HERITAGE
WEALTH MANAGEMENT

Reflecting and moving ahead

As a new year approaches, it is only natural for us to reflect on how things went in 2019. Personal and professional accomplishments may take center stage. Or, we may take stock of any disappointments and recalibrate as 2020 approaches.

Yet, we know it's a busy time. Christmas shopping, holiday parties, tree trimming, family visits, and year-end cheer may already be stacking up on the calendar.

Nevertheless, it's not too soon to start thinking about taxes. In prior conversations, we have talked about tax reform. Some are comfortable with the new rules. Others are still just wading into the tax reform pool, so to speak.

Before we jump into our year-end planning piece, we want to stress to you that it's my job to partner with you. We can't over emphasize this, and we would be happy to review your options. As with any tax matters, also feel free to consult with your tax advisor.

Let's get started

Late last year, the IRS announced the tax year 2019 annual inflation adjustments for more than 60 tax provisions, including those for tax brackets that determine the rate we pay on taxable income. Revenue Procedure 2018-57 provides details about these annual adjustments.

1. **Tax brackets and tax rates have changed**. Table 1 and table 2 compare the tax tables for 2019 versus 2018. For example, if you are single and your taxable income on line 11b of the Form 1040 is $84,000, your top marginal rate is 22%.

Table 1: Single filers

Single filers 2019			Single filers 2018	
Taxable income	**Rate**		**Taxable income**	**Rate**
$0 – $9,700	10%		$0 – $9,525	10%
$9,701 – $39,475	12%		$9,526 – $38,700	12%
$39,476– $84,200	22%		$38,701 – $82,500	22%
$84,201 – $160,725	24%		$82,501 – $157,500	24%
$160,726 – $204,100	32%		$157,501 – $200,000	32%
$204,101 – $510,300	35%		$200,001 – $500,000	35%
$510,301 or more	37%		$500,001 or more	37%

Source: Tax Foundation 2019 Federal Tax Rates, IRS US Tax Center 2018 Federal Tax Rates

Table 2: Married filers				
Married filing jointly 2019*			**Married filing jointly 2018**	
Taxable income	**Rate**		**Taxable income**	**Rate**
$0 – $19,400	10%		$0 – $19,050	10%
$19,401 – $78,950	12%		$19,051 – $77,400	12%
$78,951 – $168,400	22%		$77,401 – $165,000	22%
$168,401 – $321,450	24%		$165,001 – $315,000	24%
$321,451– $408,200	32%		$315,001 – $400,000	32%
$408,201 – $612,350	35%		$400,001 – $600,000	35%
$612,351 or more	37%		$600,001 or more	37%

*or Qualifying widow/widower
Source: IRS provides tax inflation adjustments for tax year 2019

2. **The personal exemption has been eliminated with tax reform; child tax credit increased**. The $4,050 personal exemption was eliminated starting 2018. However, the child tax credit doubled to $2,000 per qualifying child, subject to income limitations.

It is available to parents of children 16 or younger. It begins to phase out at $200,000 of modified adjusted gross income for single filers. This amount is $400,000 for married couples filing jointly.

3. **The increase in the standard deduction will simplify filing for some folks**. The standard deduction for married filing jointly rises to $24,400 for tax year 2019, up $400 from the prior year.

For single taxpayers and married individuals filing separately, the standard deduction rises to $12,200 for 2019, up $200. For heads of households, the standard deduction will be $18,350 for tax year 2019, up $350.

4. **Some itemized deductions have been reduced or eliminated.** If you itemize, state and local income taxes, property taxes, and real estate taxes are capped at $10,000. Anything above cannot be written off against income.

All miscellaneous itemized deductions are eliminated, including deductions for unreimbursed employee expenses, tax preparation fees, the deduction for theft, and personal casualty losses, although certain casualty losses in federally declared disaster areas may still be claimed.

For charitable contribution, you may generally deduct up to 50% of your adjusted gross income, but 20% and 30% limitations apply in some cases.

In 2019, the IRS allows all taxpayers to deduct the total qualified unreimbursed medical care expenses for the year that exceeds 10% of adjusted gross income. That's up from 7.5% of AGI in 2017 and 2018.

5. **Penalties have been eliminated for not maintaining minimum essential insurance coverage**. This is per the Tax Cuts and Jobs Act; for 2018 the penalty was $695.

6. **Estates of decedents who die during 2019** have a basic exclusion amount of $11,400,000, up from a total of $11,180,000 for estates of decedents who died in 2018. The annual exclusion for gifts is $15,000 for calendar year 2019, as it was for calendar year 2018.

7. **Changes to the AMT – the alternative minimum tax**. Tax reform failed to do away with the alternative minimum tax (AMT), but it snags far fewer people.

