SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

2018 End of Year Planning Considerations

The new Tax Cuts and Jobs Act has impacted every taxpayer, making it even more important to evaluate various tax planning ideas and actions. We recommend discussing tax planning strategies with your Tax Preparer. The following are a few items to consider before year -end:

Tax Cuts and Jobs Act Changes

- Tax rates and tables have changed in 2018. The top tax bracket has been reduced from 39.6% to 37%, and the range of income in the 35% bracket has increased.
- Increased standard deduction (from $12,700 to $24,000 for Married Filing Joint).
- Eliminated the personal exemption (was $4,050/person in 2017).
- Itemized deduction for all taxes paid is limited to $10,000, which includes state and local income taxes, sales tax, and property tax.
- Interest on mortgage debt for homes purchased after 12/15/2017 have a reduced maximum of $750,000 ($1,000,000 in 2017).

Take Advantage of Tax-Deferred Growth

- Attempt to defer income to years of potentially lower tax rates.
- Take full advantage of available retirement plans (401k, IRA, SEP-IRA, defined benefit, etc.) and other non-qualified plans (executive bonus, carve-out plans, deferred compensation, etc.) to defer and/or minimize income taxes over the long term.
- The window to make contributions to an employer plan typically closes at the end of the year, while you generally have until the April tax return filing deadline to make IRA contributions.

Revisit your Charitable Giving Strategy

- Charitable giving has the potential of reducing your overall tax burden while providing a benefit to a cause you care about.
- Use a Donor Advised Fund to make a future donation to charity but receive a current income tax deduction. Due to the higher standard deduction in 2018, donating multiple years' worth of gifts in one year (bunching gifts) can push deductions over the increased standard deduction ($24,000 for married filing jointly).
- Consider gifting appreciated securities to avoid potential capital gains tax.
- Be aware that if you are donating securities, it could take custodians up to two weeks to process and therefore should be initiated by 12/15/2018 to ensure it will qualify for a 2018 deduction.
- For people over age 70.5, consider donating your RMD directly to a charity (up to $100,000 per IRA owner). This Qualified Charitable Deduction (QCD) will allow those who will no longer qualify for itemized deductions to reduce their taxable income through charitable contributions (See graph below).

Estate and Gift Taxes

- The maximum estate tax rate is 40% and the estate tax exemption is $11.2 million in 2018.
- Be aware that the annual federal gift tax exclusion allows you to give away up to $15,000 in 2018 to as many people as you wish without those gifts counting against your lifetime estate tax exemption.
- Direct tuition and medical expense payments made on behalf of another person do not count against the $15,000 gift tax exclusion.
- Consider wealth transfer strategies to reduce your taxable estate and ensure that your assets will be utilized according to your wishes, both now and in the future. We recommend discussing estate planning with us and your estate attorney prior to year-end if interested in these strategies.

Other Considerations

- If you are over 70.5, make sure you have taken Required Minimum Distributions from IRAs and 401ks by 12/31/2018.
- Harvest capital losses to offset gains on appreciated securities. Be aware of wash sale rules.
- Coordinate and bunch deductible expenses such as charitable contributions and property taxes. Donate to charities/Donor Advised fund in January and December one year, and none the next year if this brings itemized deductions above the standard deduction. This can also be done for property taxes if they are less than $5,000.
- Check beneficiary designations on retirement accounts and life insurance policies, especially if you have had a major life change (marriage, divorce, death of spouse, new child, etc.).