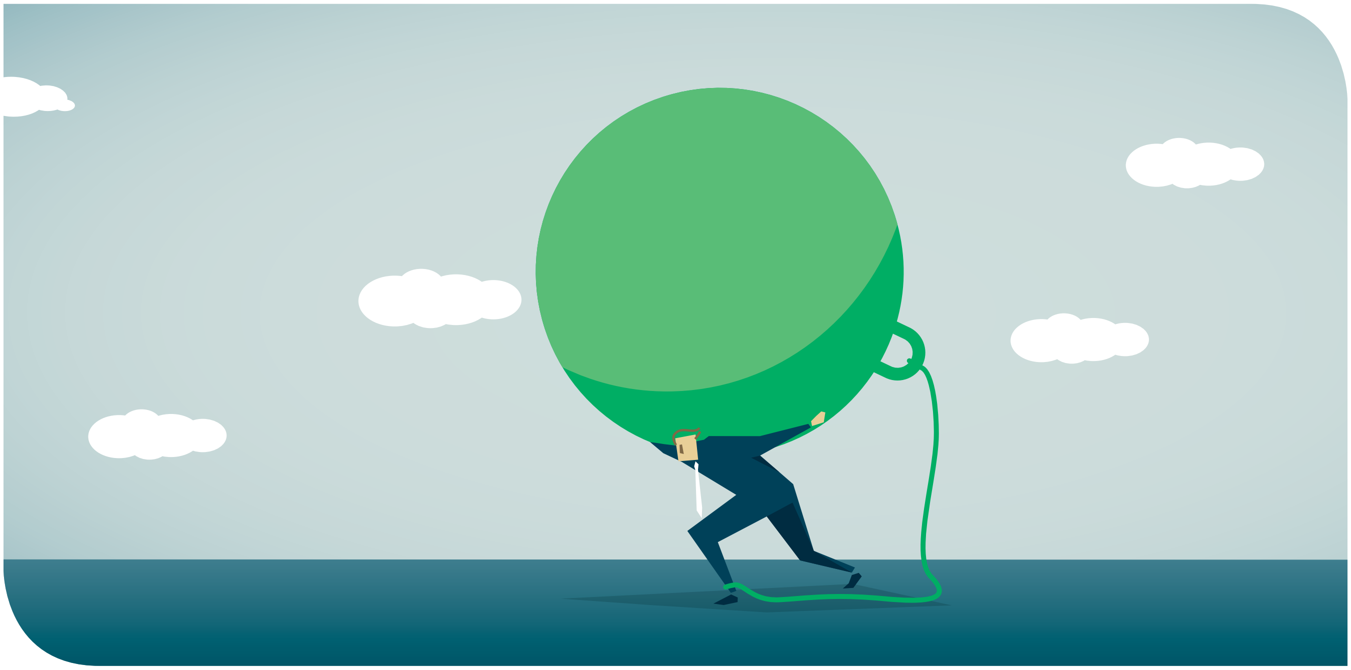
Your Year-End Tax Planning Guide

Fifth Third Bank



Taxes aren't America's favorite thing. Thirty-seven percent of people would move to a different country if it meant a tax-free future, 24% would get an "IRS" tattoo and 15% would stop talking for six months—according to a recent WalletHub survey.

(It's worth noting, however, that among developed nations, people in the U.S. pay less in taxes than most, according to the Pew Research Center.)

Nonetheless, you don't have to commit to an "IRS" tattoo in order to minimize your tax bill. There are a variety of things you can do by December 31 for next April—especially given the change to the country's tax laws that went into effect with the recent passage of the Tax Cuts and Jobs Act.

This guide is here to help make sure you aren't missing any breaks.

How Are Tax Laws Different?

