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2019 Tax Planning Guide

In this guide

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Tax planning in 2019

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law. The focus in 2018 was on changes affecting income taxes for individuals, business owners, and corporations as well as changes affecting estate taxes. After a year, people have moved from "How does the new law affect me?" to "How can I do a better job of planning for taxes?"

Using the guide

The 2019 Tax Planning Guide provides the details of the current tax law, items for you to be aware of both now and throughout the year, and steps you can take to potentially defer taxes.

Throughout each section of the guide, you'll find (where applicable):

- Tax schedules/tables for the various income and asset categories
- Additional tax information about these categories
- Potential strategies to consider

Be sure to consult with your investment, planning, and tax professionals to determine the right approach for your needs, goals, and financial situation.

Verify your withholding and quarterly tax payments for 2019

When some taxpayers filed their tax returns in early 2019, they were surprised to learn they owed more in federal taxes compared with prior years—substantial amounts for some. There are a number of reasons for the additional taxes, but the greatest tax impact has been on those who live in states with high income and local (including property) taxes. The TCJA restricted the deduction for state and local taxes (SALT) to $10,000. This, along with the elimination of most other tax deductions (excluding charitable gifts) reduced tax deductions overall. Further compounding the issue has been the change in tax brackets and the reduction of paycheck withholding amounts.

Going forward, it will be important to review your withholding amounts and carefully calculate your quarterly tax payments. If you discover that you do owe money, work with your accounting professional to determine how much you owe to ensure that you have funds available to make your tax payment.

Be prepared for change

Keep in mind that while many of the corporate tax changes are permanent, the ones that benefit individual taxpayers are scheduled to expire on December 31, 2025. Because of the uncertainty surrounding these tax changes, consider making planning an ongoing activity.

Connect regularly with your advisors

While the strategies in this guide can be effective in helping manage your tax burden, they are not all-inclusive or a destination in and of themselves. A better starting point is a strategic financial plan tailored for your specific needs and goals. Only by sitting down with your trusted advisors to define and prioritize your objectives and review them against your current situation can you know which solutions and strategies may be the most appropriate for you.

Establishing a plan with your local wealth planning professional and revisiting it on a regular basis can help you make appropriate adjustments as needed, avoid potential pitfalls, and keep you on track to reach your long-term objectives. Finally, connect with your legal and tax advisors before taking any action that may have tax or legal consequences to determine how the information in this guide may apply to your specific situation.

Please note that as of the time of publication, information on precise amounts has not been announced and is subject to change.

2019 income tax rate schedules

Married taxpayer filing jointly/surviving spouse rates

Taxable income*		Tax		
Over	But not over	Pay	+ % on excess	Of the amount over
$0	$19,400	$0	10%	$0
$19,400	$78,950	$1,940.00	12%	$19,400
$78,950	$168,400	$9,086.00	22%	$78,950
$168,400	$321,450	$28,765.00	24%	$168,400
$321,450	$408,200	$65,497.00	32%	$321,450
$408,200	$612,350	$93,257.00	35%	$408,200
$612,350		$164,709.50	37%	$612,350

Single taxpayer rates

Taxable income*		Tax		
Over	But not over	Pay	+ % on excess	Of the amount over
$0	$9,700	$0	10%	$0
$9,700	$39,475	$970.00	12%	$9,700
$39,475	$84,200	$4,543.00	22%	$39,475
$84,200	$160,725	$14,382.50	24%	$84,200
$160,725	$204,100	$32,748.50	32%	$160,725
$204,100	$510,300	$46,628.50	35%	$204,100
$510,300		$153,798.50	37%	$510,300

Head of household rates

Taxable income*		Tax		
Over	But not over	Pay	+ % on excess	Of the amount over
$0	$13,850	$0	10%	$0
$13,850	$52,850	$1,385.00	12%	$13,850
$52,850	$84,200	$6,065.00	22%	$52,850
$84,200	$160,700	$12,962.00	24%	$84,200
$160,700	$204,100	$31,322.00	32%	$160,700
$204,100	$510,300	$45,210.00	35%	$204,100
$510,300		$152,380.00	37%	$510,300

Married taxpayer filing separately rates

Taxable income*		Tax		
Over	But not over	Pay	+ % on excess	Of the amount over
$0	$9,700	$0	10%	$0
$9,700	$39,475	$970.00	12%	$9,700
$39,475	$84,200	$4,543.00	22%	$39,475
$84,200	$160,725	$14,382.50	24%	$84,200
$160,725	$204,100	$32,748.50	32%	$160,725
$204,100	$306,175	$46,628.50	35%	$204,100
$306,175		$82,354.75	37%	$306,175

*Taxable income is income after all deductions (including either itemized or standard deduction) and exemptions

Standard deductions

Married/joint	$24,400
Single	$12,200
Head of household	$18,350
Dependents	$1,100
Married/separate	$12,200

For dependents with earned income, the deduction is the greater of $1,100 or earned income +$350 (up to the applicable standard deduction amount of $12,200).

Additional standard deductions

Married, age 65 or older or blind	$1,300*
Married, age 65 or older and blind	$2,600*
Single, age 65 or older or blind	$1,650*
Single, age 65 or older and blind	$3,300*

* Per person

Tax credit for dependent children

	Modified adjusted gross income (MAGI)	Tax credit for each child younger than age 17
Married/joint	$0–$400,000	$2,000
Individual	$0–$200,000	$2,000

Tax credit is reduced by $50 for each $1,000 by which the taxpayer's MAGI exceeds the maximum threshold.

