December 3, 2018

Year End Tax Planning

Now is the time to consider year end planning and whether you can benefit by some easy strategies to minimize your 2018 income tax liability.

Fourth quarter estimate tax payments for state and local taxes

The 2018 Tax Reform Bill limits the combined deduction for state and local income taxes and property taxes at $10,000. Due to this limitation, it is our expectation that many taxpayers will not see any benefit to pre-pay their fourth quarter estimated payment for state and local income taxes before December 31st, which may have been something they were accustomed to doing in prior years. Hold onto your money for a longer period of time and potentially earn some interest in the bank during that additional time, but be sure to mail the fourth quarter estimates by their due date of January 15, 2019.

Consider Grouping Itemized Deductions Into One Tax Year, Such As Charitable Donations

The 2018 Tax Reform Bill increases the standard deduction for all taxpayers. Many taxpayers will find that their itemized deductions as a result of changes in the Tax Reform Bill fall short of the new, higher standard deduction. Consider grouping certain itemized deductions, to the extent possible, such as making large charitable donations every other year, to receive the greatest tax benefit for them if you exceed the standard deduction when those itemized deductions are grouped together.

Do you expect to be in a low tax bracket in 2018? Consider a Roth IRA conversion

If you expect to be in a low tax bracket and currently have retirement funds in an Individual Retirement Account (IRA), consider taking advantage of your low tax bracket to convert some retirement funds to a tax-free Roth IRA. The conversion amount is taxable, but then grows tax free for the remainder of your lifetime, and some or all of your beneficiaries' lifetimes. If you are in a very low tax bracket in 2018, as a result of unemployment, or are starting a business with little to no taxable profit, this opportunity is one of the most important tax planning ideas you can consider for yourself this year.

Review capital gains and losses

Review your realized and unrealized capital gains and losses to determine whether any action should be taken prior to year-end. Your realized and unrealized gains and losses should be reviewed in connection with your other income to determine whether there is an opportunity to realize gains without incurring the 3.8% net investment income tax enacted under the Affordable Care Act. All investment decisions should also make economic sense for your situation and should not be undertaken purely for tax benefits.

Maximize your deductible retirement contributions

Review your current year to date contributions to your deductible retirement plans, which may include your 401(k) plan, 457 plan, 403(b) plan, and Individual Retirement Account. If you are financially able to increase your contributions prior to year-end, you will reduce your taxable income by the amount of your additional contributions and take a very important step towards maximizing your retirement savings.

Required Minimum Distributions

If you are over 70 ½ years old, you are required to take distributions from your individual retirement accounts. Remember to take these distributions prior to December 31st to avoid a penalty. If you turned 70 ½ in 2018, consult with us to determine the best time to take your first distribution.

Maximize your health savings account contributions in 2018

If you are a participant in a high deductible health insurance plan, you likely have a health savings account. This account is the vehicle in which you can save money for medical expenses and obtain three valuable tax benefits (see our December 2017 newsletter for a detailed discussion on the three tax benefits). The contributions are tax deductible, reducing your taxable income. They grow tax deferred, and are withdrawn free from tax if they are used for unreimbursed medical expenses. The maximum contribution that can be made to this type of plan in 2018 is $3,450 for those with single coverage and $6,900 for those with family coverage. If you are over age 55, a $1,000 catch up contribution is allowable as well.

529 Plan Contributions

If you live in one of the 30 states that provides a full or partial state tax deduction for contributing to a 529 plan, considering maximizing your contribution for the 2018 tax year. New York State and Connecticut are some of these states; contributing to resident state plans can provide a valuable tax savings to residents. New Jersey, however, is not included.

We hope that you have a happy and safe holiday season! Best wishes for the New Year; we look forward to seeing you in 2019!

If you have questions about any of the topics discussed in this newsletter, please feel free to call us.
Remember, We’re Here For You.

Sincerely yours,

Melissa Rosenfeld, CPA