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December 2018

Your 2019 Financial To-Do List

Things you can do for your future as the year unfolds

THE MONTH IN BRIEF

For most of November, the stock market was plagued by the same skepticism evident in October: the sense that corporate profits were declining and economic growth was slowing. Then Federal Reserve chairman Jerome Powell threw investors a line: he delivered a speech late in the month that soothed some of the considerable anxiety in the equity markets. Helped by Powell's comments, the S&P 500 gained 1.79% on the month. While analysts sensed the bull market was in its late phase, consumers remained confident, enthusiastic participants in an apparently thriving economy. In a surprise, home sales picked up. Oil fell. The United Kingdom scheduled a critical parliamentary vote on the Brexit; China and the U.S. returned to the negotiating table regarding tariffs.[1]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	3.31	5.22	11.75	21.34
NASDAQ	6.19	6.64	16.11	42.43
S&P 500	3.24	4.25	10.57	23.82
REAL YIELD	**11/30 RATE**	**1 YR AGO**	**5 YRS AGO**	**10 YRS AGO**
10 YR TIPS	1.04	0.56	0.60	2.38

Sources: wsj.com, bigcharts.com, treasury.gov - 11/30/18[18,19,20,21]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

MONTHLY QUOTE
"I am certain there is too much certainty in the world."

- Michael Crichton

MONTHLY TIP
Many couples buy life insurance when they start a family, insuring both partners (even if one elects to stop working). There is a good reason to insure both partners: If a stay-at-home spouse or partner passes away and is uninsured, a surviving spouse could face sizable expenses to pay for childcare and other household needs..

MONTHLY RIDDLE
It is often surrounded by water and at risk from waves, and it has a fin rather than a sail or motor, but without water and waves, there would be no real use for it. What is it?

Last month's riddle:
It is as old as the world, and yet new each month. What is it?

Last month's answer:
The moon.

Your 2019 Financial To-Do List

Things you can do for your future as the year unfolds

What financial, business, or life priorities do you need to address for 2019? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to lowering your taxes. You have plenty of options. Here are a few that might prove convenient.

Can you contribute more to your retirement plans this year? In 2019, the yearly contribution limit for a Roth or traditional IRA rises to $6,000 ($7,000 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA: singles and heads of household with MAGI above $137,000 and joint filers with MAGI above $203,000 cannot make 2019 Roth contributions. [1]

For tax year 2019, you can contribute up to $19,000 to 401(k), 403(b), and most 457 plans, with a $6,000 catch-up contribution allowed if you are age 50 or older. If you are self-employed, you may want to look into whether you can establish and fund a solo 401(k) before the end of 2019; as employer contributions may also be made to solo 401(k)s, you may direct up to $56,000 into one of those plans. [1]

Your retirement plan contribution could help your tax picture. If you won't turn 70½ in 2019 and you participate in a traditional qualified retirement plan or have a traditional IRA, you can cut your taxable income through a contribution. Should you be in the new 24% federal tax bracket, you can save $1,440 in taxes as a byproduct of a $6,000 traditional IRA contribution. [2]

What are the income limits on deducting traditional IRA contributions? If you participate in a workplace retirement plan, the 2019 MAGI phase-out ranges are $64,000-$74,000 for singles and heads of households, $103,000-$123,000 for joint filers when the spouse making IRA contributions is covered by a workplace retirement plan, and $193,000-$203,000 for an IRA contributor not covered by a workplace retirement plan, but married to someone who is. [1]

Roth IRAs and Roth 401(k)s, 403(b)s, and 457 plans are funded with after-tax dollars, so you may not take an immediate federal tax deduction for your contributions to them. The upside is that if you follow I.R.S. rules, the account assets may eventually be withdrawn tax free.[3]

Your tax year 2019 contribution to a Roth or traditional IRA may be made as late as the 2020 federal tax deadline – and, for that matter, you can make a 2018 IRA contribution as late as April 15, 2019, which is the deadline for filing your 2018 federal return. There is no merit in waiting until April of the successive year, however, since delaying a contribution only delays tax-advantaged compounding of those dollars. [1,3]

Should you go Roth in 2019? You might be considering that if you only have a traditional IRA. This is no snap decision; the Internal Revenue Service no longer gives you a chance to undo it, and the tax impact of the conversion must be weighed versus the potential future benefits. If you are a high earner, you should know that income phase-out limits may affect your chance to make Roth IRA contributions. For 2019, phase-outs kick in at $193,000 for joint filers and $122,000 for single filers and heads of household. Should your income prevent you from contributing to a Roth IRA at all, you still have the chance to contribute to a traditional IRA in 2019 and go Roth later. [1,4]

Incidentally, a footnote: distributions from certain qualified retirement plans, such as 401(k)s, are not subject to the 3.8% Net Investment Income Tax (NIIT) affecting single/joint filers with MAGIs over $200,000/$250,000. If your MAGI does surpass these thresholds, then dividends, royalties, the taxable part of non-qualified annuity income, taxable interest, passive income (such as partnership and rental income), and net capital gains from the sale of real estate and investments are subject to that surtax. (Please note that the NIIT threshold is just $125,000 for spouses who choose to file their federal taxes separately.) [5]

Consult a tax or financial professional before you make any IRA moves to see how those changes may affect your overall financial picture. If you have a large, traditional IRA, the projected tax resulting from a Roth conversion may make you think twice.