Alternative minimum tax (AMT)

The alternative minimum tax (AMT) calculates income tax under different rules for income and deductions. If the AMT calculation results in a higher tax, the taxpayer will be subject to AMT and pay the higher tax. Generally, a taxpayer with a high proportion of income that receives favorable tax rates, like capital gains, are at risk of being subject to the AMT.

AMT income	Tax	AMT income	Tax
Up to $194,800*	26%	Over $194,800*	28%

*$97,400 if married filing separately

AMT exemption

	Exemption	Phased out on excess over
Married taxpayer filing jointly/ surviving spouse	$111,700	$1,020,600
Single taxpayer	$71,700	$510,300
Married taxpayer filing separately	$55,850	$510,300
Estates and trusts	$25,000	$83,500

Information in tables from irs.gov unless otherwise specified.

Medicare surtax

The Medicare 3.8% surtax is imposed on certain types of unearned income of individuals, trusts, and estates with income above specific thresholds.

For individuals, the surtax is imposed on the *lesser of* the following:

- Net investment income for the tax year
- The amount by which the modified adjusted gross income (MAGI) exceeds the threshold amount in that year

The threshold amounts

Single filers	Married filing jointly	Married filing separately
$200,000	$250,000	$125,000

For trusts and estates, the surtax is imposed on the *lesser of* the following:

- The undistributed net investment income for the tax year
- The excess (if any) of the trust's or estate's adjusted gross income over the dollar amount at which the highest tax bracket begins ($12,750 in 2019)

Note: The surtax does not apply to nonresident aliens.

Net investment income defined

1. Gross income from interest, dividends, annuities, royalties, and rents
2. Gross income from a passive activity or a trade or business in which you do not *materially* participate
3. Net gain to the extent taken into account in computing taxable income (such as capital gains) *less* the allowable deductions that are properly allocable to that gross income or net gain

Special exception

In the case of the sale of an interest in a partnership or an S corporation, the surtax is imposed only on the portion of a transferor's net gain if the entity had sold all of its property for fair market value immediately before the stock or partnership was sold.

Capital gains and losses and dividends

Short-term capital gains are taxed at the ordinary income tax rate for individuals and trusts regardless of filing status. However, long-term capital gains tax rates are not tied to the tax brackets. The table below shows the long-term capital gains tax rates. Qualified dividends are taxed at long-term capital gains rates, while nonqualified dividends are taxed at ordinary income tax rates.

Filing status	0%	15%	20%
Single	$0–$39,375	$39,376–$434,550	Greater than $434,550
Married filing jointly/ surviving spouse	$0–$78,750	$78,751–$488,850	Greater than $488,850
Married filing separately	$0–$39,375	$39,376–$244,425	Greater than $244,425
Head of household	$0–$52,750	$52,751–$461,700	Greater than $461,700
Trust/estate	$0–$2,650	$2,651–$12,950	Greater than $12,950

Consult your tax advisor about how this applies to your situation.

Netting capital gains and losses

1. Net short-term gains and short-term losses.
2. Net long-term gains and long-term losses.
3. Net short-term against long-term.
4. Deduct up to $3,000 of excess losses against ordinary income per year.
5. Carry over any remaining losses to future tax years.

Determine when to realize capital gains and losses

Consult with your investment professional on whether realizing portions of your portfolio's gains (and losses) can help manage the tax impact of activity in your investment portfolio. In some cases, it may be advantageous to recognize larger gains sooner depending on the near-term outlook for your portfolio. Remember, when executing transactions intended to affect your tax bill, the trade date—not the settlement date—determines the holding period for most transactions (which in turn determines whether an asset is held long-term or not).

If you sell a security within one year of its purchase date, you will be subject to short-term capital gains. Short-term gains are taxed based on ordinary income tax rates that can be as high as 40.8%, including the 3.8% Medicare surtax added to the top tax bracket of 37.0%. Note that these rates do not include state and local tax rates, which can be significant in some locations. As such, short-term gains are taxed at nearly twice the rate of long-term gains. You cannot avoid some short-term gains, and others may be economically justifiable even with the higher rate. However, if you can afford to wait until you have held the asset for a full calendar year, you may realize tax savings.

Information in tables from irs.gov unless otherwise specified.

Capital gains and losses and dividends (continued)

Capital loss harvesting

Capital loss harvesting can be used to reduce taxes on other reportable capital gains. This requires selling securities at a value less than the basis to create a loss, which is generally used to offset other recognized capital gains. With the potential for volatility in the market, harvesting capital losses should not be limited to the end of the year; instead, consider reviewing this with your advisor throughout the year to take advantage of market swings if you are anticipating other capital gains.

Prior to using this strategy, you should consider the following:

- The amount of the loss that will be generated and how that compares with your net capital gains
- Whether capital loss harvesting makes sense with the other income, losses, and deductions that will be reported on the tax return
- If the investment sold will be replaced and how the new cost basis and holding period will work with your overall wealth management strategy
- Wash-sale loss rules (discussed on the right)—to ensure the loss reported will not be disallowed
- The effect of capital loss harvesting on dividend distributions and transaction fees

Rebalance your investment portfolio

With volatility in the market, it is important to review your investment portfolio to determine if rebalancing is necessary to maintain your established asset allocation. You may have some or all of your accounts set up to automatically rebalance. However, if you do not have or use that option, it is important to review your entire portfolio, both taxable accounts and assets held in tax-advantaged accounts—such as your IRA and 401(k) accounts. Your tax-advantaged accounts may have limitations; for example, many 401(k) plans may not provide fund selections to allow allocations to international fixed income, real assets, or complementary strategies. When rebalancing, pay attention to the wash-sale rule, as it can still be triggered if you sell a security at a loss and repurchase a substantially identical security within your IRA or tax-advantaged account.

