TAX PLANNING INSIGHTS

Year-End 2019

dunlapSLK
Certified Public Accountants & Business Advisors

Dear Clients and Friends,

For many people, 2019 is a year of reaction — especially after experiencing how major tax law changes factored into 2018 tax returns. Fortunately, you can take a proactive approach to the balance of 2019 and 2020 by combining your newfound awareness with careful tax planning.

In this Tax Planning Insights newsletter you'll find a list of time-tested tax strategies to help ensure your 2019 tax filing is efficient as possible. There are also a handful of valuable capital gains tax-cutting moves, and alternative gift-giving ideas to consider as you head into the holidays.

Call today to schedule an appointment to discuss any last-minute tax moves to minimize your taxes for 2019. Then let's connect when you're ready to have your tax return prepared.

As always, feel free to share this newsletter with friends and associates who are interested in making effective tax moves.

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Make these tax moves before 2019 ends

Despite past, present and future changes to the tax rules, some year-end tax-planning advice remains unwavering. Here are a few time-tested strategies to consider:

■ **Maximize retirement plan contributions.** You've heard this advice many times, because it's one of the best strategies for saving tax dollars, especially when wages are your primary source of income.

The maximum contribution to a 401(k) for 2019 is $19,000. You can increase that by an additional $6,000 if you're 50 or older. For SIMPLE plans, the maximum 2019 contribution is $13,000, and the catch-up amount is $3,000.

Can't manage the entire amount? Try to contribute enough to take full advantage of any matching contributions offered by your employer.

■ **Time itemized deductions.** Amounts you pay for medical fees, property taxes and mortgage interest are deductible in the year you pay them. However, some expenses must exceed a percentage of your adjusted gross income (AGI) before you receive any tax benefit. For example, out-of-pocket medical costs have to be greater than 10 percent of your AGI for 2019.

Have less than you need to itemize? Consider accelerating or postponing expenses when possible to shift the deductions into the current or future year, depending on which year gives you the bigger tax break.

■ **Make the most of charitable donations.** Payroll contribution programs and checks written and mailed to your chosen charity before year-end can get you a tax deduction, as can credit card charges made by Dec. 31.

Donating appreciated stock owned for more than one year is a charitable tax-saver that gives you an itemized deduction for the fair market value of the stock while letting you avoid the capital gains tax generated by a sale.

Keep in mind that you have to itemize to claim charitable contributions, and you must have written documentation of your donation.

> If you're required to take distributions from your retirement plan, do so by Dec. 31.

■ **Take your required minimum distribution.** If you're required to take distributions from your retirement plan, do so by Dec. 31 or you face a 50 percent penalty. If you just turned 70½ this year, you could wait until April 1, 2020, to take a first distribution.

Give us a call to discuss these tax tips and other ways you can save. ❑

Tame your capital gains tax bite

A cornerstone of smart tax planning is managing your purchases and sales of property year-round. And a key component of this activity is knowing that the resulting sale of a home, stock or collectible creates a taxable gain or loss with varying tax implications. The savvy taxpayer understands that the correct capital gain approach can save plenty of money. Here are six capital gain tax-cutting opportunities to consider throughout the year:

1. **Take advantage of lower long-term capital gains rates.** Assets sold that were held for more than one year benefit from advantaged tax rates. Instead of paying ordinary tax rates as high as 37 percent, you get at lower rate of zero to 20 percent, depending on your income. When selling an asset, first check when it was purchased to see if waiting a little will push it over the one-year mark.

2. **Wisely harvest short-term losses.** Since capital gains are taxed at different rates, the IRS requires that capital losses are first applied to any losses from the same category. For instance, long-term losses are initially netted against long-term gains. Any excess losses can then be applied to short-term gains and up to $3,000 of ordinary income. Take advantage of this rule by trying to match any losses against short-term gains and ordinary income whenever possible.

3. **Watch out for the special collectibles tax rate.** Selling certain items worth collecting can get taxed at an even higher rate of 28 percent. Some examples include valuable paintings, trading cards or rare coins. If you plan to sell a collectible item, first track your basis (original price plus fees you paid for the item) to ensure an accurate gain amount can be calculated. Next, check your marginal tax rate. If it's lower than 28 percent, selling an unwanted collectible before you've owned it for one year can result in a smaller tax bite.

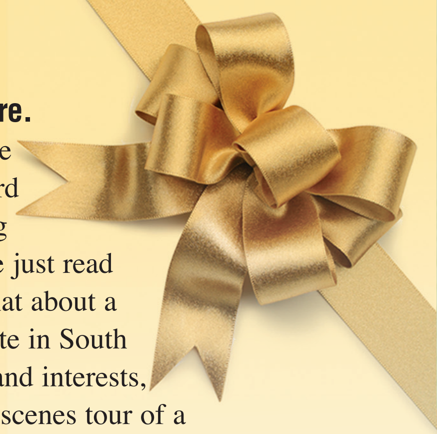
4. **Treat cryptocurrency as an investment.** The IRS does. Every exchange of cryptocurrency like Bitcoin has a component of gain or loss that must be tracked. This includes using the cryptocurrency to buy something or just the act of trading the currency on an exchange. All these transactions need to be reported on your tax return and recorded as a capital gain or loss.

