We make giving easier.

TOP Jewish Foundation: 2019 Year-End Tax Planning

Year-end has always been an advantageous time to review certain strategies to reduce overall income tax liability. And now that it has been almost two years since the 2017 Tax Cuts and Jobs Act ("2017 tax act") was enacted, it's important to review some traditional tax planning strategies as well as to determine whether some new techniques could help cut your federal and state tax bills.

Determine Your Tax Bracket

One of the first steps to take is to estimate your 2019 tax bracket. The top bracket this year is 37% for married couples filing jointly with adjusted gross incomes greater than $612,350. The other rates for joint filers are 35% for incomes over 408,200; 32% for incomes over $321,450; 24% for incomes over $168,400; 22% for incomes over $78,950; 12% for incomes over $19,400; and 10% for incomes of $19,400 or less. If you expect to be in the same or lower tax bracket in 2020, it may be beneficial to defer taxable income until next year or reduce this year's taxable income. However, one of the key changes made by the 2017 tax act, the large increase in the standard deduction discussed below, must be factored into any year-end calculations.

***Action Item*: Shift some of your tax burden to a future year. Tried and true strategies for lowering your tax bill include deferring receipt of a bonus payment to 2020, accelerating remaining deductions into this year by prepaying a deductible expense, maximizing contributions to qualified retirement plans, or making larger charitable gifts. Put those saved tax dollars in your pocket rather than the government's.**

Itemize or Standard Deduction?

One of the most significant changes in the 2017 tax act was the dramatic increase in the standard deduction. For 2019, married couples filing jointly can claim a standard deduction of $24,400 ($25,300 for those over age 65). It is estimated that because of this increase, coupled with the $10,000 limitation to the deduction for state and local taxes and the elimination of other deductible items, less than 10% of all taxpayers will be itemizing their deductions for the 2019 tax year.

If you claimed itemized deductions in the past, you may now want to consider "bunching" those deductions into one year in order to exceed the standard deduction amount and claim the standard deduction in other years. Perhaps the easiest itemized deduction to bunch is that for charitable contributions. One way to accomplish this is to combine tax-deductible contributions that would otherwise be given in two or more years into one.

***Action Item*: Make charitable contributions in the "bunching" year to a new or existing donor advised fund ("DAF") offered by TOP Jewish Foundation. Claim the charitable deduction in the year you make the contributions and spread distributions to charities over several years.**

Another 2017 tax act change that increased the annual cap on cash contributions to charity from 50% of adjusted gross income to 60% can make “bunching” even more attractive.

Are you Over 70 ½?

If you are at least 70 ½ years old and are considering donating to charity, it may be more beneficial to make the donation from an individual retirement account. Over the past ten years, many individuals have utilized the IRA charitable rollover to transfer up to $100,000 each year directly from their IRAs to public charities such as the Jewish Federation. Qualified charitable distributions can count against the “required minimum distribution” amount but note that transfers to a DAF, supporting organization, or a private foundation do not qualify. An IRA Charitable Rollover is not deductible, but because it is not included in gross income, the net effect may be the same as it would have been had you made a charitable contribution. As a bonus, you do not have to itemize to get the tax benefit of your gift, so you can still claim the higher standard deduction under the 2017 tax act.

***Action Item:* Use your IRA Charitable Rollover to establish an endowment fund at TOP to support a charitable cause of your passion.**

Investment Assets

2019 continues to be another good year for the stock market and other investment assets. As year-end approaches, it is an opportune time to review your investment portfolio and consider timing the recognition of capital gains and losses for assets held long-term - more than one year - and short-term. The top income tax rate on long-term capital gains remains at 20%. (a 3.8% tax on net investment income could also apply). Part of your capital asset review could be consideration of a gift of appreciated securities to charities. You can avoid paying any capital gains tax on the value of securities transferred to TOP, and you may be able to receive a charitable contribution deduction for the full fair market value of the securities at the time of the gift.

Action Item: ***Consider gifting appreciated stock held for more than one year. They are fully deductible up to 30% of adjusted gross income and any excess can generally be carried forward and be deductible for up to an additional five years.***

Action Item: ***Donate appreciated stock, to establish a DAF or add to an existing DAF at TOP. It is an excellent way to maximize tax savings from such gifts and retain the privilege of making grant recommendations in the future.***

Action Item: ***Sell depreciated stock, recognize the tax loss and then give the proceeds to charity.***

TOP Jewish Foundation endowment professionals remain available to work with you and your other professional advisors to maximize the benefits of these and other tax planning strategies for you and the Jewish community.

For more information, contact Ellen Weiss at 813-769-4785 or ellen@topjewishfoundation.org.

This letter is for informational purposes only and should not be construed as legal, tax or financial advice. When considering gift planning strategies, you should always consult with your own legal and tax advisors.