2018 Year-End Tax Planning Strategies for INDIVIDUALS

Jeffers and Company Inc.

Julie Jeffers, IAR

317-837-7720

Julie@jeffersco.net

www.TaxServicesIndianapolis.co

Questions & Strategies Unique to You

- Everyone's business, corporate entity type and tax situation is unique to them.
- These strategies may not apply in certain entity types or business environments.
- **Please contact our office** for questions & assistance with implementing these & other year-end planning strategies to ensure suitability to your particular situation.

YEAR-END INDIVIDUAL TAX PLANNING STRATEGIES for 2018

1. General Tax Planning
2. Accelerating Income & Deductions
3. Health Care Laws
4. Additional Medicare Tax
5. Alternate Minimum Tax
6. Charitable Contributions
7. Investment Gains & Losses
8. Net Investment Income Tax (NIIT)
9. Mutual Fund Investments
10. Year-End Giving to Reduce Your Potential Estate Tax
11. New Tax Rate Structure for the Kiddie Tax
12. Other Year-End Moves

General Tax Planning

- Selling any investments on which you have a gain or loss this year.
- If you anticipate an increase in taxable income this year, in 2018, and are expecting a bonus at year-end, try to get it before December 31.
- Prepaying deductible expenses this year using a credit card.

General Tax Planning (cont.)

- If your company grants stock options, then you may want to exercise the option or sell stock acquired by exercise of an option this year.
- If you're self-employed, send invoices or bills to clients or customers this year to be paid in full by the end of December.
- Caution: Keep an eye on the estimated tax requirements.

Accelerating Income & Deductions

- If you anticipate being in a higher tax bracket next year, **accelerating income** into 2018 is a good idea, especially for taxpayers whose earnings are close to threshold amounts ($200,000 for single filers and $250,000 for married filing jointly) that make them liable for additional Medicare Tax or Net Investment Income Tax
- Caution
- Tip

Accelerating Income & Deductions

- Pay a state estimated tax installment in December instead of at the January due date.
- Pay your entire property tax bill, including installments due in year 2019, by year-end.
- Pay 2019 tuition in 2018 to take full advantage of the American Opportunity Tax Credit
- Try to bunch "threshold" expenses, such as medical expenses and miscellaneous itemized deductions.
- Note

Health Care Laws

- If you haven't signed up for health insurance this year, do so now and avoid or reduce any penalty you might be subject to.
- Depending on your income, you may be able to **claim the premium tax credit** that reduces your premium payment or reduces your tax obligations.
- You can choose to get the credit immediately <u>or</u> receive it as a refund.

Additional Medicare Tax

- Taxpayers whose income exceeds certain threshold amounts ($200,000 single filers and $250,000 married filing jointly) are liable for an additional Medicare tax of 0.9 percent on their tax returns…
- BUT may request that their employers withhold additional income tax from their pay to be applied against their tax liability when filing their 2018 tax return next April.

Alternate Minimum Tax

- The alternative minimum tax (AMT) applies to high-income taxpayers that take advantage of deductions and credits to reduce their taxable income.
- AMT exemption amounts for 2018 are as follows:
- $70,300 for single and head of household filers,
- 109,400 for married people filing jointly and for qualifying widows or widowers,
- $54,700 for married people filing separately.

Charitable Contributions

- Property, as well as money, can be donated to a charity.
- You can generally take a deduction for the fair market value of the property;
- however, for certain property, the deduction is limited to your cost basis.
- While you can also donate your services to charity, you may not deduct the value of these services.
- You may also be able to deduct charity-related travel expenses and some out-of-pocket expenses, however.
- Tip: Contributions of appreciated property (i.e. stock) provide an additional benefit because you avoid paying capital gains on any profit.

Investment Gains & Losses

- In 2018 tax rates on capital gains and dividends remain the same as 2017 rates (0%, 15%, and a top rate of 20%); however, due to tax reform, threshold amounts do not correspond to the new tax bracket structure as in prior years:
  - For taxpayers in the **lower tax brackets** (10 and 12 percent), the rate remains **0%;** however, the threshold amounts are $38,600 for individuals and $77,200 for married filing jointly.
  - For taxpayers in the **four middle tax brackets**, 22, 24, 32, and 35%, the rate is **15%**
  - For an individual taxpayer in the **highest tax bracket**, 37%, whose income is at or above $425,800 ($479,000 married filing jointly), the rate for both capital gains and dividends is capped at **20%**
- Where feasible, reduce all capital gains and generate short-term capital losses up to $3,000.

Net Investment Income Tax (NIIT)

- The Net Investment Income Tax, which went into effect in 2013, is a 3.8 percent tax that is applied to investment income such as long-term capital gains for earners above certain threshold amounts ($200,000 for single filers and $250,000 for married taxpayers filing jointly).
- Short-term capital gains are subject to ordinary income tax rates as well as the 3.8 percent NIIT.
- This information is something to think about as you plan your long-term investments.

Mutual Fund Investments

- Before investing in a mutual fund, ask whether a dividend is <u>paid at the end</u> of the year or whether a dividend will be paid early in the <u>next year but</u> be deemed paid this year.
- The year-end dividend could make a substantial difference in the tax you pay.
- *Please call if you'd like more information on how dividends paid out by mutual funds affect your taxes this year and next.*

Year-End Giving to Reduce Your Potential Estate Tax

- The federal gift and estate tax exemption is currently set at $11.18 million but…
- Is projected to increase to $11.4 million in 2019.
- ATRA set the maximum estate tax rate set at 40 percent.
- *Tip: If you're considering adopting a plan of **lifetime giving** to reduce future estate tax, don't hesitate to call the office for assistance.*

New Tax Rate Structure for the Kiddie Tax

- Income earned on investments you give to children or other family members are generally taxed to them, not to you.
- In prior years, amounts exceeding $1,050 were taxed at the parent's marginal tax rate if that rate was higher than the child's rate.
- Under the TCJA, however, the kiddie tax rules have changed.

New Tax Rate Structure for the Kiddie Tax (cont.)

- For tax years 2018 through 2025, unearned income exceeding $1,050 is taxed at the rates paid by trusts & estates.
- For ordinary income (amounts over $12,501), the maximum rate is 37%.
- For long-term capital gains and qualified dividends (amounts over $12,501), the maximum rate is 20%.

Other Year-End Moves

1. Maximize Retirement Plan Contributions
2. Health Savings Accounts
3. 529 Education Plans

Maximize Retirement Plan Contributions

- If you own an incorporated or unincorporated business, consider setting up a retirement plan if you don't already have one.
- It doesn't actually need to be funded until you pay your taxes, but allowable contributions will be deductible on this year's return.

Health Savings Accounts

- Consider setting up a health savings account (HSA).
- You can deduct contributions to the account, investment earnings are tax-deferred until withdrawn, and amounts you withdraw are tax-free when used to pay medical bills.

529 Education Plans

- Maximize contributions to 529 plans, which starting in 2018, can be used for elementary and secondary school tuition as well as college or vocational school.

2018 Year-End Planning SUMMARY

- These are just a few of the steps you might take.
- Everyone's individual, family, business, corp. entity type & tax situation is unique to them.
- These strategies may not apply in certain individual or family situations, entity types or business environments.
- **Please contact our office** for questions & assistance with implementing these & other year-end planning strategies to ensure suitability to your particular situation.

2018 Year-End Tax Planning Strategies for INDIVIDUALS

Jeffers and Company Inc.

Julie Jeffers, IAR

317-837-7720

Julie@jeffersco.net

www.TaxServicesIndianapolis.co