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# Year-end Planning 2018

# Looking Back on 2018

As 2018 draws to a close, there is still time to reduce your 2018 tax bill and plan ahead for 2019. This letter highlights several potential year-end planning opportunities for you to consider, most of which have to do with income taxes. We would be happy to discuss specific strategies and how they apply to you.

# Key Changes Impacting Individual Income Taxes

As you may know, the Tax Cuts and Jobs Act significantly altered the Federal tax code at the end of December 2017, and there have been several law changes that impact the 2018 tax year. Individuals will see changes in tax rates and brackets, suspension of the personal exemption, an increase to the standard deduction and a reduction in the amount and types of itemized deductions allowable.

Here are a few of the key changes from last year's tax bill impacting individual income taxes for 2018.

The impact of these new rules will vary by individual circumstances. Some taxpayers will see an increase in their tax liability as a result of the new tax legislation and some will see a decrease. For a better understanding of how these changes will impact your tax situation specifically, you should consult with your tax professional or advisory team.

## Tax brackets

The top federal marginal rate dropped from 39.6% to 37%, and the income thresholds for each bracket increased. The so-called "marriage penalty" is nearly eliminated.

## Alternative Minimum Tax (AMT)

The vast majority of individuals will not fall subject to AMT this year due to changes in itemized deductions (discussed below), and higher exemption and phase-out amounts.

## Personal Exemption

The personal exemption of $4,050 has been eliminated.

## Standard deduction

The standard deduction was increased from $6,350 to $12,000 for individuals, $24,000 for joint filers. This will decrease the number of taxpayers who qualify for itemizing their deductions (although most taxpayers who have mortgages will still be itemizing).

## Child Tax Credit

The credit has doubled from $1,000 to $2,000, and the phase-out threshold increased significantly so more families will qualify.

## Deductible expenses

There have been limitations and eliminations of various deductions including state/local/property taxes, mortgage interest, investment management fees and tax preparation fees. These limitations and eliminations, along with the higher standard deductions, will push many taxpayers into taking the Standard Deduction.

- A maximum deduction of $10,000 per year will be allowed for state and local income taxes, sales taxes and property taxes combined.
- Mortgage interest on home acquisition debt acquired after December 15, 2017 will be limited to a $750,000 loan balance (down from $1,000,000). Interest on home equity loans is no longer deductible with the exception of amounts used to buy, build, or substantially improve the home.
- Miscellaneous itemized deductions previously subject to the 2% threshold have been eliminated completely.

# Income Tax Planning

Generally, individuals should accelerate deductions into 2018 and defer income into 2019 in order to defer taxes. Of course, this could change next year if we see another tax bill, but for 2018 planning, we're going to walk you through the current rules.

## Contribute the maximum to retirement plans for 2018

- Traditional, Roth, or Custodial IRA: $5,500 ($6,500 if you're 50 or older). Note that IRA contribution limits will increase to $6,000 in 2019 ($7,000 if you're 50 or older). Note also that the IRS formally approved the use of a "back-door Roth" where taxpayers may contribute to a traditional IRA and then move that contribution to their Roth IRA.
- SEP-IRA, Qualified Retirement Plans: Lesser of $55,000 or 25 percent of compensation. SEP-IRA contribution limits will increase to $56,000 in 2019.
- 401(k): Salary deferral of $18,500 ($24,000 if you're 50 or older). The salary deferral will increase to $19,000 in 2019 ($25,000 if you're 50 or older) so you should review your 401(k) withholding rates to maximize annual contributions next year.

## Take advantage of the tax benefits of any employer tax benefits offered

Health Spending Accounts (HSA), Flexible Spending Accounts (FSA), and Dependent Care Benefits.

## Contribute to education funding plans

Make contributions to 529 education funding plans because they efficiently shelter income on college accounts. We'd be happy to help you set up accounts or determine how much you should add to them. Note that, under federal law, up to $10,000 from 529 plans can be used for education expenses before college. That said, California did not comply with this rule, so gains from 529 plans to fund a private high school, for example, would be taxed by California.

