



ANTHONY G. MICHELI, CPA, SENIOR MANAGING DIRECTOR

PLAN THOSE TAXES AWAY

USE IT OR LOSE IT - TAX SAVING OPPORTUNITIES FOR INDIVIDUALS AND FAMILIES

BY ANTHONY G. MICHELI, CPA, SENIOR MANAGING DIRECTOR

The great American inventor and businessman, Thomas Edison, once shared his sage advice for success by stating that "good fortune is what happens when opportunity meets with planning." This great wisdom rings true as we focus on thoughtful tax and financial planning opportunities for families. Tax planning is not something to consider only at year-end. At Clearstead, we provide continuous tax planning year-round for the clients we serve. Carefully planned year-end tax-savings strategies coupled with well, thought-out financial planning and asset allocation review is critically important for families to pursue before the New Year arrives.

As the end of the year approaches, tax planning is a high priority for many individuals. Most strategies are time sensitive and require necessary actionable steps now to be able to incorporate in time before the end of the year. For families, now is the time to start thinking about strategies to reduce the amount of taxes they will owe to the IRS and various state and local taxing authorities.

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To reduce taxes for 2019, putting tax saving strategies into motion now is critical. Many more tax-saving options are available to those who are proactive and act before year-end than those who procrastinate. If one waits until after year-end, the strategies may be unavailable or may not produce the desired results intended. Start tax planning now to benefit in 2019, otherwise you will lose it.

CHARITABLE CONTRIBUTIONS

The 2018 tax law changes directly affect the need to itemize deductions as the standard deduction has increased significantly to \$12,000 for individuals and \$24,000 for married couples. For individuals that want to support specific non-profit organizations over the next several years, bunching deductions in certain years may avoid losing tax benefits of charitable contributions.

As 3rd quarter 2019 wraps up, equity markets remain close to an all-time high, with the S&P 500 up roughly 18% year-to-date. We are advising clients with a charitable intent to make additional charitable contributions now by using appreciated securities instead of cash to further maximize the impact of the gift. The donor benefits are three-fold. First, by receiving the charitable tax deduction, then by removing appreciated assets from their portfolio fully avoiding any taxable gains, and by making the gift with fewer stock shares than if done at the beginning of the year. This gift can be done by transferring securities directly to the charity or by using other vehicles such as a Charitable Remainder Trust, Donor Advised Fund, or a Private Foundation.

With clients taking Required Mandatory Distributions (RMD's) from retirement accounts and who do not need additional taxable income, we recommend using qualified charitable transfers from an IRA. This allows the individual to meet philanthropic goals while excluding the income from taxes and not utilizing AGI limitations for other charitable gifts. This strategy provides the individual with charitable tax savings even if using the standard deduction.

For individuals or married couples in the highest taxable income brackets, we recommend exploring the use of more complex gifting techniques such as historical building or land easements to leverage charitable deductions. There are several sophisticated techniques available for use that can be tailored to an individual's taxable posture within a given year. We are well versed on these strategies as well as current market opportunities that exist.

TIME YOUR INCOME AND DEDUCTIONS

Thoughtful advanced financial and tax planning is critically important to best leverage opportunities. Using multi-year tax projections provides information to properly plan the timing of recognizing income or utilizing deductions in order to maximize tax savings. Taxable income can be altered by incorporating various strategies such as:

- The sale and sale structure of appreciated assets
- A ROTH IRA conversion
- Exercising non-qualified stock options
- Taking a distribution from a traditional IRA
- Ensuring that you do not qualify for a tax-free 1031 exchange
- Electing out of an installment sale
- Establishing a retirement plan
- The timing and magnitude of charitable gifting
- Accelerating medical and dental expenses to exceed the adjusted gross income (AGI) floor limitation

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Depending on whether an individual's tax bracket is the same or lower next year, this will create a tax deferral or a permanent tax savings due to the difference in tax brackets.

