Gianno & Freda
Financial Center

It's Not What You Earn, It's What You Keep

2018 Income Tax Planning Under the New Tax Law

Mark Gianno and the staff at the Gianno & Freda Financial Center
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Tax planning under the major income tax law signed on December 27, 2017 is more complex than ever before (so much for tax simplification). **I have returned from participating in last week's American Institute of CPAs Sophisticated Tax Planning for Your Wealthy Clients conference in Washington D.C.** Sharing the perspective of some of the nation's leading tax experts provides insight into both opportunities under the new law and the pitfalls of the failure to properly plan. In this brief letter it is not possible to do justice to the scope of the materials we discussed. However, it is critically important for you to know how the tax law changes affect you, your income taxes and personal finances.

The end of the year presents a unique opportunity to look at your overall personal tax and financial situation. In addition to tax reform, life changes or just working towards your goals may make this an especially important time to review things. Taking what we now know about the new tax law and weaving together all of the other areas of your personal finances are key ways we provide value to you as your trusted adviser. Below are some takeaways from the conference, as well as some planning areas we'd like to help you think through before the year ends.

Most importantly, contact us before year end to ensure you are maximizing your benefits under the new tax law. **The conference participants unanimously agreed on the importance of illustrating tax projections for each client because the new tax law has surprisingly differing impacts on all clients.**

Income Tax Planning –In general, the new tax law reduces income tax rates while broadening the income tax base (much as the last major tax law change did in 1986). The new law increases the likelihood that you will use the standard deduction because it doubles the standard deduction while eliminating Miscellaneous Itemized Deductions and limiting the deduction for state and local taxes. The deduction for personal exemptions is gone. However, child and family credits have increased to offset the loss of the personal exemption for many families. **The new tax law provision for investment in Opportunity Zone Funds provides a tremendous new opportunity to defer, and avoid, capital gains taxes that anyone with capital gains should consider.** Ensure you are implementing traditional tax reduction strategies like maximizing your retirement plan contributions, tax loss harvesting in portfolios and making charitable contributions that can all help reduce current and future tax bills.

Estate Planning – Although federal estate taxes are generally no longer an issue, when did you last examine a flowchart of your current estate plan to visualize what would happen to each of your assets at death? Be sure that your estate planning documents are up to date – not just your will, but also your power of attorney, health care documents, and any trust agreements – and that the beneficiary designations are in line with your desires. If you have recently been through a significant life event such as marriage, divorce or the death of a spouse, this is especially important right now.

Investment Strategy– Recently, we've seen increased market volatility and it may feel uncomfortable. Market declines are a natural part of investing, and understanding the importance of maintaining discipline during these times is imperative. Regular portfolio rebalancing will allow you to maintain the appropriate amount of risk in your portfolio. If you are retired and living off your portfolio, you also want to maintain an appropriate cash reserve to cover living expenses for a certain period of time so that you do not have to sell equities in a down market.

Charitable Giving – There are many ways to be tax efficient when making charitable gifts. For example, donating appreciated stock could make sense in order to avoid paying capital gains taxes. Further, you may want to consider bunching charitable deductions by deferring donations to next year or making your planned 2019 donations ahead of time. If the numbers are large enough, you might even consider a private foundation or donor advised fund for your charitable giving.

Retirement Planning –Not yet retired? Think about your future when working becomes optional. Whether you expect a typical full retirement or a career change to something different, determining an appropriate balance between spending and saving, both now and in the future is important. **There are so many options available for saving for retirement** and we can help you understand which option is best for you.

Cash Flow Planning – Review your 2018 spending and plan ahead for next year. Understanding your cash flow needs is an important aspect of determining if you have sufficient assets to meet your goals. If you are retired, it is particularly important to maintain a tax efficient withdrawal strategy to cover your spending needs. If you have not yet reached age 70.5, it is prudent to ensure you are making tax-efficient withdrawal decisions. If you are over age 70.5 make sure you are taking your required minimum distributions because the penalties are significant if you don't.

Long-term cash flow planning is also important. Do you know the source of your next 10 years of income? Is that source guaranteed? The nature of your expenditures changes as your retirement progresses. We can help you plan for your future cash flow needs.

Risk Management – It is always a good idea to periodically review your insurance coverages in various areas. Recent catastrophic events like hurricanes serve as a powerful reminder to make sure your property insurance coverage is right for your needs. If you are in a Federal disaster area, there are additional steps necessary to recover what you can and explore the tax treatment of casualty losses.

Other areas of risk management that may need to be revisited include life and disability insurance. Review your long-standing life insurance contracts. Do you still have the need for protection you had years ago when you bought the contract? Does it still make sense to make premium payments on older contracts? Life insurance costs have

dropped significantly in recent years. Reviewing those older contracts may provide significant financial benefits.

Education Funding – Funding education costs for children or grandchildren is important to many people. While the increase in college costs have slowed some lately, this is still a major expense for most families. It is important to know the many different ways you can save for education to determine the optimal strategy. Often, funding a 529 plan comes with tax benefits, so making contributions before the end of the year is key. With the new tax law added flexibility of funding k-12 years (set at a $10,000 limit), 529 accounts become even more advantageous.

Elder Planning – There are many financial planning elements to consider as you age and it is important to consider these things before it's too late. Having a plan in place for who will handle your financial affairs, should you suffer cognitive decline, is critical. Making sure your spouse and/or family understands your plans will help reduce future family conflicts and ensure your wishes are considered. Basic documents such as a Durable Power of Attorney, Health Care Proxy and DNR/Organ Donation considerations should regularly be reviewed and updated. Long-term care needs and costs should be addressed long before the need arises. Proper trust planning can protect assets for both the elder in need of care and future generations.

The decisions you make each year with your personal finances will have a lasting impact. We hope this letter has begun to generate some insight to areas of your personal finance that need attention. **We are honored to be your trusted adviser and partner. Please contact us when you are ready to talk through year-end planning.**

Merry Christmas, Happy Hanukkah, Happy Kwanzaa, and best wishes for any celebration we may have missed. We send you our hope for good fortune and good health in 2019. We have an exciting year ahead!