vista

Year-end Planning 2019

Looking Back on 2019

As 2019 draws to a close, there is still time to reduce your 2019 tax bill and plan ahead for 2020. 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.

Income Tax Planning

Generally, individuals should accelerate deductions into 2019 and defer income into 2020 in order to defer taxes.

Here are some planning ideas to consider:

Qualified Opportunity Zones:

Taxpayers may defer tax on capital gains by making an appropriate investment in a Qualified Opportunity Zone within 180 days. The portions of those deferred capital gains reinvested into a Qualified Opportunity fund are eligible for potentially two partial basis increases after five and seven years, and if the investment is held for at least ten years, all the gains of the Qualified Opportunity fund itself are not taxable. If you recognized significant capital gains recently or are expecting to recognize significant capital gains in the near future, contact your advisory team for further information on this strategy.

Review any vested stock options

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

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 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.

Buying or selling a home or Converting a residence to a rental

Whether buying or selling a home, there can be a number of items to think about from a tax planning perspective. This can range from a discussion to make sure your home is correctly structured to maximize the amount of deductible home mortgage interest you will be able to deduct, to optimizing taxes around the sale of a home. If you're converting a personal residence to a rental property, there may be ways to ensure maximum depreciation while reducing loss limitations if and when you sell the property.

Passive losses, at-risk losses, and "excess business losses"

If you have significant carryforwards of passive losses (from passive activities) or "at-risk losses" (generally from forms K-1 of partnerships or LLCs), reviewing them at the end of each year may reveal methods to maximize their tax benefit this year or in future years. In addition, business owners should review the new rules for "excess business losses".

Income shifting to children

For investments producing significant income, consider making a gift of a partial interest to a child or loved one who is consistently in a lower tax bracket. This can be an easy way to reduce the income taxes paid by the family unit as a whole.

Funding an IRA and converting it to a Roth

Since the ability to contribute to a Roth IRA is so limited, one way is through a "back-door Roth". This is accomplished by contributing the annual maximum (currently $6,000) to a nondeductible IRA and then converting it to a Roth IRA shortly after.

Roth IRA gifting for any children with wages

The compound growth from adding just a few additional years of compounding to a retirement account can be large. As such, for any children who have earned income (W2 or self-employment income), consider making a gift directly to an IRA or Roth IRA on their behalf. This gift, which will use up $6,000 of your annual gift exclusion, will also start your child's planning for the future.

Self-Employment Income and Retirement Plans:

If you have significant self-employment income or a closely held business, consider which retirement plan to use. Cash balance or defined benefit plans allow contributions (and therefore a tax deduction for the amount contributed) of up to $225,000 and 401(k) plans allow contributions up to $56,000 for 2019. While these plans don't have to be funded until September 2020, they do have to be setup before the end of 2019 to be valid for 2019.

Self-Employment Income:

If you have self-employment income from any source, you may want to discuss your situation and income with us before year-end. There are a number of helpful provisions ranging from increased "bonus depreciation" and "Section 179 deduction" amounts to rules related to the purchase of cars. Many with self-employment income are also cash-basis taxpayers and can prepay some expenses to reduce their self-employment income, saving on both income taxes and self-employment taxes.

Repairs vs Capital Improvements:

The rules related to repairs vs capital improvements changed dramatically about five years ago, but many are unfamiliar with them. Anyone making significant repairs on rental properties or who have large amounts of fixed assets or equipment should consider these rules to maximize the amounts that may be expensed rather than depreciated over time. Simple changes like the percentage amount of the repairs or property replaced in one year can influence the tax calculation.

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 2019. 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.

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.

Contribute the maximum to retirement plans for 2019

- Traditional, Roth, or Custodial IRA: $6,000 ($7,000 if you're 50 or older). Note that IRA contribution limits will be the same in 2020.
- SEP-IRA, Qualified Retirement Plans: Lesser of $56,000 or 25 percent of compensation. SEP-IRA contribution limits will increase to $57,000 in 2020.
- 401(k): Salary deferral of $19,000 ($24,000 if you're 50 or older). The salary deferral will increase to $19,500 in 2020 ($26,000 if you're 50 or older) so you should review your 401(k) withholding rates to maximize annual contributions next year.

Consider any employer tax benefits offered

Deferred Compensation, 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 has not complied 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 and taxes will increase

For taxpayers with lower income who are subject to Social Security tax, accelerate income into 2019 to possibly reduce Social Security taxes next year. The limit on earnings subject to Social Security taxes will increase from $132,900 in 2019 to $137,700 in 2020. Note that Social Security benefits for December (which are paid in January) will increase by 1.6% in 2020 for inflation.

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 for certain types of businesses ($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. Additionally, significant planning can exist where QBI is limited due to the wage or wage and unadjusted basis limitation. There are two specific limitations on QBI and both of these can be increased before year-end with careful planning if needed.

