Year-End Tax Planning Strategies

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With year-end quickly approaching, now is a great time to plan ahead with strategies that may provide meaningful tax savings. Included below are several planning opportunities to consider before year-end:

Harvest Losses
Review unrealized gains and losses in taxable investment accounts and harvest losses where available. Realized losses can offset other realized gains. To the extent that realized losses exceed realized gains, net realized losses can offset up to $3,000 of ordinary income with any remainder resulting in a loss carryforward to be used in future years.

Given strong market returns in 2017, loss harvesting options may be fewer than in years past, though still worthwhile to review. Beware of the 'wash sale' rule which states that a loss cannot be realized (for tax purposes) if a substantially identical position was bought within 30 days before or after the sale.

Watch Out for Mutual Fund Year-End Capital Gain Distributions
Mutual funds are required to pass along capital gains to fund shareholders. Regardless of whether the fund shareholder actually benefited from the fund's sale of underlying securities, the shareholder would receive (and be taxed on) the capital gain distribution if the mutual fund is held as of the dividend record date.

Mutual fund families typically give estimates for year-end distributions from mid-October to early November, with such distributions most commonly occurring in December. Capital gain distributions can be either short-term or long-term. Short-term capital gain dividends are treated as *ordinary income* and thus *cannot* be offset by realized losses. In contrast, long-term capital gain dividends can be offset by realized losses. It is important to review unrealized gains and losses across mutual fund holdings in taxable accounts and to compare those figures against capital gain distribution estimates to determine if selling a mutual fund position before the year-end dividend distribution could result in tax savings.

Charitable Giving
Many taxpayers opt for the convenience of donating cash or writing checks to charities, though it is preferable from a tax planning standpoint to gift long-term appreciated securities from a taxable investment account. By gifting long-term appreciated securities, the charity receives the same benefit as a cash donation, however the taxpayer receives a tax deduction for the full market value of the gift and avoids paying capital gains taxes on the security (if it were otherwise sold).

In high income years, a taxpayer might benefit from giving a greater amount to charity, though the taxpayer may not have a list of charities in mind. In such a situation, giving to a donor-advised fund can be an effective strategy, as the taxpayer receives a current year tax deduction for the gift to the donor-advised fund while charitable grants (from the donor-advised fund) can be made at a later date.

Personal Giving
As the law currently stands, individuals with assets in excess of the estate exemption ($5.49 million per person for 2017) are potentially subject to federal estate taxes at a top 40% tax rate. The law provides for annual exclusion gifts ($14,000 per person for 2017) which do not count against the $5.49 million exemption amount. In addition, payments for tuition and medical expenses which are made directly to the educational/medical institution do not constitute as gifts. Utilizing annual exclusion gifts (as well as direct payments for tuition and medical expenses) can be beneficial for high net worth individuals as it effectively reduces the size of an estate that might otherwise be subject to estate taxes.

Satisfy Required Minimum Distributions (RMDs) using the IRA Charitable Rollover
Taxpayers over age 70½ are required to take minimum distributions from retirement accounts (except for Roth IRAs). Taxpayers over age 70½ can transfer up to $100,000 each year from an IRA to qualified charities (generally, public charities other than supporting organizations and certain foundations and donor-advised funds are excluded). The charitable transfer does not count as an itemized deduction nor count as a taxable IRA distribution. This provision may be helpful to individuals with a certain portion of itemized deductions phased out due to income limits as well as to individuals who do not itemize deductions.

Monitor Tax Reform Negotiations
In late September, Republicans released a proposal for tax reform, "Unified Framework for Fixing Our Broken Tax Code". Given the potential for broad revisions to the tax code, taxpayers are encouraged to follow negotiations over the coming weeks and months in anticipation of what changes may occur.

To the extent that income may be taxed at a lower rate in future years versus the current year, it might make sense to defer income items to a future year. To the extent that certain itemized deductions would be limited or eliminated in the future, it might make sense to accelerate those deductions into the current year barring any Alternative Minimum Tax (AMT) issues. Given the complexity involved with estimating year-over-year tax liabilities, consulting with a qualified tax professional is recommended.

The professionals in The Wealth Office™ at DiMeo Schneider & Associates stand prepared to help clients address financial planning matters such as these. Please contact any of the professionals in The Wealth Office™ for more information.

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Nick provides investment consulting services to nonprofit organizations, corporate executives, family trusts and other high net worth investors. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process and overall investment management. Nick is also a member of the firm's Core Investment Strategy Group. Prior to joining the firm in 2007, Nick was a Senior Financial Planner with The Ayco Company where he provided comprehensive advice to affluent clientele. Nick earned a BA in Finance and Economics from the University of Illinois at Urbana-Champaign. He obtained the designation of Certified Financial Planner (CFP®) from the College of Financial Planning and is a CFA® charterholder and member of the CFA Society of Chicago. Nick enjoys long distance running (having completed three marathons and multiple half-marathons) and spending time with his family.