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TaxTips

Keeping you informed

winter 2019/2020

Tax-saving strategies

Make a move now

It's always a good idea to look for ways to minimize your tax liability. Taking advantage of opportunities before the year comes to a close is a smart move. Here are a few things to think about:

- **Are you making the maximum contribution to your §401(k), IRA or other retirement plans?** If the answer is no, think about increasing your contribution percentage between now and the end of the year. Not only will this increase your retirement savings, but it could also potentially lower your taxable income. If you are age 50 or older, you are eligible to make additional "catch-up" contributions. Contributions to retirement plans must be made by December 31. IRA contributions can be made up to the due date of your tax return, generally April 15.
- **Are you around age 70?** Don't forget that you must start taking regular minimum distributions (RMDs) from your traditional IRA by April 1 following the year in which you reach age 70½. Failing to do so triggers a painful 50% IRS penalty on the amount you should have withdrawn. Each year thereafter, you must take your RMD by December 31 to avoid the penalty. Consider asking your IRA custodian to withhold tax from the payment; this could prevent you from having to make estimated tax payments. Also, remember that if you own a Roth IRA, you are never required to withdraw money from it.
- **Did you have any capital gains during the year?** If so, now may be a good time to consider selling some under-performing investments in order to generate

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a capital loss. Capital losses can offset capital gains. In addition, generally up to an additional $3,000 of capital losses may be deducted against your ordinary income per year with any additional losses carried to future years.

- **Did you know that you can give a tax-free gift to a beneficiary of any age by putting money into a §529 education savings plan account?** Generally, you can make a gift up to $15,000 per beneficiary per year or up to $30,000 for married couples, and you don't even have to file a federal gift tax form! Under new tax laws, §529 plans can also be used to pay up to $10,000 of tuition annually for the beneficiary's enrollment or attendance at a public, private or religious elementary or secondary school. Let's plan ahead for those little ones!
- **Do you have a favorite charity?** Donations are still tax deductible if you itemize, but not if you take the standard deduction. If you give regularly to charities, consider putting several years' worth of gifts into a donor-advised fund for the current year. This strategy may make it worthwhile for you to itemize this year while giving you the ability to spread out the giving over the next several years. Another way to boost a charitable deduction is to donate appreciated stock or property, rather than cash, to charity. If you have owned the asset for more than one year, you get a double tax benefit from the donation! You can deduct the asset's fair market value on the date of the gift and you circumvent paying capital gains tax on any appreciation in value.
- **Did you contribute to an employer's flexible spending account (FSA) at the beginning of the year?** These flex plans are a fringe benefit many companies offer where you can direct part of your pay into a special account that you can later use to pay child care or medical bills. The benefit is that the money contributed to the account avoids both income and Social Security taxes. However, the catch is that it's a "use it or lose it" rule. So if you contributed to an FSA, make sure you use it all by year-end or you'll forfeit the excess.
- **Do you make state estimated tax payments or pay property taxes?** If so, contemplate making an early payment before year-end. In general, the due date for fourth quarter state estimated tax payments is January of the following year. Yet, if you pay the fourth quarter estimated payment by year-end, you can deduct it in the current year. The same is true if you pay your next property tax installment before the end of the year (for a tax that has been officially assessed). This tactic only works if you are able to itemize deductions, you are not over the $10,000 state local tax limit and you are not subject to AMT.

Contact me to discuss how we can make these strategies work to your advantage before the end of the year rolls around!

Solar panels are hot

For a tax credit

The residential energy efficient property credit has been reinstated through 2021. This means you could get a tax credit for installing solar panels on your home. You can even get a credit if you shared the cost of solar panels not directly located on your home, such as at an off-site community solar array or similar arrangement that generates solar energy directly for your home. The credit is equal to 30% of the cost of qualified solar electric property made prior to December 31, 2019, 26% for expenditures made in 2020 and 22% for expenditures made in 2021. There are some limitations on the credit. Additionally, unused credit amounts may be carried to future tax years.

As with any tax law, there are many variables that come into play for this credit. If you are thinking about making energy efficient improvements, let's get together and make improvements not only for our planet but for your taxes as well!

Avoid passport revocation

Pay your tax debt

The IRS is urging taxpayers to resolve their significant tax debts to avoid putting their passports in jeopardy. If you owe a serious tax debt, which is currently $52,000 or more, the IRS will notify the State Department. Subsequently, the State Department is required to deny any passport application or renewal for such taxpayers. If you are delinquent and currently have a valid passport, the State Department may revoke the passport or limit your ability to travel outside the United States.

