4 Year-End Considerations

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Charitable Giving

Bunching

The passage of the Tax Cuts and Jobs Act brought significant changes to individual and business taxes. One prominent change was the doubling of the standard deduction to $12,000 per individual and $24,000 per married couple. The increased standard deduction will result in fewer people electing to itemize deductions. Here is a quick refresher on standard versus itemized deductions. Every year taxpayers choose between the standard deduction or itemized deduction on their federal income tax return, generally electing the deduction that reduces their overall tax liability. Common examples of itemized deductions include state and local taxes such as property taxes, mortgage interest, and charitable contributions. Because the standard deduction is significantly larger than years past, many taxpayers will find that their itemized deductions do not exceed the standard deduction. Further complicating the calculation is the cap on state and local tax deductions of $10,000 per year. What does this have to do with charitable giving? You may want to consider “bunching” your charitable contributions. Bunching refers to the strategy where taxpayers “bunch” donations to charities in specific years, while limiting donations in other years. The strategy requires you to combine multiple years of annual charitable contributions into a single year. The years where you bunch contributions increase the likelihood of exceeding the standard deduction, thus producing additional tax savings by electing to itemize deductions. If you wish to make annual gifts to charities, consider opening a donor-advised fund. Gifts to donor-advised funds are tax deductible. You may contribute your bunched contributions to the donor-advised fund in one year and then use the assets in the fund to consistently support your charities over many years. This pattern can be repeated over time and will limit the disruption felt by the charities.

Qualified Charitable Distributions

A method for charitable giving that was unaffected by the tax legislation is the qualified charitable distribution (QCD) from traditional individual retirement accounts (IRAs). If you are 70 ½ or older and have a traditional IRA, you must take a required minimum distribution annually. The distribution amount is reported as taxable income. However, you can donate up to $100,000 of your required minimum distribution per year to charities and you will not pay federal tax on the amount donated because it is excluded from your taxable income. Before you write a check to your favorite charity or nonprofit organization, consider whether taking advantage of a QCD from your IRA is more advantageous.

2 Gifting - Annual Exclusion

For 2018 the federal gift tax rules allow you to give up to $15,000 to as many people as you would like free of gift tax. For married couples, the amount is $30,000. The $15,000/$30,000 exclusion does not accumulate if it unused, so it is important to take advantage of the exclusion annually. Review amounts you have given to your children or grandchildren and all contributions to 529 college savings plans, insurance trusts, gifting trusts, UTMAs, or other wealth transfer vehicles. Remember, payments made directly to schools and healthcare providers do not count against this annual exclusion.

3 Required Minimum Distributions

As previously mentioned, once you are 70 ½ and have a traditional IRA, you must take required minimum distributions (RMDs) from those accounts. An RMD is the minimum amount the IRS requires be withdrawn each year from traditional IRAs. Be certain that you have taken your full RMD before year-end. Failure to take your full RMD can result in significant tax penalties and an administrative headache.

4 Wealth Planning

Under the new tax laws, you can pass a total of $11.18 million to your chosen beneficiaries free of federal gift, estate, and GST taxes. For married couples, this amounts to $22.36 million that may pass free of those transfer taxes. Each year this amount will increase for inflation. However, the exclusion amount is set to expire and return to $5 million, adjusted for inflation, on January 1, 2026. There is also the possibility that the outcome of the 2020 elections could cause the window of opportunity to shrink more rapidly. While there is still time left before either 2020 or 2026, the best time to act is now. While considering whether you are prepared for life's unexpected turns, take stock of your estate plans, beneficiary designations, life insurance, long-term care needs, and ask whether your plans should be reviewed in light of the new tax laws.

Conclusion

Every day we strive to be the best possible wealth management team for our clients. Our objective is to provide the highest level of customized, personal service to our clients so that they can focus their energy elsewhere and sleep well at night. Contact our team with any questions about the reminders above and to discuss your year-end plans. ■