TFC FINANCIAL
The Financial Counselors

FINANCIAL PLANNING UPDATE
December 3, 2019

OUR VIEW

The Medical Expenses deduction in 2019 is limited to unreimbursed medical expenses that exceed 10% of Adjusted Gross Income (AGI), up from 7.5% of AGI in 2017 and 2018.

2019 Year-End Tax Update

The end of 2019 marks the end of the second year of the 2017 Tax Cuts and Jobs Act that went into effect on January 1, 2018. While many of us have already experienced the changes that resulted from new tax law (both positive and negative), we thought it would be beneficial to highlight a few of the changes from 2018 and offer some strategies to consider implementing now, in consultation with your tax advisor, to help minimize your tax burden for this year and next.

We will also review the changes to retirement plan contribution limits for 2020.

Changes from 2018 to 2019:

1. The Medical Expenses deduction in 2019 is limited to unreimbursed qualified medical expenses that exceed 10% of Adjusted Gross Income (AGI), up from 7.5% of AGI in 2017 and 2018.
2. Alimony payments made pursuant to a divorce or separation agreement executed after December 31, 2018 are not deductible from the income of the payor spouse nor are they includible in the income of the recipient spouse as of January 1, 2019. This change generally does not apply to alimony payments made under a divorce or separation agreement executed before December 31, 2018 (with certain exceptions).

Strategies to reduce your tax burden:

Reduce Taxable Income

1. **Maximize retirement plan contributions** and at a minimum take advantage of the maximum employer match. You will benefit by reducing your taxable income by the amount of your pre-tax contribution and will essentially receive "free money" from your employer for your retirement, thereby increasing your overall retirement savings in the process. Note that Traditional & Roth IRA contributions may be made up until the April 15th 2020 tax filing deadline. Sep-IRA and Solo 401(k) contributions may be made up until your tax filing deadline, including extensions; however, Solo 401(k) plans must be set up by December 31st for 2019 contributions. *The table at the end of this article shows the retirement plan contribution amounts for 2019 and 2020.*

2. **Contribute to a Health Savings Account** if you are eligible to do so. The contribution will reduce your taxable income, will grow tax-deferred and may be withdrawn tax-free for qualifying medical expenses. The funds may be used for medical expenses in future years and may be taken for any purpose after age 65 without a penalty, but distributions will be subject to income taxes if not used for qualifying medical expenses.

3. **Harvest losses to offset realized capital gains.** If you have investments that may be sold at a loss, the realized losses can be used to offset realized capital gains from other asset sales (plus $3,000 against ordinary income). Any unused realized losses may be carried forward to future tax years.

For 2019, the Standard Deduction is $12,200 for single filers and $24,400 for couples that are married filing jointly.

4. **Make a Qualified Charitable Distribution (QCD) from your IRA** to one or more qualified charities to satisfy your Required Minimum Distribution ($100,000 maximum) if you are over age 70 ½. The amount of the QCD will not be included in your taxable income for the year, and your charity will benefit as well. This strategy may be used to reduce both your federal and state taxable income and thereby potentially lower your Medicare premiums.

Maximize Itemized Deductions

For 2019, the Standard Deduction is $12,200 for single filers and $24,400 for couples that are married filing jointly.

1. **Use deductible medical, mortgage interest and charitable contributions, as well as State and Local income and real estate taxes (SALT)** which are limited to $10,000, to reach the threshold to itemize. This may be easier for single filers to accomplish than married couples filing jointly since the SALT limitation is the same for both types of filers.

2. **Gift Appreciated Securities to charities, rather than cash.** By gifting appreciated securities, you get an immediate tax deduction for the full market value of the assets while avoiding realizing capital gains on the sale, and the charity receives the full value of the security upon sale because they are exempt from tax.

3. **Gift Appreciated Securities to a Donor-Advised Fund (DAF).** By gifting the asset to a DAF, you receive an immediate tax deduction for making the gift but can take your time and distribute the funds from the DAF to charities of your choice later.

4. **Bunch Charitable Gifts by combining several years' worth of Charitable Gifts into one year,** particularly if taxable income is expected to be higher now than in future years. This will enable you to itemize the deductions for the year in which the gift(s) were made, and can be especially useful if the charitable gifts are made to a Donor-Advised Fund (DAF). That way, the deductions may be taken immediately, but the distributions to charity may be made over several years as you would ordinarily have done.

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Avoid Penalties

1. **Take your Required Minimum Distribution from your retirement plans by December 31st** if you are over age 70 ½. If you fail to do so, you may be subject to a penalty of 50% of the amount you were required to take.
2. **Make quarterly estimated tax payments** if you are not already covered by employer paycheck withholding. Failure to pay in enough will result in penalties. Most filers must pay at least 90 percent of their tax bill during the year to avoid an underpayment penalty. This threshold was lowered to 80 percent for 2018 but has since been raised back up to 90% for 2019. The fourth quarter 2019 estimated tax payments are due by January 15, 2020.

Additional Strategies to Consider

1. **Make Annual Exclusion Gifts before year-end.** An individual may give up to $15,000 per beneficiary to as many individuals as he or she desires, without the necessity of filing a gift tax reporting form and without utilizing any of their lifetime gift and estate exemption amount (currently $11.4 million per individual). Although this strategy does not save current taxes, by moving assets (as well as the future growth of those assets) out of one's estate, it could save estate taxes down the road and is an excellent wealth transfer strategy.

2. **Consider a Roth IRA Conversion if you are in a lower income year.** By converting all or a portion of your IRA account to a Roth IRA, you will pay taxes now on the amount of the conversion, but the assets will grow tax-free going forward and will not be subject to Required Minimum Distributions during your lifetime. This can provide a tax-free asset to leave to your heirs if you do not need it during your lifetime.

The retirement plan contribution limits are changing in 2020 so it is a good idea to update your retirement plan contribution levels for the first payroll period of 2020.

Retirement Plan Contribution Limits:

The retirement plan contribution limits are changing in 2020 so it is a good idea to update your retirement plan contribution levels for the first payroll period of 2020.

Contribution Type	2019 Amount	2020 Amount	Change
401(k)/403(b) Contributions for eligible workers	$19,000	$19,500	$500
401(k) & 403(b) Catch-up Contributions for workers age 50 and over	$6,000	$6,500	$500
Defined Contribution plan maximum from all sources for workers under age 50	$56,000	$57,000	$1,000
Defined Contribution plan maximum from all sources for workers age 50 and over	$62,000	$63,000	$1,000
IRA/Roth IRA Contributions	$6,000	$6,000	$0
IRA/Roth IRA Catch-up Contributions for taxpayers age 50 and over	$1,000	$1,000	$0

As always, please do not hesitate to contact your TFC advisor and your tax advisor with questions or to review how these changes impact your personal situation.

Best regards,

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