EMPYRION™

WEALTH MANAGEMENT

March 28, 2019

Monthly Insight

The Only Constant Is Change — and Taxes: 10 Smart Steps for 2019

This time last year, we were all bracing for the changes in the tax code brought about by the Tax Cuts and Jobs Act of 2017 (TCJA). Now that most of us have filed or will soon file our first returns under the new law, we're starting to see the effects of some of those changes, either on the size of our refunds or the size of the check we'll write to the U.S. Treasury Department.

Many of the deductions and personal exemptions we were accustomed to taking have decreased or disappeared altogether. But we've also received some new benefits. Let's take a look at some things you can start doing now to assure a better outcome when you file your taxes for

2019.

1. Maximize your 401(k) and IRA contributions. The maximum employee/individual contribution limit for both 401(k) plans and IRAs raised by $500 for 2019. For 401(k)s, the maximum has gone from $18,500 to $19,000; for IRAs, it has risen from $5,500 to $6,000. The earlier in the year you start making your larger contribution, the sooner you'll start to benefit from compounding and growth.

2. If you plan to relocate, find a tax-friendly state. This might seem a bit extreme. However, the TCJA greatly scaled back the allowable deduction for state and local taxes (SALT) — so if you're planning to move anyway, it makes a lot of sense to look for a state with a more favorable tax environment. Nine states — Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no state income tax. Since the maximum allowable federal deduction for SALT is now $10,000, you might as well relocate to a low-tax environment.

3. Check your withholding. Because of the near-doubling of the personal exemption under the TCJA (from $6,350 to $12,200 for singles, and from $12,700 to $24,400 for couples) and the lower marginal rates for many taxpayers, your payroll withholding likely needs an adjustment. Your employer may have already taken care of this, but it's worth making sure. If your withholding needs to be tweaked, the earlier in the year you do it, the better.

4. Choose the right business entity. The TCJA established a 20% pass-through deduction of qualified business income for certain entities, including sole proprietorships, partnerships, and S-corporations. If you aren't operating as one of these, check with your legal and tax advisors to see if it makes sense to reorganize.

5. Know your limits on home mortgage interest deductions. The new tax law limits the mortgage interest deduction for new home loans to loan amounts of $750,000 or less (down from $1 million under the previous tax code). If you're shopping at the high end of the market, this is important to remember.

6. Take full advantage of a 529 plan. This isn't exactly a new idea, since 529 plans for tax-favored education funding have been around for a while. But the new law expands the definition of "qualified educational expenses" to include those associated with private K–12 education, not just college. For parents with younger children in private schools, this offers a tax break for tuition and other qualified school expenses, up to $10,000 per plan each year (and you can have more than one plan per child).

7. Ask your employer to reimburse your business expenses. The old law permitted a personal deduction for unreimbursed employee business expenses above 2% of adjusted gross income (AGI). Under the TCJA, this deduction has gone away. If you regularly incur expenses in the course of your employment, ask your employer to reimburse you. The employer deducts the expenses, and the impact on your income and your taxes is zero.

8. Review your estimated tax on non-employee income. If you have self-employment income, investment income, Social Security, or other income not subject to withholding, the taxes due will be affected by the changes in personal exemptions, loss of deductions, and different tax brackets, just as with your payroll income. You may need to pay more or less in estimated taxes in order to avoid either giving the government an interest-free loan or getting hit with a penalty for underpaying on your estimate. Again, the earlier in the year you can get on track, the less pain you'll feel next April.

9. Use a health savings account to offset the loss of the medical expense deduction. Because the new law takes away the deduction for medical expenses above 10% of AGI, some taxpayers will feel an extra pinch. But a health savings account (HSA) could reduce the pain by giving you a tax-advantaged way to fund medical expenses. You can contribute up to $3,500 annually ($7,000 for a family) starting in 2019, and the contributions are tax-deductible. Also, if you're 55 or older, there's an additional $1,000 annual catchup contribution available. You can pay qualified medical expenses from the HSA without incurring any tax liability, and any balances left at the end of the year roll over with no penalty.

10. Consider a Roth conversion. If you have assets in traditional IRAs, you've been enjoying tax-deductible contributions and tax-free growth. But if you now find yourself in a lower tax bracket, converting your traditional IRA to a Roth IRA might make sense. Unlike the traditional IRA, the Roth IRA does not provide a tax deduction for annual contributions. But on the other end, when you begin to withdraw in retirement, the Roth IRA provides tax-free income, also unlike the traditional IRA. And if you don't need the income after age 70, there's no required minimum distribution from the Roth account — also unlike the traditional IRA.

The only tricky part about converting a traditional IRA to a Roth is that you must pay taxes on converted funds in the year of the conversion. If you've got a large balance to convert, that can generate a bigger tax bill. So, you should consult carefully with your tax advisor about the timing and amount of any conversion.

The Roth IRA and its conversion privileges weren't directly affected by the new tax law, but in light of the changed tax status of many taxpayers, Roth conversions are getting a lot more attention lately. And, as with the other ideas presented here, you need to begin planning a Roth conversion early in the year to allow plenty of time for needed changes in withholding or estimated tax payments, in light of the taxes due on the converted amounts.

As we have heard many times, change is the only constant. Sadly, in our current society, taxes seem just as inevitable. But with a little planning, you can find a few silver linings around that cloud the IRS casts over the landscape every year, about this time.

Stay Diversified, Stay *Your* Course!

KIMBERLY FOSS
President, CFP®, CPWA®

"We understand that every person we serve has distinct values and ambitions — and they each need their own, personalized wealth management plan."