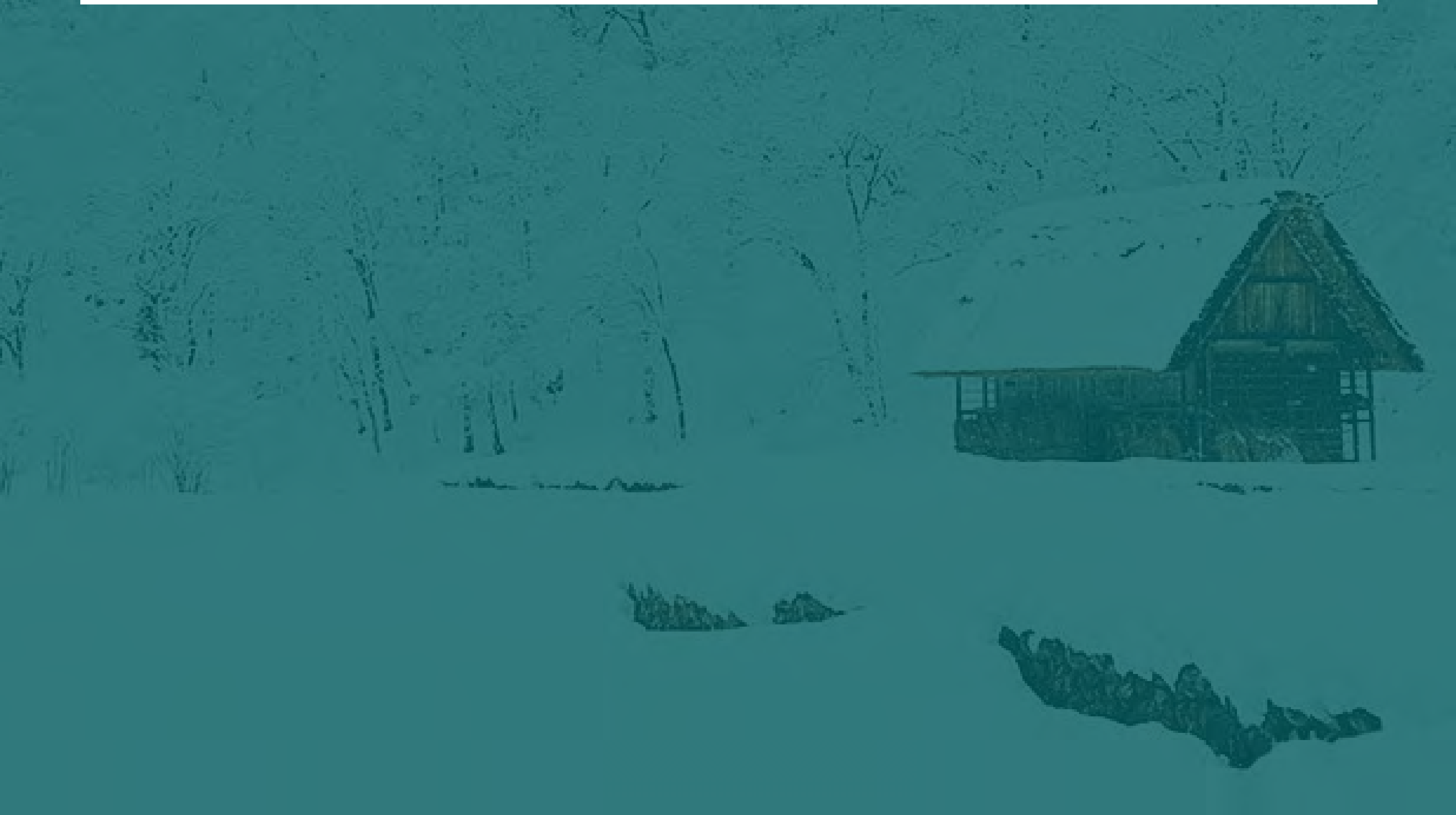
Estate and Gift Taxes

Here are some planning considerations for estate and gift taxes:

