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December - 2019 Edition – Tax Planning Letter

Dear clients and friends,

If you're interested in minimizing your tax obligations and maximizing your savings, consider the helpful tips and ideas you'll find in this newsletter.
Call if you would like to discuss how any of this information relates to you. If you know someone that can benefit from this newsletter, feel free to send it to them.

Tame Your Capital Gains Tax Bite

A cornerstone of smart tax planning is year-round management of your property sales and purchases. 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.** Certain items worth collecting can get taxed at an even higher rate of 28 percent when you sell them. 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.

4 Tax Moves to Make 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:

1. **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.

2. **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.

3. **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.

4. **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.

Your Tax Season To-Do List

With tax filing just around the corner, now is a great time to organize your thoughts and records to make the filing process easier. Here are some ideas:

- **Create an April 15 reminder.** It's the deadline for filing your 2019 individual income tax return, completing gift tax returns, making contributions to a Roth or traditional IRA for 2019, and for paying the first installment of 2020 individual estimated taxes.

- **Gather your tax information for filing.** Items you'll need include W-2s, 1099s and other forms you receive from your employers, brokers, banks and others. If you detect any errors, contact the sender immediately to request a corrected copy.

- **Know business return deadlines.** If you own a business or are in a partnership, the deadline for filing partnership and S corporation returns is March 16. Calendar-year C corporation tax returns are due by April 15. Six-month extensions can be requested for partnerships and corporations.

- **Keep great donation records.** Here's what you need to deduct your donations: Cash contributions under $250 require a bank record like a canceled check, credit card record or a receipt from the charity. For larger donations, a receipt from the charity must be obtained before filing your return. Donations of property should include a photo, a receipt from the charity and a detailed listing of the items donated that are in good or better condition.

- **Review your child's income.** Your child may be required to file a 2019 income tax return, too. Generally, a 2019 return is required if your child has earned more than $12,200, or has investment income (such as dividends, interest, or capital gains) over $1,100. If your child had both earned and investment income, other thresholds apply.

- **Contribute to your IRA.** There's still time to make 2019 IRA contributions — up to April 15, or until you've contributed the maximum allowed. That's the lesser of your earned income for 2019 or $6,000 ($7,000 if you're 50 or older).

- **Make any final moves.** Remember, you can reduce your income by up to $3,000 of excess capital losses. So plan now to review your investments and make any final moves.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

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Numbers to Remember for 2020

Social Security

- Wage Base- $137,700 – this is the amount of income that social security tax is required to be paid upon

HSA Contribution Limits

- Single: $3,550
- Family: $7,100
- An additional $1,000 contribution can be made for individuals 55 or older

IRA Contribution Limit

- $6,000
- An additional $1,000 "catch-up" contribution can be made for individuals age 50 and over

SIMPLE IRA Contribution Limit

- $13,500
- An additional $3,000 "catch-up" contribution can be made for individuals age 50 and over

401 (k) Contribution Limit

- $19,500
- An additional $6,500 "catch-up" contribution can be made for individuals age 50 and over

Annual Gift Tax Exclusion

- $15,000

Mileage Rates for 2019
Note: the mileage rates for 2020 have not been published

58 cents/mile – standard mileage rate for business use of an automobile

- 20 cents/mile – standard mileage rate for medical
- 14 cents/mile – standard mileage rate for miles driven for charitable purposes

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"Alone we can do so little, together we can do so much." ~ Helen Keller

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