## Utilize education credits

Generate income or capital gains for any college-level children before year-end to utilize non-refundable education credits, if they are available.

## Replace a home equity line of credit with a margin loan

Interest paid on a home equity line of credit is no longer deductible (unless used to substantially improve the home). Investment interest expense is still allowable as a deduction, so it may be tax beneficial to pay off a line of credit and utilize a margin loan on your taxable brokerage account instead. We would be happy to discuss current margin rates available and determine the best loan strategy for your circumstances.

## Social Security benefits for December will increase in 2018 due to inflation

For family members with lower income who are subject to Social Security tax, accelerate income into 2018 to possibly reduce Social Security taxes next year. The limit on earnings subject to Social Security taxes will increase from $128,700 in 2018 to $132,900 in 2019. Note that Social Security benefits for 2019 will increase by 2.8% for inflation.

## Bunch Itemized Deductions into some years

Properly time your state income and real estate taxes (up to $10,000 annually), large charitable contributions, and non-life-threatening medical expenses, possibly saving you taxes if bunched in certain years. Many taxpayers, especially those without mortgages, will no longer be itemizing deductions in a typical year, but by bunching itemized deductions into some years, you may be able to clear the standard deduction amounts to itemize and reduce your taxes. For example, instead of gifting $10,000 annually to a charity, consider gifting $30,000 in one year (for three years' worth of gifts) to hurdle the standard deduction.

## Contribute to a Donor Advised Fund

Establish or add to a Donor Advised Fund (DAF) if you're feeling charitably inclined and your income is high in 2018. We'll be happy to discuss this with you before the end of the year. DAF's allow you to bunch charitable contributions into one tax year (maximizing the charitable deduction) while spreading the distributions to charities over future years.

## Make charitable contributions using appreciated assets

Make your charitable contributions with long term appreciated assets whenever possible, instead of using cash. Giving securities directly to a charity (or Donor Advised Fund) not only avoids capital gains taxes but also helps minimize your Adjusted Gross Income (AGI) which can reduce your overall tax liability.

## Review any vested stock options

Review any vested stock options for year-end tax planning opportunities.

## Maximize the new 20% deduction for qualified business income

The new tax law introduced a provision (IRC Section 199A) that allows certain taxpayers to deduct 20% of qualified business income (QBI) on their tax returns. Business income from sole proprietorships, partnerships, LLCs, and S Corps may qualify for the new deduction. Business owners at higher income levels ($207,500 for individuals, $415,000 for couples) may be limited or restricted from utilizing the deduction, so strategies to reduce taxable income under these thresholds may be appropriate.

## Roth IRA conversion

Consider converting a traditional IRA to a Roth IRA, if your income is lower this year, to benefit from a lower tax rate.

## Planning to move out of state?

If you're moving out of state, plan the timing of certain transactions around your move date to be the most tax advantageous.

## Make Qualified Charitable Distributions (QCDs) from your IRA

By making distributions of up to $100,000 directly from your IRA to a charity, you avoid including the IRA distribution in your income. This helps to reduce your AGI which is used in many limitations, lowering your taxes and sometimes, if applicable, Medicare premiums.

## Pay investment management fees for IRAs out of IRAs

Since investment management fees are no longer tax deductible for Federal purposes, fees for IRAs should be paid from IRA assets as these assets are pre-tax assets. Note that Vista adjusted its procedures for our client accounts because of this at the beginning of 2018.

# Estate and Gift Taxes

Here are some planning considerations for estate and gift taxes:

## Gift up to a total of $15,000 gift tax free to each of your loved ones in 2018 using the annual gift tax exclusion

If you are making gifts with your spouse, you can gift up to $30,000 per recipient by combining your exclusions.

## Consider utilizing your lifetime gift and estate tax exemption

Your lifetime gift and estate tax exemption is $11.18 million per person in 2018 under the new tax law. The lifetime gift and estate tax exemption is scheduled to revert back to half of the current exemption amount (adjusted for inflation) in 2025.