   For tax year 2019 the AMT exemption amount is $71,700 and begins to phase out at $510,300 ($111,700, for married couples filing jointly for whom the exemption begins to phase out at $1,020,600).

   The 2018 exemption amount was $70,300 and began to phase out at $500,000 ($109,400 for married couples filing jointly and began to phase out at $1 million).

   Yes, it's confusing, but most tax software programs run both calculations for you.

8. **There is a 20% deduction for business owners**. The new law gives "flow-through" business owners, such as sole proprietorships, LLCs, partnerships, and S-corps, a 20% deduction on income earned by the business.

   This is a very valuable benefit to business owners who aren't classified as C-corps and wouldn't benefit from 2018's reduction in the corporate tax rate to 21% from 35%.

   REITs and MLPs are also eligible for the deduction.

   The deduction is generally available to eligible taxpayers whose 2019 taxable incomes fall below $321,400 for joint returns and $160,700 for single and married filing separately.

   The deduction does not reduce earnings subject to the self-employment tax.

   There are limitations to the new deduction and some aspects are complex. Feel free to check with your tax advisor to see how you may qualify.

The points above are simply summary. You may see provisions that will benefit you. You may also see potential pitfalls. If you have any questions or concerns, let's have a conversation.

9 smart planning moves to consider

1. Review your income or portfolio strategy

Are you reaching a milestone in your life such as retirement or a change in your circumstances? Has your tolerance for taking risk changed? While market selloffs this year have been modest by historical standards, did you take volatility in stride, or did you feel any uneasiness? If so, this may be the right time to evaluate your approach.

One of our goals has always been to remove the emotional component from the investment plan. You know, the one that encourages investors to load up on stocks when the market is soaring or one that prods us to sell when volatility surfaces.

2. Rebalance your portfolio

Market performance has been good this year. While U.S. equities have provided a nice lift to your portfolio, you may have too much exposure to stocks. Simply put, you may be taking on too much risk. If that's the case, we may need to trim back on equity exposure. Given this year's run-up in stocks, we may want to wait until January in non-retirement accounts so that any gains are booked in tax year 2020.

3. Take stock of changes in your life

Review insurance and beneficiaries. Let's be sure you are adequately covered. At the same time, it's a good idea to update beneficiaries if the need has arisen.

4. Beat the tax-loss deadline

You have until December 31 to harvest any tax losses and/or offset any capital gains. It may be advantageous to time sales in order to maximize tax benefits this year or next. We may also want to book gains and offset with any losses

But be aware that short- and long-term capital gains are taxed at different rates, and don't run up against the wash-sale rule that could disallow a capital loss. A wash sale occurs when you sell a security at a loss and then purchase that same security or "substantially identical" securities within 30 days, either before or after the sale date.

5. Pay attention to mutual funds and taxable distributions

This is best described using an example:

If you buy a mutual fund on December 16 and it pays a dividend and capital gain December 19, you will be responsible for paying taxes on the entire yearly distribution, even though you held the fund for just three days. It's a tax sting that's best avoided because the net asset value hasn't changed.

It's usually a good idea to wait until *after the annual distribution* to make the purchase.

6. Mind your RMDs

Required minimum distributions, or RMDs, are the minimum amounts a retirement plan account owner must withdraw annually, generally starting with the year that he or she reaches 70 ½ years of age. Some plans may provide exceptions if you are still working.

The first payment can be delayed until April 1 of the year following the year in which you turn 70½. For all subsequent years, including the year in which you were paid the first RMD by April 1, you must take the RMD by December 31.

While delaying the RMD until April 1 can cut your tax bite this year, please be aware that you'll have two RMDs in 2020, which could bump you into a higher tax bracket.

The RMD rules applies to traditional IRAs, SEP IRAs. Simple IRAs, 401(k), profit-sharing, 403(b), 457(b) or other defined contribution plan. They do not apply to ROTH IRAs.

Don't miss the deadline or you could be subject to a steep penalty.

One other matter, the IRS issued a draft of new life expectancy tables for RMDs that will lower the annual required distribution. The tables are simply a proposal, but if finalized, they could take effect in 2021.

7. Contribute to a Roth or traditional IRA

A Roth gives you the potential to earn tax-free growth (not just deferred tax-free growth) and allows for federal-tax free withdrawals if certain requirements are met.

You may also be eligible to contribute to a traditional IRA, and contributions may be fully or partially deductible, depending on your income and circumstances. Total contributions for both accounts cannot exceed the prescribed limit.

There are income limits, but if you qualify, you may contribute $6,000, or $7,000 if you are 50 or older. This is up $500, respectively, from 2018.

You can contribute if you (or your spouse if filing jointly) have taxable compensation but not after you are age 70½ or older. You can contribute at any age to a Roth if you (or your spouse if filing jointly) have taxable compensation and your modified adjusted gross income is below certain amounts.

