IT'S YOUR LIFE

Year-end Tax Planning

Now that we've lived under the Tax Cuts and Jobs Act (TCJA) for several years, let's look at what we've learned about how to take full advantage of its provisions. Here are some moves to consider:

Itemized Deductions - Because of the increased standard deduction ($12,550 single and $25,100 married filing jointly), and the $10,000 deduction limitation on combined local and state income taxes, many individuals are no longer able to itemize deductions. Consider bunching your deductions. This would involve making two years of charitable contributions in one calendar year, or delaying elective medical expenses into one year to put you over the threshold in one year, and taking the standard deduction in the next.

If you are over the age of 72, you may elect to have some or all of your required minimum distributions from qualified retirement plans be paid directly to a charity. This reduces your taxable income dollar for dollar. You can also consider a Donor Advised Fund (DAF). This allows you to take a large charitable deduction and spread the distribution of the gifts to charities over a number of years. You should consult your tax advisor for more information about this type of plan.

Accelerate Above-the-Line Deductions - You can maximize your contributions to an IRA or Health Savings Account (HSA), health insurance premiums for self-employed individuals, and qualified student loan interest. These are not itemized deductions. They are subtracted from income in determining your adjusted gross income.

Loss Harvesting Against Capital Gains - If, before the end of the year, you sell investments that have underperformed, you can use the losses to offset capital gains, up to $3000. Unused losses can be carried forward to offset gains in future years.

Sell capital assets - Long-term capital gains are taxed at 0, 15, or 20 percent, depending on your taxable income and filing status. Since these rates are historically low and could go up, now might be the time to sell some capital assets, especially if you would be in the 0 percent bracket.

Roth IRAs and Roth Conversions - If you anticipate that income tax rates will increase, now might be the time to consider contributing to a Roth IRA, or converting an existing IRA to a Roth IRA. Contributions to a Roth IRA will be with after-tax money. Or if you convert to a Roth, you will pay tax on the converted amount, but all future growth and distributions from the Roth IRA will be tax-free, assuming you meet the Roth requirements.

Deferring Income and Accelerating Expenses - This has been a traditional method of reducing taxes for the current year. However, we are at very low tax rate presently. If you think tax rates are going to increase, you may want to reverse this. If you push income into later years, it may end up being taxed at a higher rate than if you took the income now.

With all the other things on your plate as a business owner, individual tax planning can be overlooked. There is still time to do some year-end planning that can have a significant impact on the taxes you pay this year and in the future. When considering any of the strategies above, you should consult with your tax specialist. They know your situation best and may have a better read on what the future of taxation holds.

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