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Year-End Tax Planning Tips: Don't Wait, Get a Head Start Now

It's that time of the year again—time to begin considering year-end tax planning issues. Rather than wait until the end of December, getting a head start on planning can improve your chances of concluding matters by Dec. 31.

By **Amy Neifeld Shkedy and Rebecca Rosenberger Smolen** | October 31, 2018

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It's that time of the year again—time to begin considering year-end tax planning issues. Rather than wait until the end of December, getting a head start on planning can improve your chances of concluding matters by Dec. 31. Here are some options that we suggest you consider before the end of 2018 to enable you to start 2019 in the best wealth planning shape possible:

Annual Exclusion Gifts. Each individual can make a cumulative annual gift tax exclusion gift of $15,000 per donee during 2018 (or $30,000 for a married couple electing to split gifts), without using any portion of his or her federal estate and gift tax exemption. The federal estate and gift tax exemption is also set to increase from $11.18 million per individual this year, to a projected $11.4 million in 2019 (allowing a married couple to shield up to $22.8 million from federal estate and gift taxes). Annual exclusion gifts can be made outright, through 529 Plan benefits (education savings accounts), or in special qualifying trust structures. For those still considering such gifts, it may be worthwhile to plan for 2018 and 2019 at the same time, keeping in mind that gifts for 2019 can be made effective as of Jan. 1.

Accelerate deductions. Prepay deductible expenses due in January (including state and local income tax estimated payments that may not be due until January).

Loss harvesting. Harvest tax deductible losses to offset taxable gains for 2018. However, be mindful of the 30-day wash sale rule of Internal Revenue Code Section 1091, which could disqualify a deduction of the capital loss if the same, or substantially identical, security is purchased within 30 days after selling at a loss.

Required minimum distributions. For those who have reached their required beginning date or who hold inherited IRA accounts, be sure to take your required minimum distribution for 2018 from your traditional IRA or qualified plan account by Dec. 31. Note that taxpayers who are 70 ½ or older are able to transfer up to $100,000 from an IRA (other than an inherited IRA) directly to a qualifying charity (a "charitable rollover") in partial or full satisfaction of their required minimum distribution for 2018.

Qualified retirement plan establishment. Business owners who are considering funding a new retirement plan have the opportunity to establish a qualified retirement plan by the end of the year but defer the decision about the funding amount (and the actual contribution) until later during 2019 (contributions can generally be delayed until at least Sept. 15). The limitation for tax deductible contributions for 2018 is $55,000 per

participant for defined contribution plans (or up to $61,000 when including the $6,000 catch-up contribution for a participant who has reached the age of 50). Next year this cap will be increased to $56,000 (or $62,000 when including the $6,000 catch-up).

Roth IRA conversion. Convert a traditional IRA to a Roth IRA to take advantage of lower brackets or absorb excess deductions. By converting a traditional IRA to a Roth IRA, any untaxed amounts that are rolled over to the Roth IRA are subject to income taxation. The conversion must take place by Dec. 31. Under current law, for 2018 and beyond, Roth IRA conversions can no longer be reversed. Under prior law, you had until Oct. 15 of the year after conversion to reverse it by re-characterizing the conversion back to a traditional IRA to avoid the tax hit.

Basis step-up planning. For individuals who have funded “grantor” trusts for their families, year-end is a good time to consider swapping back low basis assets (e.g., appreciated stock) for high basis assets (e.g., cash) to help make tax reporting after the swap cleaner (rather than switch tax identification numbers in the middle of a tax year). It’s better to own the lower basis assets at death because of the opportunity for a basis step-up to fair market value under Internal Revenue Code Section 1014.

Charitable giving. If you are in a high income year, consider “prepaying” future charitable contributions to generate current income tax deductions. This can be accomplished simply by increasing the contributions to your favorite charities, in general, or you can defer the receipt by the charitable organizations you wish to benefit (or even defer the decision as to which ones to benefit) by contributing to a donor advised fund, a private foundation, charitable lead trust or charitable remainder trust or purchasing a charitable gift annuity. Both the charitable gift annuity and charitable remainder trust options allow you to retain an income stream for life and defer the transfer of the remaining funds to the charity until after your death.

IRAs and HSAs. While you technically have until April 15, 2019, to fund your Individual Retirement Account and Health Savings Account for 2018, it’s always a good idea to start planning for such funding at year end. Consider helping your children (to the

extent that they have earned income) to fund tax favored Roth IRAs if at all possible. The maximum contributions for IRAs for 2018 is $5,500, and will increase in 2019 to $6,000 (plus an extra $1,000 catch-up for those who have reached the age of 50). The maximum family contribution for an HSA in 2018 is $6,900 (or $3,450 for individuals), with an extra $1,000 available for those who have reached the age of 55. For 2019, the maximum family contribution for an HSA will increase to $7,000 (or $3,500 for individuals).

Trust Income Tax Planning. While a trustee will generally have until 65 days after the end of the tax year to shift trust taxable income to a beneficiary, it's worthwhile to monitor the issue at year end to get a jump start on evaluating the issue. This is becoming a more consequential issue with the Medicare tax imposed at 3.8 percent and the extra 5 percent tax that is imposed on dividends and capital gains at the higher brackets (which are reached pretty quickly for a trust).

Estate plan review. Although it's not necessarily year-end sensitive, the end of the year is a great time to review your estate plan to see if changes might be in order (whether because of changes in the tax law, your wealth, your chosen fiduciaries or objects of your bounty). If you don't review it at year-end, you might never review it before it's too late, since you may not have any advance notice of the actual deadline.

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