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TAX PREPARATION

A few year-end strategies can help lower your 2019 bill

By Tim Grant
Pittsburgh Post-Gazette

While 2019 is shaping up to be a quiet year for new tax legislation, we are in the second year of the 2017 Tax Cuts and Jobs Act, which was the first major overhaul of the code in over 30 years.

With year-end approaching, it may be time to look at some tax-planning considerations that can help lower your 2019 tax bill.

One change that will impact many people is the drastic reduction of certain itemized deductions allowed on Schedule A.

For starters, there's a much higher standard deduction in 2019 ($12,200 for individuals, $24,000 for married filing jointly, $27,000 if 65 and over). Prior to 2018, the standard deductions were about half this year's amount ($6,350 for individuals, $12,700 for married couples filing jointly and $15,200 for married couples who were both 65 and over).

That bigger standardized deduction has simplified the filing process for millions of Americans.

The Joint Committee on Taxation estimated a year ago that the number of filers who itemize would fall from 46.5 million in 2017 to just over 18 million in 2018, meaning about 88% of the 150 million households filing taxes will take the increased standard deduction.

But with the higher standard deduction amounts, there also are significant limitations on what can be included for itemized deductions.

"For those taxpayers who never itemized or were not close to being able to itemize, the increase in itemized deductions is favorable," said James Lange, a Squirrel Hill-based tax accountant, attorney and author. "For others, particularly if you pay high real estate taxes and state and local income taxes, the change in itemized deductions generally hurt you."

Among other things, the new tax law limits interest deductions on mortgage debt to the first $750,000 instead of the previous limit of $1 million. The itemized deduction for state and local taxes - including real estate taxes - will be capped at a total of $10,000.

"With many taxpayers no longer itemizing deductions, additional focus should shift to adjusted gross income tax planning," Mr. Lange said.

Howard Davis, president of the tax accounting firm Davis, Davis & Associates in the Strip District, said adjusted gross income is a taxpayer's total income from wages, interest, dividends, capital gains, self employment, business income and other income items such as rental income.

"There are some deductions you can take to get down to adjusted gross income, such as IRA deductions and health savings account deductions," Mr. Davis said.

"The whole idea of [adjusted gross income] tax planning is you might have more flexibility there than trying to itemize your deductions because the standard deduction in most cases is higher than itemizing your deductions," Mr. Davis said.

He said if you reduce the adjusted gross income then it reduces your overall tax.

In other words, adjusted gross income can directly impact the deductions and credits a taxpayer is eligible for, which can wind up reducing the amount of taxable income a taxpayer reports on his tax return.

Bunching strategy

One method of gaming the rules for standard deductions versus itemizing deductions is using the "bunching" strategy.

Bunching your expenses that could count as itemized deductions is a technique that involves accumulating

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deductions so they are high one year and low the following year.

"It's very typical for most taxpayers to wait until tax time to add everything up and use the higher of the standard deduction or their itemized deductions," Mr. Lange said.

By being proactive, you can time the payments of tax-deductible items to maximize your itemized deductions in one year while using the standard deduction the following year.

For example, Mr. Lange said taxpayers could consider bunching charitable donations every other year while taking the standard deduction in the off years.

Another popular vehicle for maximizing charitable donations is the use of a donor-advised fund. You can contribute money to the fund, take a charitable contribution and at a later date contribute money from within the donor-advised fund to different charities.

"For example, you can put $25,000 into a donor-advised fund and once it goes in there, you have a charitable contribution," Mr. Davis said. "But you can make charitable contributions from that account at a later date."

He said the idea is that over two years, the taxpayer gets more deductions that way than by taking the standard deduction each of those two years.

In a high-income year, front loading the donor-advised fund with a larger contribution can be advantageous. Another benefit is that the assets within the fund also enjoy tax-free growth.

"We have found that charities are very active with their solicitations during the holiday season and would be happy to receive gifts near year-end or early in the new year," Mr. Lange said. "If you think you will be itemizing your deductions in 2019, but not next year, consider making last minute cash and non-cash charity donations before year-end."

Don't have cash? That can be negotiated, too, he said.

"If you don't have the extra cash available today, you can use a credit card before the year-end and still qualify for a 2019 tax deduction."

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