If the IRS certifies you as owing a seriously delinquent tax debt, you will receive a notice that explains what steps you need to take to resolve the debt. There are several ways you can avoid having the IRS notify the State Department of seriously delinquent tax debt.

If you think you are in this situation, contact me to discuss how we can work together to resolve any tax debt, even if you haven't received a notice yet.

Data security

Protect your personal information

Scammers steal personal information and money from unsuspecting victims, predominantly during tax season. When it comes to sharing any of your personal information, be vigilant!

The easiest way for criminals to steal sensitive data is to simply ask for it; this is known as phishing. Phishing emails, calls or texts often pose as familiar organizations such as banks, credit card companies or even the IRS. They attempt to lure you into giving them personal information such as passwords, bank account numbers or credit card numbers. Don't assume Internet advertisements, pop-up ads or emails are from reputable companies or even from someone you know. Oftentimes, scammers can compromise your contacts and make it look like someone you know is asking you to download an attachment. If something seems suspicious, send your contact a direct email asking them if they sent you such an email before downloading anything. Also, remember that the IRS doesn't initiate contact with taxpayers by email, text message or social media channels to request personal or financial information.

Only provide personal information over reputable, encrypted websites; this includes shopping or banking sites. Look for an "https" at the beginning of a web address and be sure it's on every page of the site.

We all have too many passwords to count; however, strong passwords are a major barrier in protecting your personal information. Use at least 10 characters and mix letters, numbers and special characters. Make passwords arbitrary; don't use names, birthdates or common words. Do not use the same password for multiple accounts and do not share them via text or email. It is imperative to set password and encryption protection for wireless networks. If a home or business Wi-Fi is unsecured, it allows any device within range to access the wireless network and potentially steal information.

Double down for important information. In other words, copy vital files, including federal and state tax returns, onto a removable disc or a back-up drive and store it in a safe place. If you store sensitive information on your personal computer, be sure to use a file encryption program to add an additional layer of security.

And don't forget to educate children about all these data security measures as well!

Changes to your Form W-4

When to file

The IRS has redesigned the Form W-4 due to changes in the tax law that eliminated personal exemptions/allowances. The new Form W-4 should make it easier for you to make any changes to your employer tax withholding. There are several reasons to check your withholding, such as protecting against having too little tax withheld and facing an unexpected tax bill or penalty at tax time. On the other hand, if you often have a large refund, perhaps you would prefer to have less tax withheld up front and receive more money in your paychecks throughout the year.

There is no need to file a new Form W-4 merely because of the redesign. However, if you want to make changes to your withholding effective for 2020, be sure to contact me as soon as possible so we can file a new Form W-4 by December 1, 2019.

Maximizing student financial aid

Seven tax strategies

What's on your tax return plays a big role in determining how much financial aid a college offers to students. To get the most financial aid possible, you need to plan out any tax moves several years before applying.

Colleges look at the income and assets of the parents and the student when calculating the "expected family contribution," which in turn is used to calculate a student's need for financial aid. But schools don't look at last year's income. Instead they look at income reported two years before the start of the school year. Financial aid for the 2021–2022 school year, for example, will be based in part on how much adjusted gross income (AGI) is reported on your 2019 tax return.

Keeping AGI as low as possible can help result in a better financial aid package for the college student. Here are seven techniques that parents and future college students can use to lower their adjusted gross income:

- Avoid taking unnecessary distributions from IRAs and other retirement plans.
- Avoid selling stocks and investments with large capital gains, as this will increase your income.
- Consider selling investments that have lost value so you can take a capital loss, which in turn reduces your AGI.
- Consider selling rental property. In some situations, this can unlock accumulated passive losses and significantly reduce your AGI.
- Consider working abroad and claiming the foreign earned income exclusion. This can reduce your AGI by up to $105,900 for tax year 2019.
- Consider increasing contributions to a pre-tax 401(k) or 403(b) plan. This reduces your taxable wages, which in turn lowers your AGI.
- Consider making tax-deductible contributions to a traditional IRA, self-employed retirement plan, or health savings account. These deductions reduce your AGI.

As your tax adviser, I can help you figure out which strategies will work best for keeping your AGI as low as possible.