Timing income and deductions has a direct effect on an individual's adjusted gross income or "AGI". Careful tax projection planning is needed to determine the impact on items such as:

- Itemized deductions subject to AGI limitations
- Taxability of social security benefits
- The calculation of the qualified business income deduction
- State and local income tax liabilities

PORTFOLIO HARVEST

An important part of the investment management process is ongoing portfolio maintenance. This not only includes revisiting investment policy and asset allocation, but also thoughtful and tax-sensitive rebalancing. Many individuals may want to create a taxable gains budget by which they and their team of advisors can best plan and manage for current and future years.

As 4th quarter emerges, now is the ideal time to review your investment accounts and each portfolio holding. At Clearstead, our portfolio management team continually reviews these assets to ensure their investment merit, their position size, and any opportunities to save on portfolio expenses or taxes.

Now is also the best time to review year-to-date realized capital gains and to consider selling securities that have a loss to offset current capital gains. Individuals harvesting losses can even create a net capital loss of \$3,000 which can be used to offset other types of income. Net capital losses in excess of \$3,000 will carry over to next year. For individuals that have capital gains from K-1's or distributions from mutual funds, a gain from selling a second home, or 1231 gains from selling business property, this is a good technique to reduce overall capital gain income and lower taxes. With individuals that have a net capital loss for the year, we encourage selling some appreciated securities. This may be a great time to harvest those gains with offsetting losses.

These situations may allow individuals to rebalance their portfolio holdings accordingly without incurring any significant tax implications. As part of overall asset allocation and diversification goals, careful consideration should be taken whether there is a net capital gain or net capital loss situation.

TO THE FAMILY – NOT THE IRS

December 31st is the last opportunity to make family gift transfers to lower estate tax exposure. The annual exclusion remains at \$15,000 per donee. We strongly advise our clients to leave enough time to make the gift, whether it is a check, a transfer of securities, funding a college savings 529 plan, funding an IRA, or some other type of gift. Waiting for the last few weeks of the year to initiate these can result in missed opportunities or incomplete gifts. Consider planning for additional time if using sophisticated, leveraged gifting techniques such as a grantor trust or family LLC. Paying directly for education or medical expenses are also efficient methods to help loved ones while reducing estate tax exposure without using any of one's annual gift exclusion.

FINAL THOUGHTS

Effective year-end planning needs to consider the unique situation of each person or family. Not all strategies may apply to everyone's special year-end planning needs or meet their expected goals. The above strategies are just a handful of options Clearstead considers on our client's behalf. There are many other strategies, such as establishing a personal defined-benefit

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plan, making an S-Election, or performing a cost-segregation study that can also provide significant tax saving opportunities in the current year. Preparation, careful planning, and consulting with your Clearstead advisor are the necessary steps to effectively utilize year-end tax saving strategies.

The brilliant scientist, Albert Einstein, once said, “the hardest thing in the world to understand is the income tax.” At Clearstead, we don’t believe this to be the case if individuals take the time to thoughtfully plan. After all, good fortune is what happens when opportunity meets with planning.

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Performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.

MARKET BENCHMARK RETURNS

| September 30, 2019 | | 1M | 3M | 12M | YTD |
|--------------------|---------------|-------|-------|-------|-------|
| US Large Cap | S&P 500 | 1.9% | 1.7% | 4.3% | 20.6% |
| US Small Cap | Russell 2000 | 2.1% | -2.4% | -8.9% | 14.2% |
| Developed Intl | MSCI EAFE | 2.9% | -1.1% | -1.3% | 12.8% |
| Emerging Intl | MSCI Em Mkt | 1.9% | -4.2% | -2.0% | 5.9% |
| Real Estate | NAREIT | 2.1% | 7.2% | 18.8% | 26.5% |
| Core Fixed | BarCap Agg | -0.6% | 2.2% | 10.3% | 8.5% |
| Short Fixed | BarCap 1-3Yr | -0.1% | 0.7% | 4.6% | 3.4% |
| Long Fixed | BarCap LT G/C | -2.0% | 6.5% | 21.8% | 20.9% |
| Corp Debt | BarCap Corp | -0.7% | 3.0% | 12.6% | 12.6% |

Source: Bloomberg

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