THE 2019 TAX PLANNING GUIDEBOOK

The *Financial Principles Guidebook* is a comprehensive collection of our planners' insights to help you along your pursuit of financial independence.

IN THIS GUIDEBOOK

While we have done a great deal of planning and counseling clients on the new tax laws, now that the 2018 tax season is behind us (unless of course you, or your business, are on extension), we have all gained a bit of clarity on how the Tax Cuts and Jobs Act affects our tax situation. We have prepared this Guidebook as a resource on smart moves we can all make now to ensure that we are in a better position for our 2019 taxes. ***We hope that you find this information valuable. Should you have any questions, please do not hesitate to contact our office. If you have a friend, family member, colleague, or client who may benefit from this Guidebook, please do not hesitate to share it with them*.**

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

What is changing for 2019?

New marginal tax bracket thresholds

Tax Bracket	Single	Married Filing Jointly or Qualifying Widow	Married Filing Separately	Head of Household
10%	$0 to $9,700	$0 to $19,400	$0 to $9,700	$0 to $13,850
12%	$9,701 to $39,475	$19,401 to $78,950	$9,701 to $39,475	$13,851 to $52,850
22%	$39,476 to $84,200	$78,951 to $168,400	$39,476 to $84,200	$52,851 to $84,200
24%	$84,201 to $160,725	$168,401 to $321,450	$84,201 to $160,725	$84,201 to $160,700
32%	$160,726 to $204,100	$321,451 to $408,200	$160,726 to $204,100	$160,701 to $204,100
35%	$204,101 to $510,300	$408,201 to $612,350	$204,101 to $306,175	$204,101 to $510,300
37%	$510,301 or more	$612,351 or more	$306,176 or more	$510,301 or more

Capital gains tax rates

Capital gains on assets held for less than one year are taxed at ordinary income tax rates. Capital gains for assets held for one year, or longer, are taxed at the below preferential rates.

Tax Rate	Single	Married Filing Jointly	Heads of Households
0%	$0 to $39,375	$0 to $78,750	$0 to $52,750
15%	$39,376 to $434,550	$78,751 to $488,850	$52,751 to $461,700
20%	$434,551 or more	$488,851 or more	$461,701 or more

The Standard Deduction will rise slightly

Filing Status	2018	2019
Single	$12,000	$12,200
Married filing jointly	$24,000	$24,400
Head of Household	$18,000	$18,350

Other major Changes Taking Place in 2019

The elimination of the Affordable Care Act (ACA) penalty- the tax penalty for individuals who do not have health insurance will end in 2019.

Medical expenses will become harder to deduct- for 2018, those who itemized their deductions could deduct any medical expenses that exceeded 7.5% of their Adjusted Gross Income (AGI). In 2019, that threshold rises to 10%.

Lifetime gift and estate tax exemption rise- this is scheduled to increase from $11.18 million to $11.4 million, per person. The **annual gift exclusion remains unchanged** at $15,000, per person.

A YEAR OF MIXED EMOTIONS-THINGS TO DO NOW TO GET READY FOR 2019

In 2017, Congress passed a sweeping overhaul of the nation's tax code, the Tax Cuts and Jobs Act (TCJA). The TCJA was met with mixed emotions as certain provisions were applauded by small business owners and middle-class families, while others, such as the cap on the State and Local Tax Deduction (SALT), have scorned homeowners in higher tax states (such as New York, New Jersey, and California).

Despite the hard work and planning that many did at the end of 2017, such as bunching deductions, to get ready for the TCJA, many may have received lower refunds, or even owed taxes for 2018. This is in large part due to the Treasury Department and the IRS underestimating in their 2018 withholding table that employers use to deduct taxes from pay.

With 2018 behind us, here is a list of what we believe are the best tax moves to make sure you are ready for 2019.

ESTIMATE YOUR 2019 TAXES NOW

Begin with the numbers on your 2018 return and change the items that you know will be different. This benchmark gives you a good place to start on your planning.

EXAMINE THE TAX BRACKETS

Review the 2019 tax brackets to see where you may fall this year. If you are near a breakpoint of a tax bracket, some careful planning could save you! Likewise, if you are near the bottom of a tax bracket, a few changes in your income and deductions could drop you into a lower bracket. If you are a retiree, this is especially important as there are breakpoints that could cause more of your Social Security benefits to be included in your income, change your Medicare premium surtax, or cause other hidden taxes to trigger.

REVIEW AND POTENTIALLY ADJUST YOUR WITHHOLDINGS

Even though your employer has likely already taken care of adjustments to your withholdings for 2019, you should review your withholdings with your tax preparer as soon as you complete your 2018 tax return to ensure that you are withholding enough from your paycheck to avoid any unwelcome surprises at tax time next year!

INCREASE YOUR 401(K) CONTRIBUTION

For 2019, the maximum employee contribution has risen by $500 from $18,500 to $19,000. The catchup contribution of an additional $6,000 for those aged 50 and older remains unchanged. If you normally make the maximum contribution, you should adjust the amount that you are contributing as soon as possible to ensure that you make the maximum contribution again this year. If you do not contribute the maximum, it is always a good time to consider increasing your contribution (not only for the tax benefits, but to work towards your retirement goals).