## Does your net worth exceeds the lifetime gift and estate tax exemption?

If your net worth exceeds the lifetime gift and estate tax exemption, we would be happy to discuss more advanced tax planning strategies applicable to your specific situation.

# Some Important Dates

Please be sure to plan early and keep us informed because our custodians (Schwab and TD Ameritrade) may have earlier deadlines than those stated below for some of these actions.

## December 24-25, 2018:

- Vista offices will be closed for the holidays.

## December 31, 2018:

- Deadline to take Required Minimum Distributions from IRAs if you're over 70 ½. If you turned 70 ½ in 2018, we should discuss your choices. We're currently reviewing all accounts carefully to make sure that all of our clients are in compliance.
- Complete gifts to individuals for 2018, including 529 plan contributions. The maximum exclusion this year is $15,000 per gift, per person.
- Complete charitable donations for 2018.
- Open new qualified retirement plan accounts for business owners.

## January 1, 2019:

- Vista offices will be closed for the New Year's holiday.

## January 15, 2019:

- Fourth quarter 2018 estimated taxes are due.

## April 15, 2019:

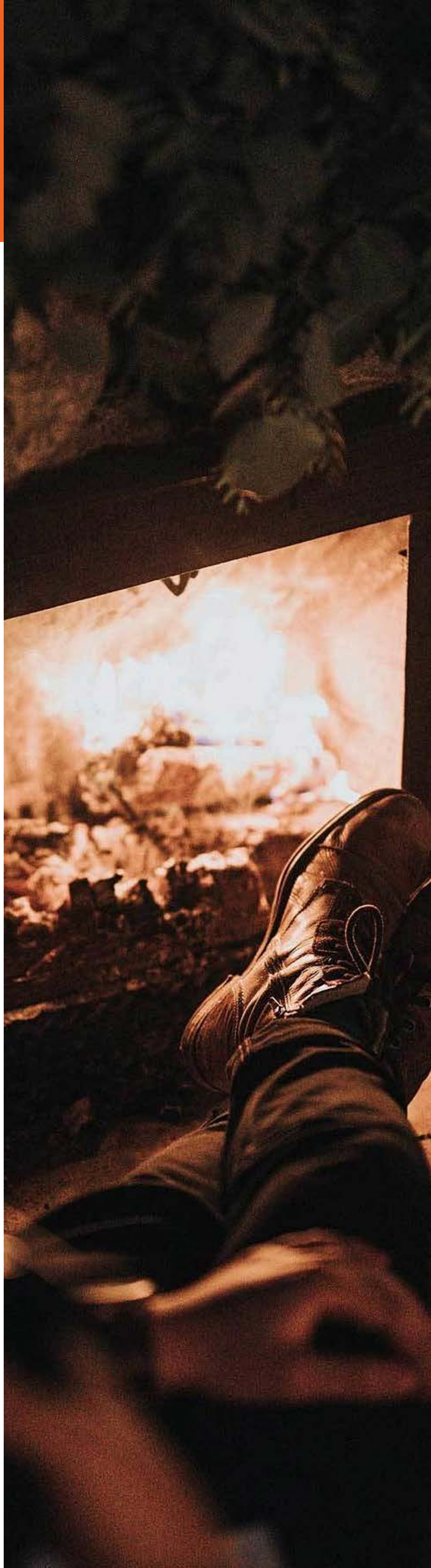
- 2018 Tax Filing Deadline.
- IRA contributions are due.
- Note: SEP-IRA contributions can be deposited later than April 15th, if the related tax return is extended.
- If any excess contributions were made to IRA or 401(k) plans, these contributions should be withdrawn to avoid excise penalties.

# Thanks

Serving your investment and financial planning needs is our highest priority, and this letter offers just a sample of year-end opportunities. We hope it spurs some ideas and perhaps a conversation about how we can assist you in minimizing taxes and preserving your wealth. As always, please discuss any tax or other financial planning ideas thoroughly with us as well as your other advisors before taking action.

We welcome any questions or comments you may have and we send you and your family our warmest wishes for a healthy and prosperous 2019.

## Your Vista Wealth Management Team



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