The new tax environment creates even more reasons to start your planning early.

2018 year-end planning ideas

When it comes to tax planning, procrastination can be costly; the deadline for implementing most investment-related strategies to potentially help reduce your tax bill for this year is December 31, 2018.

We have assembled a number of valuable tips you may be able to implement before the year ends to help reduce the amount you send the IRS and improve your overall financial picture.

Tax reform considerations

At press time, we are approaching almost a full year since Congress passed sweeping tax law changes. We are still waiting for the IRS to issue additional guidance for some of these complex changes to better understand the real impact of the new laws.

Here are some highlights of these new tax laws that apply to individual taxpayers:

- New top tax rate of 37% (reduced from 39.6%)
- Larger standard deduction, $24,000 (joint) or $12,000 (single)
- State and local tax deduction limited to $10,000
- Mortgage interest deduction allowed on new acquisition or home improvement loan balances up to $750,000 (reduced from $1,000,000), applies to debt incurred after December 15, 2017
- Mortgage interest deduction is no longer allowed on loans used for something other than to buy, build, or improve a qualified home
- 2% miscellaneous itemized deductions, which include investment advisory fees, are no longer deductible
- New deduction created for owners of pass-through businesses (partnerships, S corporations, limited liability companies, and sole proprietorships) of up to 20% of qualified business income subject to certain exceptions.

As year-end approaches and you start thinking about coming years too, estimate your income and deductions so you may make informed decisions. Here are some tax planning questions to consider that may help reduce your tax bill in the new tax environment.

- Should you defer or accelerate income such as compensation, gain from sale of property or business, etc.?
- Should you defer or accelerate itemized deductions such as medical or charitable?
- Is your business entity still the best choice under the new tax laws?
- Would there be added benefits for your business to having employees rather than independent contractors, to purchasing equipment rather than leasing it, or for separating certain business activities into separate entities? These items may impact your eligibility for the new deduction for qualified business income.
- Claiming accelerated deductions for equipment purchases may reduce your taxable income today, but how does it impact the use of other deductions under the new tax laws?

Looking forward, Congress is considering additional tax reform on the following topics:

- making recent tax law changes permanent
- providing additional tax benefits related to health care
- changing certain retirement plan rules
- expanding the definition of qualified expenses for 529 plan distributions

With this increased activity in tax legislation, it will be important to communicate throughout the year with your tax and legal advisors as well as your financial advisor in order to be prepared to take advantage of whatever opportunities may arise.

Portfolio review

Capital losses may offset capital gains:

- Include year-end, long-term capital gain distributions from mutual funds when estimating your 2018 gains.
- Determine if you can take advantage of the 0% long-term capital gain tax rate.
- Sell by year-end to realize losses. If you want to repurchase the position, talk with your Financial Advisor about strategies that may help avoid a wash sale (the purchase of a "substantially identical" security within 30 days). Wash sales reduce the amount of loss you are able to claim in the current tax year. Also, pay attention to potential dividend or capital gain distribution reinvestment that could create a wash sale.
- Review portfolio periodically throughout the year. Do not wait until the end of the year to harvest any capital losses.
- The last day to double up your position (purchase replacement shares ahead of the sale establishing the loss) and still claim a 2018 tax loss (without triggering a wash sale) is Friday, November 30, 2018.
- If your capital losses exceed your capital gains, you may use up to $3,000 to reduce other types of taxable income each year and carryover the remainder.

Ask your Financial Advisor for a copy of our "Managing Capital Gains and Losses" report.

Charitable gifts

Give gifts to help increase deductions:

- Generally, contributions to charities must arrive by calendar year-end.
- For gift fund contributions, the account must be open and deposit completed before calendar year-end to qualify as a 2018 gift.
- For 2018, the standard deduction amounts have increased causing the threshold for itemizing your deductions to increase as well. If your itemized deductions are less than the standard deduction, your charitable contributions are not deductible. Evaluate bunching a couple years worth of charitable contributions into the current year. This may increase your itemized deductions above the standard deduction threshold so you can receive a tax benefit for those gifts.
- Evaluate the tax benefits of gifting long-term appreciated stock versus cash.
- If you are age 70 ½ or older, consider the potential benefits of a qualified charitable distribution (QCD). A QCD allows you to gift directly from your IRA up to $100,000 per year to qualifying charities. QCDs count towards satisfying your RMD without the Federal tax consequences of being included in your adjusted gross income (AGI).

