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22 SMART TAX MOVES TO MAKE BEFORE THE END OF THE YEAR

By: Mia Taylor - November 11, 2019

As 2019 draws to a close, it's time to start getting organized and thinking about making last-minute tax moves to help decrease your overall tax burden come April. This year in particular there's much to take note of between changes ushered in by the Tax Cuts and Jobs Act and recent cost-of-living increases to contribution limits for 401(k) funds and other retirement vehicles. The key point to remember is that most tax deductions and credits are based on actions you take before Dec. 31. With the end of the year rapidly approaching, here are some of the money saving and housekeeping moves to consider.

Give to Charitable Organizations

Donating to a charity not only helps a worthy cause, but it also provides a tax deduction for those who itemize. In fact, the ever-popular charitable contribution deduction has been enhanced for 2018 and thereafter, says Andrew Cohen, senior tax manager at the New York-based accounting firm Friedman LLP. "A taxpayer can now deduct cash donations up to 60% of adjusted gross income, which is up from 50% in 2017," Cohen explained, adding that the donations must have been made to a 501(c)(3) organization. For property donations, the deduction is limited to either 30% of your adjusted gross income when using fair market value of the property or 50% of your adjusted gross income if you're using cost basis to determine the amount of the deduction, Cohen said.

Sell Capital Assets to Take Advantage of Current Tax Rates

The tax code still allows for preferential tax treatment on the sale of capital assets, says Cohen of Friedman LLP. "The maximum capital gains rate is currently 20% plus the 3.8% Net Investment Income Tax," Cohen explained. "Take advantage of these low rates now as there's a possibility that the capital gains rate may increase in the years to come." While the maximum capital gains rate is 20% as Cohen indicated, the rate for most taxpayers is typically even lower, at 15%. And there are some instances when capital gain may be taxed at 0% (if you're among those who fall into the 10% to 12% income tax brackets.) A 20% tax rate on net capital gains applies to those whose income exceeds the 37% ordinary tax bracket.

Consider Investing in a Qualified Opportunity Zone

The Tax Cuts and Jobs Act created what's known as Qualified Opportunity Zones, a program allowing taxpayers to defer payment of capital gains tax until the 2026 tax year if such gains are invested in opportunity zones, Cohen said. The newly created zones are locations around the country, many of which were established in 2018, that would benefit from economic development and job creation. Those who invest in such communities may defer tax on eligible capital gains for only the portion of the gain used to benefit the economically distressed zone. The Qualified Opportunity Zone investment must be made within 180 days of the sale that generated gains. Opportunity zones exist in all 50 states as well as the District of Columbia and some U.S. territories.

Contribute to a SEP IRA

Another approach to reducing your tax burden, if you're self-employed, is contributing to a SEP IRA before year's end. "The taxpayer can contribute up to a maximum of $56,000 in 2019," Cohen said. For individuals 50 and older, that amount increases to $62,000, he said. "The amount of the contribution to a SEP is a reduction to income, which has an effect of reducing the taxpayer's adjusted gross income dollar for dollar by the amount of the contribution," Cohen added.

Maximize 401(k) Contributions

One of the most popular and simplest ways to reduce your taxable income before year's end is to max out allowable 401(k) contributions. "Of course, this will provide a boost for your retirement, but as an added bonus, qualified contributions will lower your taxable income for the year," said Scott Butler, financial planner at Klauenberg Retirement Solutions in Laurel, Maryland. In late 2018, the IRS announced cost-of-living adjustments to the annual contribution limits. For 401(k), 403(b), and many 457 plans, as well as the federal government's Thrift Savings Plan, the annual contribution limit was shifted upward to $19,000 from $18,500.

Estimate Your Tax Bill Now

Rather than waiting to find out from your accountant what your tax bill might be for this year, use the IRS's withholdings estimator to estimate how much you will owe or receive on your tax return, says Butler of Klauenberg Retirement Solutions. "The estimator will also give you a suggestion for your future withholdings," he said.

Delay Income

For those who are freelance or independent contractors, consider holding off on invoicing clients for work until December, suggests Logan Allec, a CPA and owner of the website Money Done Right. "If individuals delay any billing until December, they generally do not receive the income until January 2020," explained Allec. "This would keep that income off of their 2019 tax return." Thus, delaying paying taxes on the income for another year.

Tax Loss Harvesting

If capital gains from your investments are putting your gross income into a higher tax bracket, consider tax loss harvesting before the end of the tax year, says tax analyst Eileen Maki of FitSmallBusiness.com. An investment that will experience a net loss can be sold, resulting in a capital loss that offsets other capital gains during the same tax year.

Bunch Charitable Contributions

If you don't contribute enough to charities in one calendar year to make it worthwhile to itemize on your tax return, consider making several years' worth of contributions all at once, suggests Allec of Money Done Right. By bunching charitable contributions into one year, your itemized deductions may be more likely to exceed the standard deduction, Allec explained. The standard deduction for married filing jointly is $24,400; for single taxpayers it's $12,200; and for heads of households it's $18,350.

Scour Expiring Tax Provisions

Compiled by the Congressional Joint Committee on Taxation, the list of expiring tax provisions is fairly easy to interpret for non-tax professionals, says George Birrell, creator of Taxhub, a virtual tax prep platform. Birrell suggests reviewing the list regularly. "It can give you a lot of new ideas for future spending. It will also give you a chance to review some tax credits that you may have not taken in the past and may still be able to take," Birrell said.

Donate Highly Appreciated Stock to Charity in Lieu of Cash

Donating valuable stocks to charity provides two tax benefits in one, says Birrell of Taxhub. "You avoid the capital gains tax of the stock, and you get an itemized deduction for the appreciated value of the stock," Birrell explained. "Just remember that this is limited to 30% of your adjusted gross income."

Max Out Health Savings Account Contributions

If you have a qualified high deductible health plan, are not enrolled in Medicare, and are not claimed as a dependent on someone else's tax return, you may contribute up to $7,000 to a health savings account as part of a joint tax return ($3,500 for single filers) to lower your taxable income, says Ben Watson, a CPA and the CFO of DollarSprout. The money you put into a health savings account can be used in 2019 or saved for retirement. The key takeaway is that no matter when you use it, the contributions are tax-deductible, meaning they will reduce your federal income taxes owed.

Review Your Income If You're a Small Business Owner

For those who are self-employed, it's a good idea to sit down and review your business income before year-end. "Subtract your deductible expenses from your total income to find your taxable net income, and then do a projection for the final months of the year to come up with a rough idea of what you might end up owing or receiving as a refund," says Dave Du Val, chief customer advocacy officer for TaxAudit. "If it looks like you're going to owe, you can start making estimated payments now — or make higher estimated payments to make up the difference if you're currently making estimated payments."

Read the whole article at https://bit.ly/2O0ZaDD

Scott Butler, CRC, is a financial planner with Klauenberg Retirement Solutions. Using his background as a former teacher, Scott breaks down financial topics to levels that clients can more easily understand, believing each person should have a basic understanding of the wealth strategies and products that work for them.

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