There are a variety of changes due to Tax Cuts and Jobs Act, from new federal income tax brackets to a doubling of the standard deduction. Here are some things that might affect you:

- **The standard deduction went up.** If you're not itemizing, the amount you can take as a standard deduction nearly doubled—from $13,000 to $24,000 for married couples filing jointly, and from $6,500 to $12,000 for single taxpayers and married couples filing separately. If you file as head of household, the deduction rose from $9,550 to $18,000.
- **The personal exemption disappeared.** Though you used to be able to claim an exemption for yourself, your spouse, and any dependents you claimed, new tax laws no longer allow any personal exemptions.
- **Income tax brackets changed.** The new tax law rearranged federal income tax brackets, so your progressive tax rate may be different.
- **The estate tax exemption went up.** The size of an estate that's free of estate taxes doubled to $11.2 million per individual and $22.4 million per couple.
- **The child tax credit went up.** If you claim a child tax credit for a child under 17, the credit went up to $2,000 per qualifying child. For dependents not eligible for the $2,000 credit, there's a $500 credit available.
- **The mortgage interest deduction changed.** If you took out a mortgage before December 15, 2017, your mortgage interest deduction is still capped at $1 million. But if you borrowed after that date, the deduction is capped at $750,000.
- **State and local tax deductions are limited.** If you itemize and deduct state and local income taxes and property taxes, you're now limited to a deduction of $10,000 each year.
- **You can put more into retirement savings.** If you have an employer-sponsored retirement savings account, such as a 401(k) or 403(b), you can save as much as $18,500 in 2018, up from $18,000 in 2017. If you're 50 or older, you can put an additional $6,000 away.

To put yourself in the best tax position in April, **here are the critical tax moves that should be on your End-of-the-Year Checklist:**

- BASICS
- INVESTING
- HEALTH
- SMALL BUSINESS
- CHARITABLE CONTRIBUTIONS
- COLLEGE
- DIVORCE
- ESTATE

BASICS

Check your withholding

Although this is usually best done as soon as the tax laws or your personal circumstances change, if you haven't gotten to it yet it's still a good idea to check. Use the IRS's Withholding Calculator to make sure you're getting the right amount held from your paychecks each month, especially given new tax brackets and allowable deductions. Find it at irs.gov/individuals/irs-withholding-calculator.

Estimate this year's and next year's income

If your total this year or next year places you on the cusp of being in a lower tax bracket, consider shifting some income to this year or pushing it to next year for better tax treatment. That's tough to do if you're salaried, but if you're self employed, you can bill clients earlier or later, depending on when you want the income to hit. If you're retired, once you hit your required minimum distribution from retirement accounts, you can control how much income you draw down afterward.

You'll also be in a position to decide whether you should try to push a deduction to the following year if you'll be in a better position to take it-- or move expenses to this year if the deduction is more valuable now. (For instance, you could shift the timing of deductible expenses.)

CHARITABLE CONTRIBUTIONS

Get charitable donations in

Although a doubled standard deduction might change the way you deduct your charitable giving—you may not have enough to itemize, depending on your financial situation—if nonprofit giving is on your radar, you must make donations by midnight on December 31 in order for them to count for this tax year.

Consider a non-cash donation

If you have an investment sitting in your portfolio that's gained significantly in value, you may be reluctant to sell it and face the capital gains taxes. But if you donate that security in lieu of cash, you'll get a deduction for the value of the investment at the time of donation and owe none of the capital gains tax. For instance, if you bought a stock for $500 and it's now worth $1,000, you'd get a charitable deduction of $1,000 and owe no capital gains taxes. Contact the nonprofit you're considering gifting to and make sure they have the means to accept a donation of securities — and that there's enough time for them to process your donation before December 31.

Make a charitable contribution from your IRA if you're over 70 1/2

If you're old enough to have to take required minimum distributions (RMDs) from your IRA accounts, you can direct up to $100,000 from your IRA to a charity of your choice instead of taking it. This will satisfy your need to take an RMD without increasing your taxable income.

Consider bunching charitable contributions

With a higher standard deduction, it may make sense to give more to your charitable targets every other year so you can still itemize. For instance, if you give $5,000 to nonprofits annually, you would give $10,000 every other year. Run the tax numbers to see what kind of donation would still allow you to itemize—and whether altering your donation schedule makes sense.

Open a donor advised fund

If you're considering bunching your donations, a donor advised fund allows you to set aside a large amount of money for charity—and then decide where you want it to go over time, like your own little charitable foundation.

INVESTING

Harvest your losses

If you've sold some investment winners this year in your taxable accounts and will be facing a tax bill on your gains, now is the time to consider whether you could offload some lemons to offset the charges.

Consider a Roth conversion

At year-end, you have a clear understanding of your income and expense items for the year, which will give you a good idea of whether it would be beneficial to convert any of your retirement savings to a Roth account, especially given the new income tax brackets.