Ask your Financial Advisor for a copy of our "Charitable Giving: Basic Tax Rules" flyer and our "What you need to know about qualified charitable distributions" factsheet.

Company stock benefits

Develop a strategy early for managing company stock benefits:

- Exercising incentive stock options (ISOs), nonqualified stock options (NSOs), or restricted stock grants could have significant tax consequences, including alternative minimum tax (AMT) implications.
- For many taxpayers, the reduced tax rates will offer some tax relief. However, the current rates are set to expire at the end of 2025. This may be an opportunity to exercise your options at a lower rate. Review the expiration period on your employer stock options and work with your tax advisor before year-end to develop a tax-efficient, near-term and long-term strategy.

Ask your Financial Advisor for a copy of our "Understanding Employer-Granted Stock Options" report.

Retirement plan accounts

Consider the tax benefits of retirement plan strategies:

- In 2018, you can defer $18,500 ($24,500 if you're age 50 or older) of your compensation by the calendar year-end deadline for many employer-sponsored retirement plan accounts.
- Consider your current and future tax rates, evaluate whether contributions to a Traditional 401(k) or Roth 401(k), if available, will provide more tax benefits.
- If available, consider starting or increasing contributions to your employer's nonqualified deferred compensation (NQDC) plan.
- Evaluate converting a Traditional IRA to a Roth IRA.
- With the passing of the Tax Cuts and Jobs Act of 2017, amounts converted in 2018 or later are irrevocable. You no longer have the ability to Recharacterize (undo) a Roth conversion. The last day to recharacterize a 2017 conversion is/was October 15, 2018.
- If you are working but do not have access to an employer plan, talk with your financial advisor about your IRA contribution options. If self-employed, consider setting up a retirement plan to help reduce your taxable income.

Ask your Financial Advisor for a copy of our "Retirement Plan Contributions At-a-Glance, 2018" and "What You Should Know About Roth IRA Conversions" reports.

Education savings

Save on taxes while saving for education:

- Contributions to Education Savings Accounts (ESAs) or 529 plan accounts can grow tax-deferred.
- 529 plan contributions must be invested with the vendor in time to be reportable on a 2018 account statement to be considered a 2018 contribution for gifting purposes. A limited number of states allow contributions through the tax filing deadline to claim a prior year state tax deduction.
- ESA contributions for 2018 can be made up to April 15, 2019
- 529 or ESA distributions must occur in the same tax year as the payment of qualified education expenses to be eligible for tax-free treatment.
- Qualified expenses for 529 plan purposes now include up to $10,000 per year per beneficiary for tuition for grades K-12.
- For students attending college in the 2019-2020 school year, the financial aid application period opens October 1, 2018. Note this date since early applications typically receive better financial aid offers.
- If you're planning to make some changes to your child's custodial account, estimate your child's income and talk with your tax advisor to understand the impact of the new "kiddie tax" rules.

Ask your Financial Advisor for a copy of our "Saving for College" report.

Ask your Financial Advisor for a copy of our "An Introduction to College Financial Aid" report to learn more.

Understanding the ABLE account

ABLE accounts are tax-advantaged savings accounts for individuals with disabilities (the onset of disability must have occurred before turning age 26). Any person, family member, or friend may contribute to the account, and balances have the potential to grow tax-deferred. In 2018, total contributions up to $15,000 plus a limited amount of earned income are allowed; contributions are not federally tax-deductible, but some states may allow a state income tax deduction. Balances in 529 college savings plans may now be rolled to an ABLE account in an amount up to the annual contribution limit. Also, beginning in 2018, these contributions are eligible for a limited tax credit.

As long as withdrawals are used to pay qualified disability expenses, withdrawals are tax-free. Most importantly, ABLE account balances do not affect eligibility for Medicaid benefits (**Note:** Medicaid pay-back rules may apply upon the beneficiary's demise.) Account balances greater than $100,000 and distributions for housing costs may affect eligibility for SSI benefits.

If you have a family member who may be eligible for ABLE account contributions, talk with your tax and legal advisors to determine if this type of account is suitable for your situation.

Benefits savings accounts

Take advantage of employer-provided tax-advantaged benefit programs:

Talk with your human resources or benefits administrator at your employer.

- Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs) typically require annual re-enrollment.
- Review 2018 out-of-pocket expenses and adjust 2019 contribution amounts accordingly.
- If you have not fully funded your HSA in 2018, you may still be able to do so. Talk with your health plan administrator about your eligibility to make additional contributions.
- Generally, FSA funds must be used within the same plan year unless your employer offers a grace period or carryover. If you find yourself with FSA funds near year-end and do not anticipate needing them, see IRS publication 502 for permitted medical expenses, such as first aid kits, bandages, contact lenses and solutions, etc. You may find some qualifying expenses that will help you use up the remaining FSA dollars. Discuss your situation with your tax advisor prior to taking FSA distributions.

Tax payments

Review your withholding and/or quarterly tax payments:

Visit the IRS website or ask your tax advisor for a tax projection to get a better idea of how much you may owe at tax time.

- For employees, review the IRS withholding calculator at irs.gov to determine if you need to make any adjustments to how much money your employer withholds from your paycheck due to the recent tax law changes.
- For business owners, a new deduction of up to 20% of qualified business income may apply. Talk with your tax advisor to determine your eligibility for this deduction and its impact on any remaining estimated tax payments you may need to make.
- Review with your tax advisor the need for adjustments to your state income tax payments as well. Although your tax situation may have improved with the federal tax law changes, not all states are adopting the federal changes.

Take Action: Review these year-end planning activities

Now

- ❑ Ask your Financial Advisor for a realized and unrealized gain/loss report to assess the income and/or capital gains you should expect this year.
- ❑ Review your portfolio with your Financial Advisor to help ensure your allocation still aligns with your goals.
- ❑ Create or add to your education savings program.
- ❑ Determine whether the 0% capital gains rate will apply to your situation this year.
- ❑ Meet with your tax advisor to prepare preliminary tax projections and evaluate whether to defer income or accelerate expenses.
- ❑ Review tax-loss selling strategies if you have capital gains but wish to keep exposure to a depreciated sector or security. Remember, the last day to double up a position to help avoid a wash sale is November 30, 2018.
- ❑ Determine if any adjustments are needed to tax withholding or estimated payments due to recent tax law changes.

Soon

- ❑ Develop a plan to complete charitable and family member gifts by year-end.
- ❑ If you are on Medicare, review your Medicare Part D choices; the open window for enrolling or changing plans is October 15 to December 7.
- ❑ Consider funding an FSA and/or HSA during your employer's annual benefits enrollment period.
- ❑ If you have children going to college, be sure to file financial aid forms as early as October 1, 2018.
- ❑ Review your beneficiary designations and make any necessary adjustments due to life changes (i.e., marriage, divorce, birth of child/grandchild, death, etc.).
- ❑ Review your insurance coverage to make sure it is adequate for your needs.

Before December 31

- ❑ Make maximum contributions to your employer retirement accounts; if contributing to your IRA, the deadline is April 15, 2019.
- ❑ When selling securities you own, remember the trade date, not the settlement date, determines the year of the sale and recognition of any gain or loss in most situations. Trades executed on or before December 31, 2018 will be taxable events in 2018.
- ❑ Take RMDs if age 70½ or older; discuss with your tax advisor the suitability of qualified charitable distributions (QCDs).
- ❑ If you are paying advisory fees on your IRA accounts, reevaluate whether to have the fees paid from the IRA or from an outside account, since beginning in 2018 advisory fees are no longer deductible.
- ❑ Complete any Roth IRA conversions.
- ❑ Make gifts to individuals or charities. The annual gift tax exclusion amount for 2018 gifts to individuals is $15,000.
- ❑ If you own company-granted stock options, determine whether now is the time to exercise or disqualify them.
- ❑ If you will reach full retirement age for Social Security or plan to retire in 2019, make an appointment to talk with your local Social Security Administration office early in 2019.
- ❑ Take precautions now to avoid tax-related identity theft; ask your Financial Advisor for a copy of our *"Help Avoid Tax-Related Identity Theft"* report.
- ❑ Prepare for filing tax returns by organizing records or receipts for income and expenses.

Not sure where to start? Turn to your advisors today.

Schedule an appointment with your tax professional to discuss your situation and review your 2018 tax projection.

Follow-up with your Financial Advisor to evaluate your portfolio strategies and any investment changes that may help lessen your 2018 tax bill. If it appears you'll be in one of the upper tax brackets, review some of the potential strategies presented in our report, *"Tax Strategies for Higher-Income Taxpayers."*

Go beyond tax planning and create or update your *Envision*® investment plan profile. With an *Envision* plan, you can easily make adjustments to account for tax planning considerations or changes in your life (births, deaths, marriages, divorces, etc.). If you're nearing retirement, your Financial Advisor can also include income projections using the Income Center.

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