Avoid purchasing new mutual funds with large expected capital gains distributions

Like other types of securities, you realize capital gains on your mutual fund holdings when you sell them. However, a unique feature of mutual funds is their potential annual distribution of capital gains (and losses) to shareholders. Companies that manage mutual funds announce the amount of capital gains to be distributed to shareholders near the end of the year. The announcement includes a record date (the date of record for shareholders to receive a distribution) and an ex-date (the date the security trades without the distribution) and is typically expressed as a percentage of shareholders' position (for example, a 10% distribution would equal a $10 distribution on a $100 investment).

For investors looking to rebalance their portfolios, mutual fund distributions can be problematic. A rule of thumb is that you typically don't want to buy into capital gains distributions. For example, if you sell an asset in your portfolio that has performed well, you expect to realize capital gains. You could exacerbate your capital gains issue by reallocating your rebalanced proceeds to a new mutual fund near the date of its annual capital gains distribution.

Wash-sale rules

A wash sale occurs when a security is sold at a loss and the same security, or a substantially identical security, is purchased within 30 days before or 30 days after the sale date. When a wash sale occurs, the loss recognized from the transaction is disallowed and is unable to be used to offset other gains. Instead, the amount of the disallowed loss will be added to the basis of the repurchased securities. The rule was developed to prevent investors from selling securities for the sole purpose of creating a deductible loss or using the loss to offset other gains.

A wash sale can be avoided by purchasing the identical security more than 30 days before the loss sale or more than 30 days after the loss sale. A security within the same sector but that is not substantially identical may be purchased at any time before or after the loss sale and will not trigger a wash sale.

Information in tables from irs.gov unless otherwise specified.

Education planning

529 plans

- Earnings accumulate tax-deferred; qualified withdrawals (such as tuition, fees, supplies, books, and required equipment) may be free of federal income taxes.
- There are no income, state-residency, or age restrictions.
- Potential state-tax incentives are available in some states.
- These are typically funded up to the annual exclusion amount, $15,000 (single) or $30,000 (married) per year per donee. Contributions in excess of annual exclusions should be filed on a gift tax return (Form 709) to report use of the donor's available lifetime exclusion. Most plans allow for contributions other than the original donors, such as aunts/uncles, grandparents, friends, etc.
- Aggregate contribution limits vary by state—roughly $200,000 to $500,000 per beneficiary.

Funding opportunity for education

Donors can also elect to make five years' worth of annual exclusion amounts in a single year's contribution, up to $75,000 (single) and $150,000 (married). For example, a couple with twins could fund $150,000 for each child after birth and let those funds grow tax-free until needed.

- Elementary and secondary school expenses of up to $10,000 per year also qualify as qualified education expenses. This extra flexibility allows earlier access for private tuition prior to college.
- If a plan is overfunded due to your child (or whoever the plan was set up for) not having enough (or any) qualifying education expenses, you can change the plan beneficiary so long as the new beficiary is a family member of the old beneficiary (a sibling, spouse, parent, etc.).
  - If a plan is overfunded, the donor can still access those tax-deferred funds; this growth may outweigh applicable income taxes and penalties on distributions not used for education because 529 plans do not have a *use by* age requirement.

Accessing 529 plan considerations

While the expansion of benefits under 529 plans for early education may sound exciting, taxpayers may find it more advantageous to leave the 529 plan account untouched in order to grow tax-free during the primary education years and instead use the 529 plan for college and post-graduate studies.

Please consider the investment objectives, risks, charges, and expenses carefully before investing in a 529 savings plan. The official statement, which contains this and other information, can be obtained by calling your relationship manager. Read it carefully before you invest.

Education Savings Accounts (ESAs)

- Maximum nondeductible contribution is $2,000 per child per year.
- Must be established for the benefit of a child younger than the age of 18.
- Maximum contribution amount is lowered if a contributor's MAGI is between:
  - $95,000 and $110,000 for individual filers
  - $190,000 and $220,000 for joint filers
- No contributions can be made if the contributor's MAGI exceeds the stated limits or the beneficiary is age 18 or older (except for special needs beneficiaries).
- Interest, dividends, and capital gains grow tax-deferred and may be distributed free of federal income taxes as long as the money is used to pay qualified education expenses.
- Funds must be used before age 30 or transferred to a family member under the age of 30 (except for special needs beneficiaries).
- A prior advantage of ESAs over 529s was the ability to use an ESA for private elementary or secondary school tuition. This advantage has been minimized now that 529 plans offer similar distributions and permit higher funding contributions, which are not phased out by the donor's income level.

American Opportunity Credit

Maximum credit:
$2,500 per student per year, for first four years of qualified expenses paid

MAGI phase-outs	
Married filing jointly	$160,000–$180,000
Single filer	$80,000–$90,000

Up to 40% ($1,000) of the American Opportunity Credit is refundable. This means that even if your tax bill is zero, you can receive a refund of up to $1,000.

Information in tables from irs.gov unless otherwise specified.

Education planning (continued)

Lifetime Learning Credit

Maximum credit:
20% of the first $10,000 (per tax return) of qualified expenses paid in 2018

MAGI phase-outs	
Married filing jointly	$116,000–$136,000
Single filer	$58,000–$68,000

Exclusion of U.S. savings bond interest

MAGI phase-outs	
Married filing jointly	$121,600–$151,600
Others	$81,100–$96,100

Bonds must be titled in name(s) of taxpayer(s) only. Owner must be age 24 or older at time of issue. Must be Series EE issued after 1989 or any Series I bonds. Proceeds must be used for qualified post-secondary education expenses of the taxpayer, spouse, or dependent.