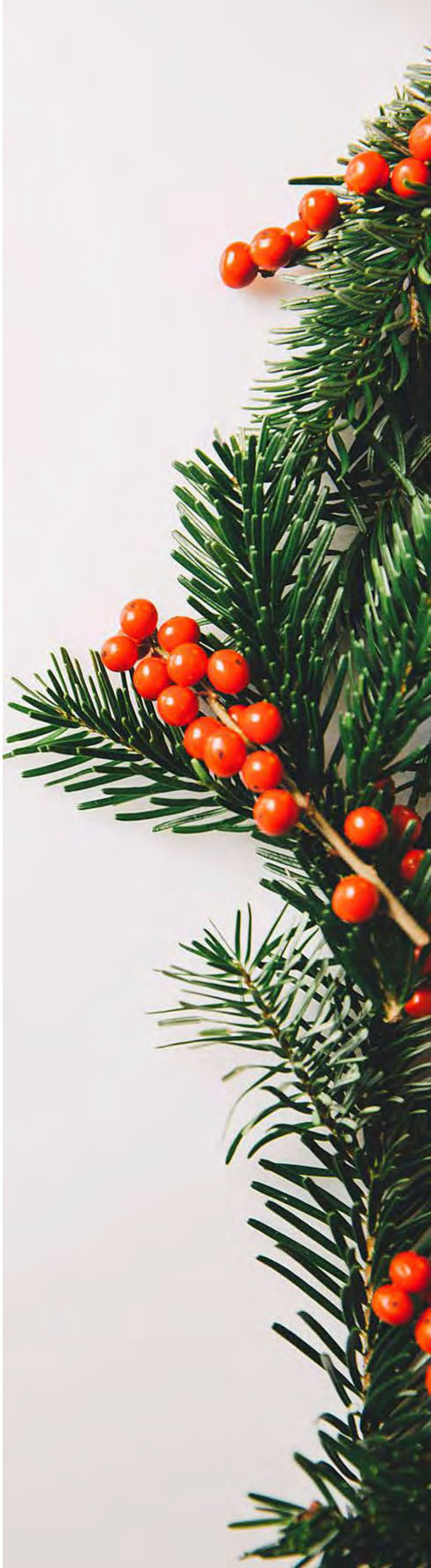
Gift up to a total of $15,000 gift-tax free to each of your loved ones in 2019 using the annual gift tax exclusion. If you are making gifts with your spouse, you can gift up to $30,000 per recipient by combining your exclusions.

Consider utilizing your lifetime gift and estate tax exemption, which is $11.4 million per person in 2019. The lifetime gift and estate tax exemption is scheduled to revert back to half of the current exemption amount (adjusted for inflation) in 2025.

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



December 24-25, 2019:

- 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 2019, including 529 plan contributions. The maximum gift exclusion this year is $15,000 per gift, per person.
- Complete charitable donations for 2019.
- Open new qualified retirement plan accounts for business owners.

January 1, 2020:

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

January 15, 2020:

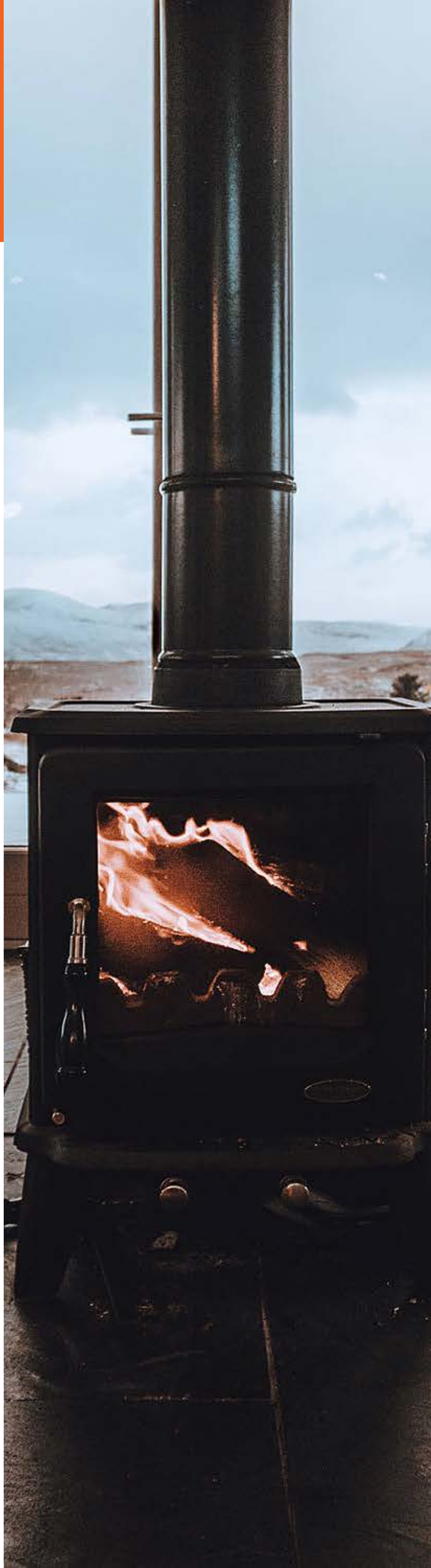
- Fourth quarter 2019 estimated taxes are due.

April 15, 2020:

- 2019 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 2020.

Happy Holiday,

Your Vista Wealth Management Team

Important Disclosure Information

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Vista Wealth Management Group, LLC ("Vista"), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Vista. Please remember to contact Vista, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Please also advise us if you have not been receiving monthly statements from the account custodian. Vista is neither a law firm nor a certified public accounting firm and no portion of the commentary content should be construed as legal or accounting advice. A copy of the Vista's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request.