2019 YEAR-END TAX PLANNING CHECKLIST

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As the end of the year approaches, it is a good time to think of planning moves that could help lower your tax bill for this year and possibly the next. Year-end planning for 2019 takes place against the backdrop of major changes in the rules for individuals and businesses. For individuals, these changes include lower income tax rates, a boosted standard deduction, and severely limited itemized deductions. For businesses, the C corporate tax rate has been reduced to 21%. For pass-through entities such as S Corporation and Partnerships, there is the qualified business income deduction. For all businesses there are possible limits on business interest deductions, loss limitations, and generous expensing and depreciation rules.

Despite these major changes, the time-tested approach of deferring income and accelerating deductions to minimize taxes still works for many taxpayers, along with the tactic of bunching expenses into this year or the next to get around deduction restrictions. This article highlights potential tax-saving opportunities for you to consider.

Executive Summary

In this article, we will discuss the following year-end tax planning strategies:

- Benefits of accelerating income into 2019 or deferring income into 2020
- Benefit of bunching itemized deductions from year to year
- Retirement planning for contributions, distributions, and conversions
- Making gifts sheltered under the annual gift tax ex clusion before year-end
- Maximizing the qualified business income (QBI) deduction
- Benefits of switching to the cash method of accounting
- Generous asset-expensing opportunities

2019 Tax Planning Opportunities — Individuals

The following section highlights some tax planning opportunities for individual taxpayers.

☐ For individuals who expect to be in the same or a higher tax bracket in 2019 than in 2020 and/or expect to have higher income in 2019 than in 2020. Some ways to defer income this close to year-end include:

- **Installment Sales** – If you expect to sell property before the end of 2019, and it makes economic sense, consider selling the property and reporting the gain under the installment method.
- **Delay Billing** – This is true for taxpayer utilizing the cash method of accounting.
- **Interest and Dividend** – Consider buying short-term bonds or certificates that will not mature until next year. Unless you have constructive receipt of dividends before year-end, they will not be taxed to you in 2019.
- **Year-end Bonuses** – Consider arranging with your employer to defer, until early 2020, a 2019 year-end bonus.

☐ On the other hand, if you expect to be in a higher tax bracket in 2020 than you were in 2019, accelerating income into 2019 may be beneficial to you. Some ways to accelerate income this close to year-end include:

- **Issue Bills and Pursue Collection** – This is true for taxpayers utilizing the cash method of accounting.
- **Interest and Dividends** – If you are not in the highest capital gains bracket for 2019, but you expect to be in 2020 and you have control over when dividends are paid on an investment that pays qualified dividends, you may want to consider authorizing such dividends prior to year-end.

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2019 Tax Planning Opportunities — Individuals (Continued)

- **Year-end Bonuses** – If you receive a year-end bonus that is paid out in the following year, consider asking that the bonus be paid out before year-end.

☐ Review your investment portfolio to determine if there are losses you can take that will offset capital gains taken earlier in the year. If you have a capital loss, consider selling investments with gains before the end of year. These gains will be sheltered from tax by the loss. Control taxable income to less than $78,750 (married filing joint) to take advantage of the zero capital gains tax rate.

☐ Many taxpayers no longer itemize because of the higher standard deduction ($24,400 for joint filers, $12,200 for singles, and $18,350 for heads of household).

- To maximize your itemized deductions consider applying a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the year where they will be maximized. For example, if a taxpayer knows he or she will be able to itemize deductions this year but not next year, the taxpayer may be able to make two years' worth of charitable contributions this year, instead of spreading out donations over 2019 and 2020.
- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your deductions for that year even if you don't pay your credit card bill until after the end of the year.
- If you have significantly high income in a given year, consider establishing a donor advised fund. This fund will allow you to take a charitable donation deduction in the year you contribute to your fund.

☐ Maximize your retirement plan contributions to 401ks and IRAs.

☐ If you are age 70½ or older by the end of 2019, have traditional IRAs, and particularly if you can't itemize your deductions, consider making 2019 charitable donations via qualified charitable distributions from your IRAs. Such distributions are made directly to charities (excluding donor advised funds) from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible as an itemized deduction.

☐ Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Thus, if you turn age 70½ in 2019, you can delay the first required distribution to 2020, but if you do, you will have to take a double distribution in 2020—the amount required for 2019 plus the amount required for 2020. Think twice before delaying 2019 distributions to 2020, as bunching income into 2020 might push you into a higher tax bracket. Conversely, it could be beneficial to take both distributions in 2020 if you will be in a substantially lower bracket that year.

☐ Consider converting your traditional IRA to a Roth IRA if you anticipate lower income in the current year. The advantage to a Roth IRA is that the future income distributions will not be taxed. The drawback to the conversion is that the amount transferred is subject to tax. Conversions to a Roth IRA make sense if your anticipate paying higher taxes in the future, you have a number of years before you might tap into the Roth IRA which give you a chance to recoup the tax you paid at conversion, will not need the income during retirement and would like to pass it on to your beneficiaries.

☐ Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby, save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2019 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next. Such transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets.

2019 Tax Planning Opportunities — Business Owners

- [ ] Manage taxable income to take advantage of the 20% qualified business income (QBI) deduction. For 2019, if taxable income exceeds $321,400 for a married couple filing jointly, or $160,700 for all other taxpayers, the deduction may be reduced or eliminated if you are engaged in a specified service trade or business (such as law, accounting and health). If your business is not considered a specified service business and you exceed the income thresholds, your QBI deduction may be limited by the amount of W-2 wages and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business.

- [ ] Consider changing to the cash method of accounting. To qualify, a business must, among other things, satisfy a gross receipts test. This test is satisfied if, during a three-year testing period, average annual gross receipts do not exceed $26 million. Cash method taxpayers may find it a lot easier to shift income as a tax planning strategy.

- [ ] Consider making expenditures that qualify for the liberalized business property expensing option. For 2019, the expensing limit is $1,020,000, and the investment ceiling limit is $2,550,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. This expensing opportunity is available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework) for roofs, and for HVAC, fire protection, alarm, and security systems. The expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full regardless of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2019 will result in a full expensing deduction for the year.

- [ ] Businesses can also claim a 100% bonus first year depreciation deduction for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service this year. The 100% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2019.

- [ ] Like in previous years, businesses may be able to take advantage of the de minimis safe harbor election to expense the costs of lower-cost assets and materials and supplies. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS, e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500. Consider purchasing such qualifying items before the end of 2019.

These are just some year-end tax planning strategies that you may benefit from, but it is important to keep in mind that tax planning is very much an individual tool.

If you have any questions about year-end tax planning, or if you need assistance, please contact us.

Judy Mason, CPA, CVA, has over 20 years of tax, accounting, business consulting, and compliance experience, serving closely-held and start-up businesses, entrepreneurial and family-owned companies, their owners, and families. Her expertise is in federal, state, local, and employment taxation, guiding clients through the complexities of conducting business in a dynamic tax environment. She has successfully defended a broad range of federal income, state income, and sales tax audits for her clients.

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