Student loan interest deduction

Maximum deduction: $2,500

MAGI phase-outs	
Married filing jointly	$140,000–$170,000
Others	$70,000–$85,000

Kiddie tax

Children with investment and other unearned income, such as dividends and capital gains, exceeding $2,200 may be subject to kiddie tax rules. These rules apply to children age 17 and under, those that are 18 with earned income not exceeding half of their support, and those that are over 18 and under 24 if also full-time students with earned income not exceeding half of their support. The income tax rates that apply are the same as those for trusts and estates reaching top rates for ordinary and capital gains at modest amounts. Parents can elect to report this unearned income on their own return using Form 8814 for amounts less than $11,000. While doing so may be simpler, it may not be necessarily more tax efficient. The kiddie tax applicable to a child's unearned income of $10,000, for example, may be less than when claimed by a parent already subject to top tax rates.

Taxable income		Tax		
Over	But not over	Pay	+ % on excess	Of the amount over
$0	$2,600	$0	10%	$0
$2,600	$9,300	$260	24%	$2,600
$9,300	$12,750	$1,868	35%	$9,300
$12,750		$3,075	37%	$12,750

Retirement accounts

401(k), 403(b), 457, Roth 401(k), or Roth 403(b)

Employee maximum deferral contributions	$19,000
Catch-up contribution (if age 50 or older)	$6,000

Combined limit for Roth 401(k) or Roth 403(b) and before-tax traditional 401(k) or before-tax 403(b) deferral contributions is $19,000 for those younger than 50.

Traditional and Roth IRAs

Maximum contribution	$6,000
Catch-up contribution (if age 50 or older)	$1,000

2019 contributions must be made no later than the tax-filing deadline, regardless of tax extensions. Traditional IRA contributions cannot be made for the year the owner turns age 70½ or subsequent years.

Traditional IRA deductibility limits

If neither individual nor spouse is a participant in another plan: $6,000[1] maximum deduction

If the individual is an active participant in another plan:

Married/joint MAGI	Single MAGI	Deduction
Up to $103,000	Up to $64,000	$6,000[1,2]
$103,000–$123,000	$64,000–$74,000	Phased out
$123,000 and over	$74,000 and over	$0

[1] If a spouse (working or nonworking) is not covered by a retirement plan but his or her spouse is covered, the spouse who is not covered is allowed full deductibility up to $193,000 joint MAGI, phased out at $203,000 joint MAGI.
[2] Maximum deduction is $7,000 if age 50 or older.
Note: Phase-out for married filing separately is $0–$10,000.

Roth IRA qualifications

- Contribution amount is limited if MAGI is between:
  - $122,000 and $137,000 for individual returns*
  - $193,000 and $203,000 for joint filers
  - $0 and $10,000 for married filing separately
- Cannot contribute if MAGI exceeds limits
- Contributions are not tax-deductible
- Contributions are allowed after the age of 70½ if made from earned income
- Contributions, but not earnings, can always be withdrawn at any time, tax-free and penalty-free

* Includes single filers, head of household, and married filing separately if you did not live with your spouse at any time during the year.

Retirement plan limits

Maximum elective deferral to SIMPLE IRA and SIMPLE 401(k) plans	$13,000
Catch-up contribution for SIMPLE IRA and SIMPLE 401(k) plans (if age 50 or older)	$3,000
Maximum annual defined contribution plan limit	$56,000
Maximum compensation for calculating qualified plan contributions	$280,000
Maximum annual defined benefit limit	$225,000
Threshold for highly compensated employee	$125,000
Threshold for key employee in top-heavy plans	$180,000
Maximum SEP contribution is lesser of limit or 25% of eligible income	$56,000

Information in tables from irs.gov unless otherwise specified.

Be mindful of required minimum distributions

Annual required minimum distributions (RMDs) from your retirement accounts (for example, 401(k), IRA, 403(b), or 457 accounts) must begin the year you turn age 70½. To the extent that distributions do not meet the RMD, a hefty 50% penalty may be levied on the amount that should have been, but was not, withdrawn. If you are turning 70½ in 2019, we recommend that you consult your tax advisor to determine when you should take your 2019 RMD.

Consider making qualified charitable distributions

Qualified charitable distributions (QCDs) allow direct distributions to charity of up to $100,000 for taxpayers over 70½ who are subject to RMD requirements. Taxpayers who are charitably inclined can take advantage of this option to satisfy their RMD requirements without recognizing the distribution in gross income. However, note that if you elect to make a QCD, you do not also receive a charitable income tax deduction for your gift. With the increased standard deductions and state and local tax limitations, many who receive RMDs no longer itemize. Making QCDs allows taxpayers to reduce their taxable income even while taking a standard deduction.

Consider converting your eligible retirement account to a Roth IRA

Benefits of converting your eligible retirement account—401(k), traditional IRA, or other non-Roth account—to a Roth IRA can include tax-free withdrawals for you and your heirs and the elimination of RMDs during your lifetime and those of your spouse (if treated as his/her own Roth IRA). RMDs will be required for nonspouse beneficiaries, but tax-free withdrawals will still apply for qualified distributions. Another benefit of converting your eligible retirement accounts is that the amount that is converted to a Roth IRA can be withdrawn tax-free and penalty-free after a five-year waiting period, even if you are younger than 59½.

Conversion is not an all-or-nothing proposition, as you can convert a portion or all of your eligible retirement account. Note that a Roth IRA conversion will trigger ordinary income in the year of conversion and potentially the Medicare surtax, as the conversion counts toward the calculation of modified adjusted gross income.

To determine if you may benefit from this strategy, we recommend working with your tax advisor to determine all potential federal and state income tax and estate tax implications. Please note that in past years, one could change their mind and reverse the recharacterization until October of the following year. Under the TCJA, reversing the conversion is no longer an option.