COLLEGE

Save into a 529

Although some states allow you to make 529 college savings account contributions until Tax Day in April and still claim any state credit or deduction for savings, others require you to sock money away by the end of the year to qualify. Make sure you understand what your state requires and get your savings in by the necessary deadline. Note: You can now use 529 money to pay for private K-12 schooling, withdrawing up to $10,000 per year, per child, although not all states allow state tax breaks for the expense.

Take 529 contributions

If you have college expenses in a particular calendar year, you're meant to take matching withdrawals from your 529 in the same calendar year, so make sure you're all set.

HEALTH

Spend down your flexible spending account (FSA)

Although some FSAs allow a small amount to roll over from year to year, many are “use it or lose it” accounts, meaning that whatever you haven’t spent by the end of your company’s distribution period reverts to your employer. Check FSA rules for allowable expenses to see what you can pick up. (Some common options: acupuncture, eye exams and flu shots.)

Add up your medical expenses

2018 is the last year that you can deduct medical and dental expenses if they exceed 7.5% of your adjusted gross income, so if you’ve had any big bills hit this year, make sure you take the deduction if you can. In 2019 and beyond, taxpayers will only be able to deduct unreimbursed medical care expenses exceeding 10% of adjusted gross income.

Consider bunching your medical/dental expenses

Starting in 2019, you’re only allowed to deduct medical and dental expenses if they exceed 10% of your adjusted gross income. So to the extent that you can, space non-urgent medical events into every other year; you have a better chance of exceeding the threshold and being able to deduct them.

SMALL BUSINESS

Check with your CPA

Some pass-through businesses may now be eligible for a tax deduction of up to 20% of business income, which could be a huge boon. But the deduction depends on the nature of your business, the amount of business income you earn and your overall taxable income (single or married). For clarity, check the Tax Cuts and Jobs Act, Provision 11011, Section 199A, or ask your tax professional whether you qualify and how it affects your planning.

Set up your retirement plan

If you're a small business and you're hoping to contribute to a retirement plan but haven't established it yet, make sure you meet any deadlines for creating it. Some accounts (such as a solo 401(k) plan) require creation by your company's fiscal year-end, which is usually December 31. (You still have until Tax Day to make contributions.)

Calculate next year's estimated tax payments

If you're self-employed or you have a side business that brings in income, it's important to make sure you pay taxes properly as you go. Otherwise, you could owe a penalty for underpayment of taxes at tax time. Use IRS Form 1040-ES or Form 1120-W to determine whether you need to pay estimated taxes and how much you'll have to pay next year.

DIVORCE

Finalize your paperwork

If there's any chance you're going to owe alimony in a pending divorce agreement, get it signed before the end of 2018. Starting with agreements finalized in 2019, someone paying alimony can no longer deduct the payments on their taxes.

ESTATE

Give gifts

Each year, every individual is allowed to give gifts of up to $15,000 to any other person without being subject to federal gift taxes. If you're contemplating giving money to an adult child to help with a home purchase, or giving away some of your estate early, keep in mind that the dial resets on January 1 for gift giving.

Who Can Help?

Your taxes might look pretty different next year, and professional guidance can help you feel secure in your tax strategy. Here's how to track down a pro:

- **Get a referral.** See if friends, family or coworkers have worked with someone they love. If you have a financial advisor, ask them if they can recommend someone. Most helpfully, get a referral from someone who's in a similar tax situation.
- **Seek a certification.** An Enrolled Agent (EA) and a Certified Public Accountant (CPA) have both passed demanding tests and met a variety of qualifications to achieve the designation. Ask your professional what licenses or designations they have.
- **Inquire about fees.** Most tax professionals charge a fee based on your tax situation—not on the amount of your refund.
- **Check their background.** Depending on their qualifications and licensing, you may be able to check with the IRS Office of Enrollment, the state board of accountancy or the state bar association for disciplinary actions and license status.
- **Ask about e-filing.** If a preparer files more than 10 returns for clients, they usually must file electronically. If your preparer doesn't offer e-filing, they may not be handling as many tax returns as you'd like.

In the end, the actions you take now can put you in the best position for tax prep in April. The more you plan, the smaller the chances you'll be surprised by a bigger bill than you're expecting. **Contact a Fifth Third Advisor to go over your gameplan for year-end.**