes for a happy holiday season!

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Consult your personal financial adviser before making any decisions. Ms. Armstrong can't answer individual inquiries, but welcomes suggestions for future article topics.

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Examples are hypothetical and for illustrative purposes only. No specific investments were used in the examples. Actual results will vary.