If you have significant income resources to sustain your lifestyle for the rest of your life without using your traditional IRA, consider a Roth IRA conversion. A traditional IRA forces withdrawals through RMDs regardless of individual circumstances, whereas a Roth conversion eliminates RMDs entirely. In this way, taxpayers can leave the full balance of the Roth IRA to their heirs, undiminished both by income taxes (generated after paying the initial income tax to complete the conversion) and forced withdrawals (RMDs) during the taxpayer's own lifetime.

Inherited IRA distributions

With an inherited IRA, generally speaking, you must take distributions during your lifetime or within five years after the original account holder passed away. Depending on the beneficiary's age, and if the beneficiary is a spouse, the distributions can be spread over the beneficiary's life expectancy or the original account holder's life expectancy.

Qualified charitable distributions (QCDs) can be made from an inherited IRA as well; it will just be reported as a death distribution to the IRS. You must be 70½ or older to do a QCD, even if it is from an inherited IRA.

Tax-efficient charitable gifting

The most tax-efficient beneficiaries of qualified plan assets (which receive no income tax basis step-up at death) are charities because they are tax-exempt for income tax purposes. As an example, designating a charity as your $100,000 IRA beneficiary (not subject to income taxes) and bequeathing your $100,000 stock portfolio to a child transfers the full $200,000 with $0 income taxes to the IRS. On the other hand, designating a child as your $100,000 IRA beneficiary (subject to income taxes) and bequeathing a $100,000 stock portfolio to charity transfers less because your child will have to pay the income taxes on the $100,000 IRA.

Information in tables from irs.gov unless otherwise specified.

Social Security

Social Security and Medicare taxes

Contact your tax advisor for guidance on the most current Social Security and Medicare tax rates in effect during 2019.

Maximum wage base for Social Security	$132,900

Earnings test

The earnings test indicates the level of earnings permissible for Social Security benefits recipients without incurring a deduction from benefits. These limits are indexed to increases in national earnings.

Worker younger than full retirement age	$17,640
Year worker reaches full retirement age (applies only to earnings for months prior to attaining full retirement age)	$46,920
Worker at full retirement age	No limit

Maximum monthly benefit: $2,861

This benefit is for an individual who reaches full retirement age in 2019 and earns at least the maximum wage base amount for the best 35 years of work.

Information provided by the Social Security Administration.

Taxation thresholds

Up to a certain percentage of an individual's Social Security benefits is subject to taxation when his or her provisional income[1] exceeds certain threshold amounts:

	Up to 50% taxed	Up to 85% taxed
Married filing jointly	$32,000–$44,000	More than $44,000
Single	$25,000–$34,000	More than $34,000
Married filing separately	85% taxable[2]	

[1] Provisional income generally includes modified adjusted gross income (MAGI) plus nontaxable interest and one-half of Social Security benefits.

[2] There is an exception to this rule if you lived apart from your spouse for the entire year. Consult your tax advisor for more information.

Charitable contributions

Congress recognized that the doubling of the standard deduction would effectively eliminate the ability of many taxpayers to obtain a benefit for their charitable contributions, thus potentially causing many taxpayers to give less. As such, the one change made to the rules surrounding charitable contributions is increasing the AGI limitation for cash contributions to a public charity from 50% to 60%. The hope is the change encourages more high-net-worth individuals to increase their giving, helping charities recover lost revenue.

Although the AGI limitation for cash contributions is 60%, it is important to consider donating appreciated property. If you donate appreciated property that has been held for at least one year, you are eligible to deduct the fair market value without paying income tax on the realized gain. However, you can only deduct up to 30% of your AGI when making these gifts of long-term capital gains property. Being able to avoid the payment of taxes on the unrealized gain combined with the charitable contribution deduction may produce a better tax result.

When considering charitable gifting and capturing potential tax deductions, review your tax situation and carefully determine which assets to give. Gifts made to qualified, tax-exempt organizations are generally deductible but are subject to limitations based on the type of organization (public or private), the asset being gifted, and your adjusted gross income (AGI). Charitable contributions that are not deductible in the current year due to AGI limitations can be carried forward for up to five years.

Gifts made via check or credit cards are considered deductible if the check is written and mailed or the charge to the credit card posts on or before December 31. Gifts of stock are considered complete on the date the brokerage firm transfers title, which can take several business days (or the date the taxpayer can substantiate permanent relinquishment of dominion and control over the stock), so be sure to plan these types of transfers well before December 31. Also, remember to obtain and keep receipts and be aware of any value received for goods or services that may reduce the value of any tax deduction.

Take advantage of charitable deductions

The higher standard deduction combined with limits on other deductions means fewer people will be able to deduct their charitable contributions. An option to get a deduction is to make direct gifts and bunch your donations together into one year. For example, instead of making contributions in December 2019, you can make your 2019 contributions in January 2020. Making your 2020 contributions later during the year might give you enough to itemize in one calendar year. You could then take the standard deduction the following year, when you don't make contributions.

In addition to bunching together donations, donor-advised funds (DAFs) are another way to take advantage of deductions. The irrevocable contribution you make to a DAF is deductible in the year you fund it, but distributions to charitable organizations can be spread over multiple years. This can be useful when you are able to make a donation but have yet to determine the timing of the distributions out of the DAF or what charities will receive the gift.

Information in tables from irs.gov unless otherwise specified.

Long-term care deduction for policy premiums

For specific qualified long-term care policies, the premiums are considered to be a personal medical expense and deductible by the IRS. The amount of qualified long-term premiums that will be considered a medical expense are shown on the table below.* The medical expense deduction is limited to qualified medical expenses over 10% of adjusted gross income.

