You Can Find Ways to Reduce Your Tax Burden Now

Year-End Tax Planning Tips

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Most people start thinking about their tax returns in early March, or even later. By that time it's too late to take action to reduce your taxes for this calendar year. Therefore, we recommend you look at your tax situation now before you get caught up in the holidays. Below we discuss some ways you can reduce your 2018 tax burden, particularly in light of the Tax Cuts and Jobs Act of 2017.

Understanding Marginal Tax Rates

Let's start with what your tax rate might be. At right, you can see the tax schedule for 2018. For example, if you're married filing a joint return and you estimate your taxable income after all deductions will be $74,600, your federal income tax will be $8,571 **($1,905 + 12 percent of $55,550 = $6,666)**. If your income goes over $77,400 (but is less than $151,900), any of this additional income will be taxed at 22 percent. So your goal would be to figure out how to stay in the 12 percent bracket.

Long- and Short-Term Capital Gains Tax Rates

Long-term capital gains on securities (those held for more than one year) are currently taxed at a lower rate of between 0 percent and 20 percent. Previously, the capital gains tax rate that applied to you was based on your tax bracket. Although the tax-brackets changed for 2018, the capital gains thresholds did not, making planning a bit more complicated.

Taxpayers who make less than $38,600 (single) or $77,200 (married filing joint) will not be taxed on their long-term gains. Filers with income above those thresholds but below $425,800 (single) or $479,000 (married filing joint) will pay 15 percent on long-term capital gains.

In addition, there is a separate Medicare surtax of 3.8 percent on net investment income applied using a third set of income thresholds. Single taxpayers who make over $200,000 and married couples who make more than $250,000 will be subject to this 3.8 percent surtax on net investment income, in addition to the capital gains tax noted above.

Gains from the sale of short-term holdings (those owned for one year or less) will be taxed as ordinary income — at a federal rate as high as 37 percent depending on your other sources of income.

Start by figuring out your year-to-date gains and losses, grouping the short-term and long-term transactions separately. If you don't have this information, ask your financial adviser to provide you with a gain/loss statement for

Federal Income Tax Rates

Single	Pay	Plus	Of the Amount Over
Up to $9,525	$0	10%	$0
9,525 – 38,700	953	12	9,525
38,700 – 82,500	4,454	22	38,700
82,500 – 157,500	14,090	24	82,500
157,500 – 200,000	32,090	32	157,500
200,000 – 500,000	45,690	35	200,000
500,000 and up	150,690	37	500,000

Married, Filing Jointly	Pay	Plus	Of the Amount Over
Up to $19,050	$0	10%	$0
19,050 – 77,400	1,905	12	19,050
77,400 – 165,000	8,907	22	77,400
165,000 – 315,000	28,179	24	165,000
315,000 – 400,000	64,179	32	315,000
400,000 – 600,000	91,379	35	400,000
600,000 and up	161,379	37	600,000

Capital Gains Tax Rate

Single	Married, Filing Jointly	Capital Gains Tax Rate
Up to $38,600	Up to $77,200	0%
38,601 – 425,800	77,201 – 479,000	15
Over 425,801	Over 479,001	20

ital losses from last year's federal tax return, found on Schedule D. If your overall capital losses exceed your capital gains, you can deduct up to $3,000 of that excess loss each year from ordinary income, and unused capital losses above that amount can be carried forward indefinitely to be used in future years.

Taking Tax Losses

If you have an investment showing a loss, you may consider selling the shares to realize the loss and reduce your taxes. If you believe the holding is still a good long-term investment, there are two ways to do this.

First, you can sell the stock for a loss and repurchase it in 31 days (the IRS requires you to wait 30 days to do so to avoid erasing the tax loss, the so-called wash-sale rule).

Alternatively, if you're concerned about the stock moving up during the 30-day waiting period, you could double up on your position, wait 30 days and then sell the top-costing shares assuming they're still selling at a loss. Obviously, you need to make the purchase before the end of November to take the loss in this taxable year. Trades completed on the last business day of the year count for 2018, even if they don't settle until 2019.

Accelerating Deductions

In prior years, there were often significant tax savings to be had by accelerating itemized deductions into the current year. But the new tax bill eliminated or limited many itemized deductions, in favor of an increased standard deduction of $12,000 for single filers and $24,000 for married couples. Thus, you must have significant deductions, including state and local taxes, medical expenses, charitable contributions and mortgage interest, to itemize.

One important note — in 2018, medical expenses are deductible once they surpass 7.5 percent of your adjusted gross income.

Next year, the threshold for taking a deduction is 10 percent of AGI. Therefore, if you are close to the standard deduction threshold, you may consider paying for any upcoming medical procedures before year-end.

Make Charitable Donations Count

Whether you contribute cash, stock or other assets, it's important to adhere to the year-end deadlines for 2018 charitable contributions.

If you donate cash to a charitable organization, you can deduct your donation in 2018 as long as you mail your check by Dec. 31. This is true even if the organization doesn't cash your check until 2019. If you charge your donation to your credit card, your donation is treated as occurring on the date the charge occurs.

If you donate stock or other securities by mailing certificates, the date of mailing is the date of the donation. If you have the shares donated electronically, the date your brokerage statement shows the shares leaving the account is the date of the gift. The value of your donation equals the average of the highest and lowest selling prices for that date.

Filing Under the New Tax Law. With the new law, medical expenses are deductible once they surpass 7.5 percent of your adjusted gross income. That goes up to 10 percent next year.

When donating securities at year-end, we suggest you allow a couple of weeks for the process to be completed. If you donate stocks or other assets that have appreciated in value, note that you must hold them for more than one year to be able to deduct the full market value. If you donate a stock you've held for less than one year, your deduction is limited to the cost of that asset.

Donations of clothing, household items and other goods can be deducted based on the fair market value of the goods. You'll need to keep good records to show how you arrived at the value you use. We recommend you make an itemized list as well as take pictures of your donated items in case your tax return is audited.

If your charitable contributions are less than 20 percent of your adjusted gross income, you don't need to be concerned with the limits on charitable deductions. For cash contributions, your deduction is normally limited to 60 percent of your AGI.

Your deduction is limited to 30 percent if you are donating appreciated stock to a public charity, or 20 percent if donating appreciated stock to a private foundation. Excess charitable deductions can be carried forward for up to five years.

In our September 2018 article on charitable gifting, we illustrated how lumping future charitable gifts into the current year can potentially lead to additional tax savings. This can be accomplished either by simply giving more now, or by donating to a donor-advised fund. A donor-advised fund allows you to take a deduction in the current year and then gift from the fund to your preferred organizations over time. In either case, the goal of lumping additional donations into the current year is to increase your overall deductions above the standard deduction.

Contribute the Maximum You Can to a Qualified Retirement Plan

In 2018, you can contribute the lower of $18,500 or whatever you earned to your 401(k) or 403(b) plan. If you're age 50 or older, you can add another $6,000 to that number. Contributing the maximum lowers your taxable income and the money in the 401(k) compounds tax-deferred. These contributions must be made in the form of payroll deductions before year-end.

If your AGI is below $101,000 as a married person filing jointly or $63,000 as a single/head of household, you can make a tax-deductible contribution of $5,500 (or $6,500 if you are age 50 or older) to an individual retirement account. Contributions to

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