If you are enrolled in another type of employer sponsored retirement plan, be sure to review your contributions and the respective contribution limits. If an employer sponsored retirement plan is not available to you through your job, an IRA contribution is deductible. For 2019, you can contribute the lesser of $6,000, or 100% of income. Those age 50 and older can contribute an additional $1,000.

If a Health Savings Account (HSA) or Flexible Spending Account (FSA) is available to you, consider using it!

The higher standard deduction makes it more difficult to write off medical expenses. An HSA or FSA are great workarounds to not only getting a tax deduction, but potentially pad your retirement savings.

If you are enrolled in a high deductible health plan (HDHP), you are eligible to contribute to an HSA.   With an HSA you can make a tax-deductible contribution up to $3,500 for an individual, or $7,000 for a family. There is also a catchup contribution of $1,000 if you are age 50 or older. Funds in an HSA can be invested, and potentially grow, on a tax-deferred basis (like an IRA). Funds withdrawn for medical expenses are withdrawn tax-free at any time. There is no requirement, however, that you withdraw funds from an HSA when you incur medical expenses. Therefore, you can allow your HSA to continue to grow tax-deferred until retirement. After age 65, you can withdraw funds from an HSA as if it were an IRA!

An FSA is like an HSA, but there are smaller contribution limits and the funds contributed to an FSA must be used during the year (or they are forfeited).

Talk to your tax preparer about bunching!

The higher standard deduction (nearly double), makes it more difficult to itemize your deductions. If your total itemized deductions are close to your standard deduction, you may want to consider bunching your deductions! The practice of bunching involves accelerating, or delaying, deductions to a specific tax year. Under the new tax laws, there is a unique opportunity for many clients who may have itemized deductions that are very close to their standard deduction (especially a couple) to alternate using the standard deduction and itemizing from year to year. By doing so, they could potentially reduce their overall tax burden.

don't forget about the Qualified Charitable Distribution!

If the higher standard deduction kept you from itemizing, but you also give generously to charities, don't forget about the Qualified Charitable Distribution. For clients who are required to take an RMD (Required Minimum Distribution) from their IRA's, you can have all, or a portion, of that RMD sent directly to a charity and you won't be taxed on the distribution! For clients who are unable to itemize their deductions, this will reduce the tax burden for your RMD distributions.

Think creatively about your deductions

Don't forget about less common deductions. For example, if you are redoing your kitchen or bathrooms (or doing other home improvement projects), rather than discarding your old fixtures, cabinets, or appliances, you can donate them and receive a tax deduction.

Other tax law changes that may impact you

The TCJA was a sweeping overhaul of the tax code and has a number of implications for individuals and businesses. If you have any questions as it pertains to your own situation, please do not hesitate to contact our office.

Did you have unreimbursed employee expenses? If so, this provision in the tax code has been eliminated. This impacts a number of professions from traveling salespeople to construction workers and the trades. If you are affected, consider asking your employer to switch to a reimbursed employee business expense plan. By doing so, they can reimburse you after the fact for expenses—they will receive a deduction and the tax impact on you is neutralized.

Are you taking advantage of the expanded opportunities with 529 Plans? Under the previous law, funds from 529 savings plans were only able to be used for qualifying college level costs. Beginning in 2018, up to $10,000 in 529 savings plans could be used to pay for tuition in grades K through 12. If you are saving for private high school, you should consider increasing your contributions to a 529 Plan!

HAVE A TOPIC YOU WANT TO SEE COVERED IN THE GUIDEBOOK?

Call or email your advisor with a suggestion for a topic to be covered in The Guidebook. If we have covered it, we will send you that edition. If we haven't, we will cover it!

HAVE A FRIEND, NEIGHBOR, COWORKER, OR RELATIVE WHO COULD BENEFIT FROM THIS GUIDEBOOK?

Feel free to forward our Guidebook to anyone you feel would benefit from this information. We would be happy to speak with them and answer any questions that they may have.

HIGHTOWER
FINANCIAL PRINCIPLES, LLC

FINANCIAL PRINCIPLES, LLC
A HIGHTOWER WEALTH MANAGEMENT PRACTICE

310 PASSAIC AVENUE, SUITE 203, FAIRFIELD, NJ 07004
505 FIFTH AVENUE, 4TH FLOOR, NEW YORK, NY 10017
973-582-1000
WWW.FINANCIALPRINCIPLES.COM

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

Bradley H. Bofford, CLU®, ChFC®, CFP®
Managing Director, Partner
973-582-1002
bbofford@hightoweradvisors.com

Michael Flower, CFP®
Managing Director, Partner
973-582-1004
mflower@hightoweradvisors.com

Daniel Trout
Partner
973-582-1006
dtrout@hightoweradvisors.com

Steven Gelber, AIF®
Associate Wealth Advisor
973-582-1015
sgelber@hightoweradvisors.com

Andrew Olivier, CFP®
Associate Wealth Advisor
973-582-1005
aolivier@hightoweradvisors.com

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