Age before the close of the taxable year	Limit on premiums eligible for deduction
40 or less	$420
Over 40 but not over 50	$790
Over 50 but not over 60	$1,580
Over 60 but not over 70	$4,220
Over 70	$5,270

* Limitations apply based on the type of taxpayer. You should consult your tax advisor regarding your situation.

Health savings account (HSA) limits

Maximum contribution			
Single	$3,500	Family	$7,000
$1,000 catch-up contribution allowed per individual age 55 or older			
Minimum health insurance plan deductible			
Single	$1,350	Family	$2,700
Maximum out-of-pocket expenses			
Single	$6,750	Family	$13,500

Health savings accounts (HSAs) are available to participants enrolled in a high-deductible health insurance plan. Contributions to HSAs are fully tax-deductible (or are made entirely from before-tax dollars), meaning they are not subject to federal taxes and state taxes as well as Social Security and Medicare taxes (commonly referred to as FICA taxes). Income earned inside HSAs is tax-deferred and distributions are tax-free as long as they are used for qualified medical expenses. If a distribution occurs from an HSA prior to age 65 for reasons other than qualified medical expenses, ordinary income taxes along with a 20% penalty are due on the distribution amount. Distributions from HSAs after age 65 are not subject to the 20% penalty but are subject to ordinary income taxes. Contributions to HSAs can no longer be made after enrolling in Medicare (eligibility for Medicare begins at age 65).

Real estate investors

As a real estate investor, you may expense 100% of new and used qualified tangible business property acquired and placed in service during 2019. In addition, the expense limitations (that is, Section 179 election) relating to the cost of certain depreciable tangible personal property used in a rental business as well as certain nonresidential real property improvements is $1,020,000, and the phase-out is $2,550,000. Real estate investors can use Section 1031 exchanges for real estate used in a trade or business, but Section 1031 cannot be used for personal property or real property held primarily for sale.

The deduction for real estate taxes for personal use real estate is now limited to $10,000. This limitation includes state and local income taxes as well. The mortgage interest deduction is limited to the first $750,000 in mortgage indebtedness on primary and secondary residences. Only mortgages originating before December 15, 2017, can continue to use the old $1,000,000 mortgage balance limitation. Finally, home equity loans and home equity lines of credit that are not used to either acquire or improve a primary or secondary residence are not deductible.

Consider aligning titling of real estate assets based on usage

Due to these changes, taxpayers should consider whether certain real estate properties should continue to be used as a personal asset. If the taxpayer uses the property in a real estate trade or business (for example, renting the property), the real estate tax and mortgage interest deduction limitations no longer apply. These deductions, while limited for personal assets, are still fully deductible for real estate assets used in a trade or business.

Owners of real estate entities established as pass-through businesses, such as sole proprietorships, LLCs taxed as partnerships, partnerships, or S corporations, may be able to take advantage of the 20% qualified business income deduction against the owner's share of taxable rental income, subject to certain limitations. Regulations released indicated that real estate operated in a trade or business could qualify for the deduction.

Generally, income from real estate activities is considered a passive activity. As such, if a property operates at a loss, the loss is only deductible against other passive income, or if the property's activity is disposed during the year. Only real estate professionals who provide greater than 750 hours of personal services in real property trades and spend more than half of their time in real estate trade or businesses can fully deduct their losses from real property activities. As the rules can frequently be based on facts and circumstances, taxpayers should consult their tax advisor to confirm the proper deductibility of these activities.

Information in tables from irs.gov unless otherwise specified.

Federal trust and estate income tax

Tax rates

Taxable income		Tax		
Over	But not over	Pay	+ % on excess	Of the amount over
$0	$2,600	$0	10%	$0
$2,600	$9,300	$260	24%	$2,600
$9,300	$12,750	$1,868	35%	$9,300
$12,750		$3,075	37%	$12,750

Estate and gift tax

Applicable exclusion: $11,400,000

The applicable exclusion is the value an estate must exceed before it will be subject to taxation. Portability rules allow an executor to elect to transfer any unused exclusion to a surviving spouse. Consult your tax and legal advisors to determine the appropriate strategy for applying the portability rules.

Take advantage of the temporary exclusion increase

The $11,400,000 applicable exclusion amount is approximately double the prior figure of $5,490,000. Because this new generous exemption is temporary and expires on December 31, 2025 (or perhaps earlier depending on legislative changes), you should be thinking about how to take advantage of this window of opportunity before it expires. If you do not use it before expiration, you lose it. Exclusions are used by either making lifetime gifts or passing away before the exclusion reverts to old levels. For example, a married couple that fails to lock in the increased exemption with lifetime gifts may effectively add roughly $4,000,000 to their heirs' estate tax liability. For individuals who have already engaged in gifting (many individuals with taxable estates gifted assets in advance of the 2011 and 2013 estate tax law changes), the additional applicable exclusion amount allows taxpayers to consider new gifting strategies. For married individuals with estate planning documents, the technical language within wills or trusts may need to be revisited and evaluated under the new tax law. It would be prudent to initiate contact with your estate planning attorney to discuss the impact of the new tax laws on your estate value and existing estate planning documents.

Additionally, many taxpayers reside in states that have their own death, estate, or inheritance taxes. This should also be reviewed with counsel to see if additional planning can minimize or eliminate state estate taxes or if any adjustments need to be made to existing planning as a result of the discrepancy between state and federal estate taxes.

Estate tax rate: 40%

The estate tax rate is 40% for any amount exceeding $11,400,000 (or exceeding $22,800,000 for married individuals).

