2019 Year-End Tax and Financial Planning Checklist

With the New Year fast approaching, the opportunity to optimize your 2019 finances ahead of next year's tax filing is upon us. Here are six areas where thoughtful tax, investment and financial planning can minimize what you'll owe Uncle Sam in 2020.

Know Your Breakpoints

The Tax Cuts and Jobs Acts of 2017 created a new set of tax brackets for 2019 ordinary income, ranging from 10% for single filers earning less than $9,700 to 37% for those earning more than $510,300. However, those aren't the only tax brackets in the U.S. tax code – so pay attention to your filing status and make sure you're using the right income ranges when estimating your tax brackets.

- Capital Gains
- Modified Adjusted Gross Income
- The Kiddie Tax
-

Income from the sale of an asset (like an investment) held less than one year is considered ordinary income and is taxed accordingly. However, income from the sale of an asset held longer than one year is taxed at a capital gains rate, and capital gains have their own breakpoints of 0%, 15% and 20%. Which bracket your capital gains income lands in depends on the amount of income (of course) but also such factors as marital status or if you're the head of the household.

Plan for Capital Gains and Losses

While deciding when to sell a portfolio position should be more of an investment decision than a tax decision, understanding the tax implications of the sale might help drive its timing.

- Short-Tem Gains and Losses
- Beware Wash Sale Rules
- Mutual Fund Distributions

Look for opportunities to sell losing investments to offset gains from other sales. Because short-term gains (i.e., gains from assets held one year or less) are taxed at higher ordinary income rates, you'll probably want to offset those first. If your total losses exceed your total gains for 2019, up to $3,000 of the difference can be used to offset other income. Losses in excess of $3,000 can be carried over to offset future gains.

Weigh the Standard Deduction Against Itemizing

Between the caps on some deductions, the elimination of others and the new larger standard deduction, the percentage of taxpayers who itemize fell from about 30% to 10% last year.

- Bunching Deductions
- State and Property Taxes
- Medical Expenses

Many taxpayers choose to "bunch" their deductions, where they either accelerate or defer their deductible expenses to maximize their tax benefit. By moving deductible expenses from one year into another, taxpayers can itemize in one year and claim the standard deduction the next. The total out-of-pocket expense over the two-year period is the same, but the tax benefit of those expenses is maximized. Note that flexible deductions like charitable contributions tend to be better suited to this strategy than, for example, taxes and mortgage interest.

Be Mindful With Charitable Giving

In order to deduct a charitable gift this year, it must be considered a completed gift by December 31, 2019. To meet that deadline, a check must be mailed or a credit card charged by the end of the year.

- Non-Cash Gifts
- Coordinate Giving With Income
- Required Minimum Distributions
-

Donating appreciated property rather than cash can be a great tax savings tool – they can generate a deduction for the full value of the property without triggering a taxable gain. But think twice before donating securities at a loss – the deduction would be limited to the market value at the time of the gift, and neither you nor your charity will receive a tax benefit. Instead, consider selling it first to realize the loss (which can be deducted) and then donate the proceeds to the charity.

Optimize Contributions Toward Retirement

The contribution limits to most forms of retirement plans have increased from 2018.

- Max Out Your Retirement
- Catch-Up Contributions
- IRA Conversions
-

Be sure to maximize contributions to your employer-sponsored retirement plan. While contributing to an employer plan does not prevent you from also contributing to an IRA, it might limit or even eliminate the potential tax deduction. Being over the threshold does not prevent you from making a non-deductible contribution so long your earned income equals or exceeds the contribution.

Don’t Forget About Education Planning

- [529 Plans]
- [K–12 Expenses]
- [Coverdell Accounts]
-

If you're planning on funding an education, you might want to look into a 529 plan. One advantage of gifting to a 529 plan is that you can make five years' worth of gifts in one year. With the annual gift exclusion at $15,000 for 2019, that's a potential $75,000 gift to a 529 plan – double that if the gift comes from a married couple. If you wait until early 2020, you'll be able to contribute $15,000 to the 529 for 2019 and the 2020 – 2024 gifts next year.

Ultimately, there are several factors that go into thoughtful financial planning, and your investment and planning decisions shouldn't be driven entirely by taxes. That said, with a little forethought, you can make sound investment decisions that can also decrease your overall tax liability. Your Baird Financial Advisor, working in concert with your CPA or tax preparer, can review your options with you and make sure you're not paying in more than you have to.