5. **Know the primary residence capital gain exclusion.** One of the best tax breaks going is the $250,000 ($500,000 if married) primary residence gain exclusion. But misunderstanding the rules can cost you. It is especially important to understand the length of time you have owned the property and when your property can be treated as your primary residence. Other situations that can cause trouble are going from two homes to one (often experienced by newlyweds) or selling a home after a divorce.

6. **Leverage gains with charitable giving.** Finally, consider donating property with a long-term capital gain to a qualified charity. If the donation meets certain rules, not only will you avoid paying capital gain taxes, you will receive a tax deduction equal to the higher fair market value of the property donated.

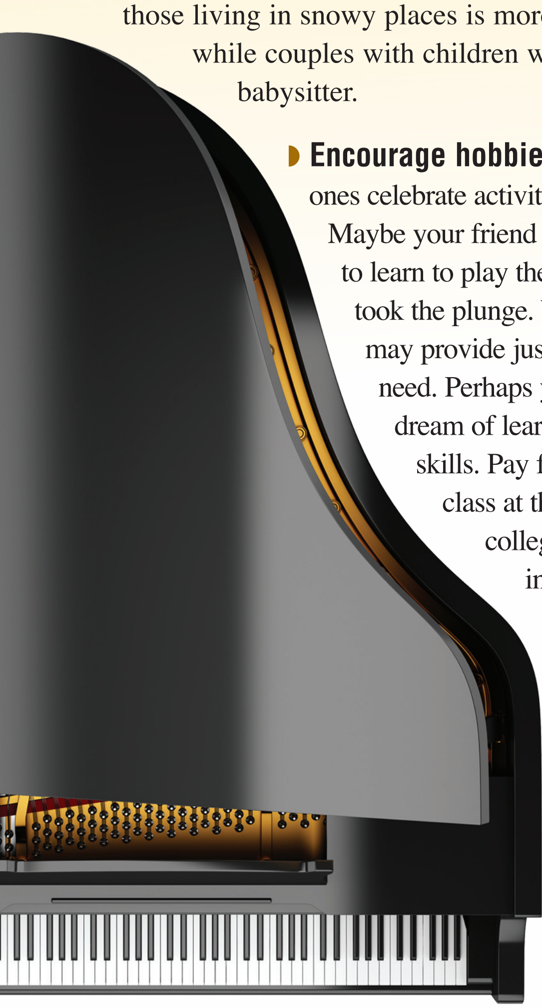
With so many rules and constantly moving pieces, it's important to consider the tax consequences with every investment or property transaction. This is an exercise the savvy taxpayer is conducting throughout the year. Please feel free to call with any questions regarding your situation. ❑

Rethink holiday gift-giving



Finding the right gift for someone you love isn't the easiest task. This season, help your loved ones find true joy with a different kind of gift-giving strategy that doesn't rely on gift cards or sweaters destined for the back of the closet. The following ideas never go out of style and will likely mean a lot more to friends and loved ones in the long run:

- **Give time.** Sometimes the most valuable gift you can give someone is a break from a hectic life. This might mean offering a weekly or monthly housekeeping service, or making some home-cooked meals and delivering them. The gift of a shoveled driveway for those living in snowy places is more than appreciated, while couples with children will relish a reliable babysitter.



- **Encourage hobbies.** Help your loved ones celebrate activities they enjoy. Maybe your friend has always wanted to learn to play the piano, but never took the plunge. Your gift of lessons may provide just the incentive they need. Perhaps your brother has a dream of learning woodworking skills. Pay for him to audit a class at the local community college. If you're skilled in an area — playing an instrument, growing a garden, making pottery — offer to teach that skill to a family member or friend. Gifts like these keep on giving.

- **Spark the spirit of adventure.** Some of the best gifts can't be wrapped. What have you heard your kids or grandkids talking about lately? Maybe someone just read about woolly mammoths. What about a road trip to The Mammoth Site in South Dakota? Depending on ages and interests, you might offer a behind-the-scenes tour of a museum, television studio or local manufacturing facility. Chances are your loved ones will want to share their adventure with you, too!

- **Make learning possible.** Setting up a 529 plan for your grandchildren can be a meaningful way to invest in their futures. And with recent tax law changes, you can use 529 funds toward K-12 tuition, trade schools and graduate classes. Of course, money placed in a 529 plan also provides substantial tax benefits.

- **Offer a look into the past.** Many people find their curiosity piqued by family history. Offer your loved ones a chance to connect with the past by researching and collating old newspaper and magazine articles from the places where your ancestors grew up. If you're fortunate enough to possess diaries or journals written by parents or grandparents, consider using speech recognition software to convert them to searchable documents. You might not be the family historian, but most families have one or more relatives who enjoy history. Enlist their help to create a family tree, then give framed copies to your loved ones.

- **Inspire giving.** Consider giving monetary donations as a gift to a loved one for them to give to charities they've researched and want to support. You could also go shopping with them to pick out and buy items to give to disadvantaged people in the community and around the world. When you go shopping for the holidays, ask a loved one to come and choose food items for a holiday meal to be dropped off at the local food pantry.

Gift-giving strategies like these can transform attitudes and help reinforce the gift of giving beyond simply purchasing more stuff. ❑