Generation-skipping tax exemption: $11,400,000

Gift tax annual exclusion: $15,000

Each individual may transfer up to $15,000 per person per year to any number of beneficiaries (family or nonfamily) without paying gift tax or using up any available lifetime gift exclusion.

Explore wealth transfer opportunities

While minimizing transfer taxes is a factor, often we find a client's main concern is making sure assets pass effectively and efficiently, fulfilling his or her wishes and the needs of beneficiaries. Even with the significant changes to the tax landscape, there are still actions you can take this year to potentially reduce your future estate tax liability and to maximize your lifetime gifting.

You can give $15,000 every year to as many people as you like without paying a gift tax or using up any of your $11,400,000 lifetime exclusion, as long as you do it before the end of each year. Medical and education expenses paid on behalf of anyone directly to the institution are excluded from taxable gifts and are unlimited in amount (as are charitable gifts).

Although simple gifts and transfers mentioned here can reduce taxable estates, they are fairly basic techniques, and clients are sometimes reticent to use them due to control and access concerns once gifts are made. Typically, families with significant taxable estates are more strategic about how best to use annual exclusion and lifetime exclusion gifting but also consider them in light of more advanced strategies such as various irrevocable trust options (Grantor Retained Annuity Trusts, Intentionally Defective Grantor Trusts, Qualified Personal Residence Trusts,

Information in tables from irs.gov unless otherwise specified.

Estate and gift tax (continued)

Charitable Remainder Trusts, etc.), entity structures (Family Limited Partnerships, etc.), and more. Modern planning techniques are increasingly flexible and provide mechanisms to prevent beneficiaries from gaining access to assets before they are ready, without affecting your ability to maintain your own desired lifestyle.

A modern wealth planning approach should be holistic, incorporating income tax planning considerations, asset protection, business succession planning, and family dynamics considerations (not just minimizing transfer taxes). For example, increased lifetime exclusions also mean a greater amount of assets will receive a step-up in cost basis to their fair market value on the date of death without paying estate tax. Assets gifted during life do not receive a cost basis step-up at passing (carryover basis applies) once they are out of the estate, so proper planning will consider how to help you and your tax advisor maximize income tax results over the long term. The right strategies to use will vary with the goals, assets, and circumstances of each family.

Corporate income tax

C corporations are now subject to a flat 21% tax. The corporate AMT is repealed. These changes are permanent.

Municipal bond taxable-equivalent yields

Based on various federal income tax brackets (does not account for state taxes)

Example: A taxpayer in the 35% federal income tax bracket would have to purchase a taxable investment yielding more than 6.9% to outperform a 5% tax-free investment.

	Tax-free yield (%)								
	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0
Tax bracket (%)	Taxable-equivalent yield (%)								
10	2.2	2.8	3.3	3.9	4.4	5.0	5.6	6.1	6.7
12	2.3	2.8	3.4	4.0	4.5	5.1	5.7	6.3	6.8
22	2.6	3.2	3.8	4.5	5.1	5.8	6.4	7.1	7.7
24	2.6	3.3	3.9	4.6	5.3	5.9	6.6	7.2	7.9
32	2.9	3.7	4.4	5.1	5.9	6.6	7.4	8.1	8.8
35	3.1	3.8	4.6	5.4	6.2	6.9	7.7	8.5	9.2
37	3.2	4.0	4.8	5.6	6.3	7.1	7.9	8.7	9.5

Note: Interest income from municipal bonds is not subject to the Medicare surtax.

Information in tables from irs.gov unless otherwise specified.

Qualified business income deduction

Under Section 199A, business owners with pass-through income from S corporations, LLCs, partnerships, and sole proprietorships (generally any business other than a C corporation) may be able to claim up to a 20% deduction on qualified business income (QBI). QBI is defined as ordinary income from a trade or business conducted within the United States (this excludes capital gains, dividends, interest, owner wages, guaranteed payments, etc.). In other words, QBI is the earnings from the operation of the business itself after all expenses (including owner wages) are paid.

This is one of the more complex provisions of the new tax law. Depending on various limiting factors and tests, a business owner may qualify for the full 20% deduction, no deduction, or something in between. The result can be quite meaningful: for example, qualifying for the full 20% deduction would produce an effective marginal tax rate of 29.6% for a taxpayer normally subject to the top 37% tax bracket.

For most taxpayers, the available deduction is limited to the lesser of 20% of all QBI or 20% of household taxable income less capital gains. For households with taxable income under $160,700 single/$321,400 married, the full deduction applies. The vast majority of businesses fall into this category, making qualification relatively straightforward. All other business owners with personal income above the minimum thresholds must consider three additional factors: the type of trade or business, the total amount of W-2 wages paid by the trade or business, and the unadjusted basis of assets in the business.

A distinction is made regarding personal service businesses (defined as those in the fields of health, law, accounting, athletics, financial services, brokerage services, actuarial science, performing arts, and consulting—but also any trade or business where the principal asset is the skill of an owner or employee). The 199A deduction for owners of these personal service businesses phases out when the owner's personal taxable income is between $160,700 single/$321,400 married, up to $210,700 single/$421,400 married, and is eliminated entirely above those maximum threshold amounts. Architects, engineers, real estate agents and brokers, and insurance agents and brokers are all exempted from this limitation.

Qualified business income deduction (continued)

Businesses that do not fall into the excluded service category must pay enough wages and/or have invested enough capital to qualify for the deduction. The limitation will be the greater figure under the following two statutory tests:

(a) 50% of the W-2 wages paid by the business (wage test)

(b) 25% of the W-2 wages paid by the business plus 2.5% of the unadjusted tax basis in business property (capital test)

Unadjusted tax basis is a new term that does not mean basis adjusted for depreciation. It refers to the actual cost of acquisition of the asset without depreciation. The asset must be depreciable property available for use in the business, still within the depreciation period or 10 years of acquisition, whichever is longer, and held at the end of the tax year to qualify.