You can make 2019 IRA contributions until April 15, 2020 (Note: State holidays can impact final date).

8. Contribute to college saving

A limited option called the Coverdell Savings account did not get axed by the new tax law.

Currently, total contributions for a beneficiary cannot exceed $2,000 in any year and must be made before the beneficiary turns 18.

Any individual (including the designated beneficiary) can contribute to a Coverdell ESA if the individual's modified adjusted gross income for the year is less than $110,000. For those filing joint returns, the amount is $220,000.

The $2,000 limit is gradually phased out if your modified adjusted gross income falls between $190,000 and $220,000 ($95,000 and $110,000 for single filers).

You have until April 15, 2020 to contribute for tax year 2019.

A 529 plan allows for much higher contribution limits, and earnings are not subject to federal tax when used for the qualified education expenses of the designated beneficiary.

Contributions to both accounts are not tax deductible.

9. Do your charitable giving

Whether it is cash, stocks or bonds, you can donate to your favorite charity by December 31, potentially offsetting any income.

Did you know that you may qualify for what's called a "qualified charitable distribution," or QCD if you are over 70 ½ years old? A QCD is an otherwise taxable distribution from an IRA or inherited IRA that is paid directly from the IRA to a qualified charity.

A QCD may be counted toward your RMD, up to $100,000. This becomes even more valuable in light of the recent tax reform, as more taxpayers will no longer be able to itemize.

Given the increase in the standard deduction and limits on state income and property taxes, annual year-end gifts to your favorite charity may not exceed the higher thresholds. Therefore, you may consider giving an annual gift in early January. When coupled with an annual gift next December, you might reap the tax advantages from itemizing in 2020.

You might also consider a **donor-advised fund**. Once the donation is made, you can generally realize immediate tax benefits, but then it is up to the donor when distributions to a qualified charity will be made.

We trust you've found these planning tips to be helpful. Again, please let us know if you have any questions, thoughts, or concerns.

Buy high, sell higher

That is a counterintuitive headline. Isn't it buy low, sell high?

Through the three years ended this November 29th, the S&P 500 Index has registered 115 new highs, including 26 this year. The last one occurred on the Wednesday before Thanksgiving. Some 53 closing highs were recorded in 2014, 10 in 2015, and 18 in 2016.

New highs tend to elicit two reactions:

Fear that stocks are at a top. Aren't stocks overvalued? Are equities headed for a big decline? We can't buy at these levels. Shouldn't we sell?

1. **Jubilation.** For some, it leads to a feeling of invincibility. "Let's load up on stocks (risk) and ride the bull higher."

As we've cautioned during volatile periods, your financial plan is a financial roadmap toward your personal financial goals. In part, it removes the emotional component that whispers (or *screams*) "Sell!!," when stocks are declining. Conversely, it helps prevent undue optimism when shares are hitting new highs.

Selling when the major indexes are closing at a new high simply means that you'll get a better price today than yesterday. That's it. In a bull market, we'd expect a series of new highs. Driven by favorable fundamentals, that's exactly what we have seen.

We are reluctant to forecast where stocks might be next month or next year. There are too many unpredictable variables that can influence short-term action.

However, over a much longer term, stocks have had an upward bias. As 1950 came to a close, the Dow Jones Industrial Average topped 235. By the end of 1975, the Dow closed above 850. At the turn of the century, the Dow had surged to 10,786.

Since 2000, we've experience two difficult bear markets. Yet, the U.S. economy and the stock market have proved to be quite resilient. As November came to a close, the Dow topped 28,000 for the first time.

A well-diversified portfolio is akin to an equity stake in the U.S. economy. We don't know if the economy will be larger next year than it is this year. But 200+ years of history tell us that the economy has expanded over the longer period, and action in the stock market has reflected what's happened in the economy.

Table 3: Key Index Returns

	MTD %	YTD %
Dow Jones Industrial Average	3.7	20.3
NASDAQ Composite	4.5	30.6
S&P 500 Index	3.4	25.3
Russell 2000 Index	4.0	20.5
MSCI World ex-USA**	1.1	15.4
MSCI Emerging Markets**	-0.2	7.7
Bloomberg Barclays US Aggregate Bond TR	-0.1	8.8

Source: Wall Street Journal, MSCI.com, MarketWatch, Morningstar
MTD returns: Oct 31, 2019—Nov 29, 2019
YTD returns: Dec 31, 2018— Nov 29, 2019
*Annualized
**in US dollars

Though not all-encompassing, we hope you've found this review to be educational and helpful. Once again, before making any decisions that may impact your taxes, please consult with your tax advisor.

Let us also once again emphasize that it is our job to assist you. If you have any questions or would like to discuss any matters, please feel free to give us or any of my team members a call.

As always, we are honored and humbled that you have given us the opportunity to serve as your financial advisors.

HERITAGE
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Sincerely,

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