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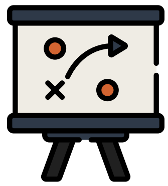
Five Tax-Planning Opportunities
Lessons Learned from 2018 Tax Returns

November 14, 2019



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It's hard to believe that 2019 is almost over. Amid the hustle and bustle of the holidays, don't forget to carve out some time for tax planning. While admittedly not as much fun, you want to make sure that you're taking the necessary steps to minimize your tax liabilities in 2019 (and beyond) and are working with an advisor who understands the nuances of your tax situation.

Here are a few planning ideas based on the most common issues we encountered while preparing clients' 2018 tax returns:

- **Tax Withholding.** Many taxpayers who were expecting tax refunds actually ended up owing money. This outcome was due in part to inadequate withholding, meaning current elections weren't sufficient under the new rules of the Tax Cuts and Jobs Act (TCJA).

  Planning opportunity: *To avoid a repeat of last year, use the IRS Tax Withholding Estimator to determine the appropriate level of withholding for your situation. Then, check your paystub to see how much is being withheld. If it's not enough, you can submit an updated W4 Form to your employer to increase your withholding. Additionally, if you're expecting a large bonus before year-end, you might consider requesting "extra" withholding to make up for any shortfall during the year to mitigate potential underestimated tax penalties.*

- **Itemized Deductions.** TCJA essentially doubled the standard deduction ($24,400 for married filing jointly) and capped the deduction for property, state and local taxes at $10,000. As a result, it's less likely a person's total itemized deductions will exceed the standard deduction.

  Planning opportunity: *Consider bunching your charitable gifts in one year rather than spreading them out over two or more. This strategy may help raise your itemized deductions above the standard amount. Many people use a Donor Advised Fund to help manage their donations. You can also bunch deductible medical expenses, assuming it makes sense for your situation.*

- **Bonus Depreciation on Qualified Improvement Property.** Improvements to the interior of existing commercial buildings placed in service between September 28, 2017 and December 31, 2022 were intended to qualify for a depreciation life of 15 years, making them available for the 100% bonus depreciation rules. However, when TCJA was drafted, it omitted specific wording that would allow buildings placed in service after 2017 to qualify. Accordingly, as of the writing of this article, those assets are depreciable under a 39-year depreciation schedule and are not eligible for bonus depreciation.

  Planning opportunity: *The IRS permits taxpayers to expense certain business assets. If you have qualifying assets, you should consider making this election. In the absence of the technical corrections needed to change the Qualified Improvement Property rule, this provision could allow you to achieve similar results to bonus depreciation. However, unlike bonus depreciation, there are certain limits to the amount that can be expensed as well as potential recapture issues.*

- **Pass-Through Deduction and Business Interest Limitation.** TCJA significantly changed the rules regarding deductible business interest expense (Internal Revenue Code Section 163(j)) while creating a new deduction that allows certain owners to exclude 20% of their pass-through Qualified Business Income from federal taxes (Internal Revenue Code Section 199A). Both of these provisions contain complex formulas and limitations, which make every taxpayer's situation unique. As of the date of this article, we're still receiving guidance from the Treasury Department as to how these provisions are intended to work.

  Planning opportunity: *Under these rules, taxpayers can aggregate activities to achieve better results than allowing each activity to stand alone. Work with your tax advisor to determine which ones can be aggregated together for maximum benefit.*

- **Disconnect with state laws.** You might be surprised to learn that not all states have adopted TCJA in its entirety. Some have elected not to conform at all while others have picked only certain provisions. This disconnect can make filing your state return more complicated.

  Planning opportunity: *Make sure your tax advisor has a deep understanding not only of federal tax laws but also the laws of your state. You want to work with someone who can provide strategies and solutions that optimize your taxes at both the state and federal level while ensuring proper reporting.*

Here at Cerity Partners, we have seasoned and experienced tax professionals who have helped clients successfully navigate changes in tax laws since the Tax Reform Act of 1986. Our vast knowledge enables us to deliver tax-efficient solutions for each aspect of your financial life from your investments to your estate plan. Contact a Cerity Partners advisor or visit ceritypartners.com to learn more.

Steve is a Partner in the Orange County office. He has more than thirty years of experience in tax and accounting, providing comprehensive tax planning, tax compliance, and transactional consulting services. Steve has served a variety of businesses throughout his career; however, his professional focus and technical expertise focus on entrepreneurial companies and high-net-worth individuals. Additionally, he has significant expertise in the real estate industry. Steve leads the Tax Practice and is a member of the Executive Committee.