This deduction and the corresponding limitations are applied on a business-by-business basis.

Nonqualified Real Estate Investment Trust (REIT) dividends and Publicly Traded Partnership (PTP) income (which would generally be considered investment income) actually do qualify for this deduction and are not subject to the W-2 and capital tests.

Potential opportunities and complexities with pass-through entities

Some owners may wish to consider how to lower personal taxable income (increasing contributions to qualified plans, timing capital gains events, shifting ownership to children or trusts for their benefit, changing the income tax status of irrevocable grantor trusts previously set up for heirs, etc.). Other owners can be reviewing overall business structure considerations (aggregating like businesses where permissible, making adjustments to avoid improper classification as a service business, etc.) as well as the operating mechanics (balancing W-2 employees and 1099 contractors, owner compensation, timing improvements, acquisition of additional depreciable capital assets, etc.). Some owners that will not benefit from this deduction at all may even revisit C corporation conversions with their advisors. Working with your advisors closely on this topic is imperative to exploring effective ways to take advantage of the deduction through discussions and planning options.

Planning opportunities arise with the structure of pass-through entities. Selecting the appropriate entity to hold employees and assets becomes more important in order to qualify for the full deduction. In addition, the proper North American Industry Classification System (NAICS) code matters so the entity does not inadvertently claim to be a personal service business on its tax return.

Applying the qualified business income deduction requires great care and skill. While we always recommend the advice of a tax preparer with these matters, the complexity surrounding which businesses qualify, the income that qualifies, and the limitations make working with your preparer all the more necessary.

Qualified Opportunity Zones

The 2017 Tax Cuts and Jobs Act introduced the Qualified Opportunity Zone (QOZ) program, providing a tax incentive for private, long-term investment in economically distressed communities. A taxpayer may elect to defer tax on any capital gains invested in a Qualified Opportunity Fund (QOF), defined as an entity that is organized as a corporation or partnership and that subsequently makes investments in QOZ property.

Investments in QOZ property include stock in a corporation, or capital gains or profits in a partnership, that operates or invests in other QOZ businesses located in a QOZ and property acquired by purchase after December 31, 2017, with its original use in the QOZ, or property in the QOZ that is substantially improved upon by the QOF. A QOF must hold at least 90% of its assets as QOZ stock, QOZ partnerships, or QOZ business property.

The taxpayer has 180 days from realizing capital gains to invest in the QOF. Capital gains are not recognized until the earlier of the QOF sale/liquidation date or December 31, 2026. Taxpayers may exclude up to 15% of deferred gains by receiving a 10% step-up in tax basis after holding the QOF investment for five years and an additional 5% step-up after a total of seven years. The taxpayer is subject to tax on the deferred capital gains in 2026; however, any appreciation on the QOF investment held for 10 years or more is not subject to tax.

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2019 important deadlines

Last day to ...

January 15

- Pay fourth-quarter 2018 federal individual estimated income tax

March 15

- Establish and fund SEP plans for corporations for 2018 (calendar-year taxpayers; filing an extension extends the deadline)
- Fund employer contributions for retirement plans for corporations (filing an extension extends the deadline)
- File 2018 federal S corporation, partnership, or limited liability company (LLC) tax returns (or file an extension)

April 1

- Take 2018 required minimum distributions (RMDs) from traditional IRAs if you reached age 70½ in 2018

April 15

- File following tax returns (or file an extension):
  - 2018 federal individual income tax return
  - 2018 federal trust/estate income tax return (Form 1041)
  - 2018 federal gift tax return (Form 709)
- Pay first-quarter 2019 federal individual estimated income tax
- Make 2018 contribution to traditional IRA, Roth IRA, or education savings account (ESA)
- Establish and fund SEP plans for sole proprietorships and partnerships for 2018 (calendar-year taxpayers; filing an extension extends the deadline)
- Fund employer contributions for retirement plans for sole proprietorships and partnerships (calendar-year taxpayers; filing an extension extends the deadline)

June 17

- Pay second-quarter 2019 federal individual estimated income tax

September 16

- Pay third-quarter 2019 federal individual estimated income tax
- File the following tax returns (if subject to extension):
  - 2018 partnership tax return
  - 2018 S corporation tax return
  - Establish and fund SEP plans for partnerships and S corporations

September 30

- File 2018 federal trust/estate income tax return (Form 1041) if subject to extension

October 1

- Establish a SIMPLE IRA/safe harbor 401(k)

October 15

- File the following tax returns (if subject to automatic extension):
  - 2018 corporate tax return
  - 2018 federal individual income tax return
  - 2018 federal gift tax return (Form 709)

November 29

- Double up to avoid violating the wash-sale rule

*December 31**

- Sell stock or listed options to harvest gains and losses
- Take 2019 RMDs from traditional IRAs and most qualified plans if you reached age 70½ before 2019
- Complete a Roth IRA conversion for 2019
- Complete a 529 plan contribution
- Sell shares acquired through the 2019 exercise of incentive stock options in disqualifying disposition to limit AMT exposure
- Establish a new profit sharing, non-safe-harbor 401(k) or defined benefit plan (calendar-year taxpayers)
- Complete gifts for the current calendar year
  - Charitable gifts of cash must be mailed (or charged on credit card) by year-end; noncash gifts may need to be put in process in advance of December 31 to complete transfer by year-end
  - Personal gifts must be received by the recipient by year-end

*Although December 31 is the technical date these activities need to be completed by for tax purposes, they will need to be put in process well in advance of December 31 to implement by year-end.

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