2019 Personal Tax Planning Update

The new year brings with it new tax-savings opportunities, including larger tax exemptions and exclusions. Below are charts showing these figures for 2019 as well as this year's income tax brackets. A list of strategies and tips to consider in your tax planning this year follows each chart.

Federal Estate and Gift Tax Exemption/Exclusion Levels for Individuals (double if married)

	2018	2019	2026
Gift and Estate Tax Exemption	$11,180,000	$11,400,000	$5,700,000*
Generation-Skipping Tax Exemption	$11,180,000	$11,400,000	$5,700,000*
Gift Tax Annual Exclusion	$15,000	$15,000	$15,000*
Annual Exclusion for Gifts to Noncitizen Spouse	$152,000	$155,000	$155,000*

* Plus inflation adjustments

Gift and Estate Tax Strategies for 2019

- **Make Annual Family Gifts Early** – The "annual exclusion" allows you to transfer up to $15,000 ($30,000 for married couples) to any individual in 2019. Making these gifts early in the year often results in more value passing to family members at no additional tax cost. Given the recent pull-back in the stock market, gifts of stock may prove to be a good choice this year. That is particularly true for gifts made to family members whose income levels are below the limit for zero federal capital gains tax. Those limits are $78,750 for married couples filing jointly, $39,750 for single filers, and $52,750 for head of household filers.

- **Use Larger Tax Exemption Before It Expires** – Both the estate/gift tax exemption and the generation skipping tax exemption doubled in 2018 and have been modestly adjusted for inflation in 2019. Importantly, in 2026 these exemptions are scheduled to revert back to 2017 levels (plus inflation adjustments). Anyone who is in a position to take advantage of these larger exemptions but does not act prior to 2026 will have missed an opportunity to save millions in taxes. While it is possible that the larger exemptions could be made permanent, it is also possible that the exemptions will be reduced prior to the 2026 sunset date. Additionally, the IRS has indicated in proposed regulations that it will not seek to "claw back" any use of this additional exemption once it reverts to its old level, so taxpayers who take advantage of the larger exemption now should not face any risk on that front.

- **Large Gifts to Spousal Access Trust** – Married couples may wish to consider funding an irrevocable trust for descendants that includes a spouse as a beneficiary in order to make use of the doubled tax exemption while preserving the ability to distribute trust assets to the spouse if needed. This could make it more palatable for some to take advantage of the large gift tax exemptions before they revert to 2017 levels.

- **Capital Gains Tax Savings** – In certain situations, it may be possible to use the larger gift and estate tax exemption to reduce or eliminate capital gains tax. These strategies are detailed in Part 2 of our series of articles titled Pitfalls and Opportunities Under the New Federal Tax Law, available on our website www.hembar.com.

Federal Income Tax Brackets for 2019

The income tax rates have not changed for 2019 but the break points of the various brackets have been modestly adjusted for inflation, as shown in the charts below. (Note that lower rates apply to income from qualified dividends and capital gains.)

Single Individuals			
Taxable Income			*Rate*
$0	-	$9,700	10%
$9,701	-	$39,475	12%
$39,476	-	$84,200	22%
$84,201	-	$160,725	24%
$160,726	-	$204,100	32%
$204,101	-	$510,300	35%
$510,301	+		37%

Married Couples Filing Jointly			
Taxable Income			*Rate*
$0	-	$19,400	10%
$19,401	-	$78,950	12%
$78,951	-	$168,400	22%
$168,401	-	$321,451	24%
$321,452	-	$408,200	32%
$408,201	-	$612,350	35%
$612,351	+		37%

Important Facts and Tips for 2019 Income Tax Planning

- **Consider Higher Deduction Allowed for All Cash Charitable Gifts** – If you use cash (and only cash) for 100% of your gifts to public charities in a given calendar year, the income tax charitable deduction limit is 60% of your adjusted gross income (AGI). Prior to 2018, this limit was 50% of AGI. All other types of charitable gifts, e.g. of appreciated securities, continue to be subject to a limit of 30% of your AGI. Note, however, that giving appreciated securities avoids incurring capital gains tax on the sale of the securities so in cases where low-basis stock would be sold to raise cash for charitable giving, transferring the stock itself would likely produce more tax savings. Moreover, any unused charitable deductions may be carried forward for up to five years so in some cases the lower (30%) limit on gifts of stock may not ultimately reduce the tax benefit.

- **Consider Charitable Gifts from IRA** – Using your IRA to make charitable gifts may be preferable to gifts from non-IRA accounts. The tax rules allow those who are above age 70½ to make gifts of up to $100,000 directly from their IRA to charities. Unlike gifts from non-IRA accounts, there is no AGI limit on these gifts. Additionally, the IRA owner may reduce his or her "required minimum distribution" (and therefore reduce the amount of income to declare) by the amount of the charitable gift. IRA gifts also have an advantage over non-IRA gifts in states like Massachusetts, which do not allow charitable deductions. By transferring funds directly from the IRA account to charity, as opposed to bringing the funds into a personal checking account and then transferring them to charity, the IRA owner avoids having to declare the funds as income and therefore avoids paying state income tax on those funds. Finally, because your heirs must pay income tax on inherited retirement accounts (unlike other assets), making your charitable gifts from your IRA account allows you to preserve non-IRA assets and lessen the estate tax burden for family members.

- **State and Local Tax** – As was the case last year, 2019 deductions for state and local taxes (SALT) are capped at $10,000. Some states are attempting to create charitable entities to accept what are effectively tax payments, but it is not clear whether this will ultimately be a successful strategy.

- **Home Mortgage Interest** – For mortgages originated in 2019, only interest on up to $750,000 of principal is deductible until 2025, at which point the rule is scheduled to revert to the old limit of $1 million of principal. Interest on home equity loans and lines of credit are not tax-deductible (until 2025) unless funds are used to buy, build or substantially improve the home that secures the loan, and only to the extent the cumulative principal of the loans, when added to any mortgage, does not exceed $750,000.

- **Itemized Deductions Phaseout** – Itemized deductions are not phased out at any level of income for 2019. Prior to 2018, this phaseout would apply at income levels of $261,500 for individuals and $313,800 for married couples filing jointly. Note that other changes, such as the $10,000 cap on SALT deductions, may still limit a taxpayer's itemized deductions regardless of whether a phaseout exists.

- **529 Plans** – Distributions from 529 plans of up to $10,000 per student per year may be used for all public, private and religious elementary and secondary school tuition. There is no limit on distributions for tuition at higher education institutions. Prior to 2018, only distributions higher education institutions were permitted.

- **Alimony** – Alimony for divorces finalized in 2019 is not treated as income to the recipient and is no longer deductible by the payor.

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