What else should you consider in 2019? There are other things you may want to do or review.

Make charitable gifts. The individual standard deduction rises to $12,000 in 2019, so there will be less incentive to itemize deductions for many taxpayers – but charitable donations are still deductible if they are itemized. If you plan to gift more than $12,000 to qualified charities and non-profits in 2019, remember that the paper trail is important. [6]

If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record or a written communication from the charity with the date and amount. Incidentally, the I.R.S. does not equate a pledge with a donation. You must contribute to a qualified charity to claim a federal charitable tax deduction. Incidentally, the Tax Cuts and Jobs Act lifted the ceiling on the amount of cash you can give to a charity per year – you can now gift up to 60% of your adjusted gross income in cash per year, rather than 50%. [6,7]

What if you gift appreciated securities? If you have owned them for more than a year, you will be in line to take a deduction for 100% of their fair market value and avoid capital gains tax that would have resulted from simply selling the investment and donating the proceeds. The non-profit organization gets the full amount of the gift, and you can claim a deduction of up to 30% of your adjusted gross income. [8]

Does the value of your gift exceed $250? It may, and if you gift that amount or larger to a qualified charitable organization, you should ask that charity or non-profit group for a receipt. You should always request a receipt for a cash gift, no matter how large or small the amount. [8]

If you aren't sure if an organization is eligible to receive charitable gifts, check it out at irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.

Open an HSA. If you are enrolled in a high-deductible health plan, you may set up and fund a Health Savings Account in 2019. You can make fully tax-deductible HSA contributions of up to $3,500 (singles) or $7,000 (families); catch-up contributions of up to $1,000 are permitted for those 55 or older. HSA assets grow tax deferred, and withdrawals from these accounts are tax free if used to pay for qualified health care expenses. [9]

Practice tax-loss harvesting. By selling depreciated shares in a taxable investment account, you can offset capital gains or up to $3,000 in regular income ($1,500 is the annual limit for married couples who file separately). In fact, you may use this tactic to offset all your total capital gains for a given tax year. Losses that exceed the $3,000 yearly limit may be rolled over into 2020 (and future tax years) to offset ordinary income or capital gains again. [10]

Pay attention to asset location. Tax-efficient asset location is an ignored fundamental of investing. Broadly speaking, your least tax-efficient securities should go in pre-tax accounts, and your most tax-efficient securities should be held in taxable accounts.

Review your withholding status. You may have updated it last year when the I.R.S. introduced new withholding tables; you may want to adjust for 2019 due to any of the following factors.

* You tend to pay a great deal of income tax each year.

* You tend to get a big federal tax refund each year.

* You recently married or divorced.
* A family member recently passed away.
* You have a new job, and you are earning much more than you previously did.
* You started a business venture or became self-employed.

Are you marrying in 2019? If so, why not review the beneficiaries of your workplace retirement plan account, your IRA, and other assets? In light of your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2019, you will need a new Social Security card. Additionally, the two of you, no doubt, have individual retirement saving and investment strategies. Will they need to be revised or adjusted once you are married?

Are you coming home from active duty? If so, go ahead and check the status of your credit and the state of any tax and legal proceedings that might have been preempted by your orders. Make sure any employee health insurance is still in place. Revoke any power of attorney you may have granted to another person.

Consider the tax impact of any upcoming transactions. Are you planning to sell (or buy) real estate next year? How about a business? Do you think you might exercise a stock option in the coming months? Might any large commissions or bonuses come your way in 2019? Do you anticipate selling an investment that is held outside of a tax-deferred account? Any of these actions might significantly impact your 2019 taxes.

If you are retired and older than 70½, remember your year-end RMD. Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs, 401(k)s, SEP IRAs, and SIMPLE IRAs by December 31 of each year. The I.R.S. penalty for failing to take an RMD equals 50% of the RMD amount that is not withdrawn. [4,11]

If you turned 70½ in 2018, you can postpone your initial RMD from an account until April 1, 2019. All subsequent RMDs must be taken by December 31 of the calendar year to which the RMD applies. The downside of delaying your 2018 RMD into 2019 is that you will have to take two RMDs in 2019, with both RMDs being taxable events. You will have to make your 2018 tax year RMD by April 1, 2019, and then take your 2019 tax year RMD by December 31, 2019. [11]

Plan your RMDs wisely. If you do so, you may end up limiting or avoiding possible taxes on your Social Security income. Some Social Security recipients don't know about the "provisional income" rule – if your adjusted gross income, plus any non-taxable interest income you earn, plus 50% of your Social Security benefits surpasses a certain level, then some Social Security benefits become taxable. Social Security benefits start to be taxed at provisional income levels of $32,000 for joint filers and $25,000 for single filers. [11]

Lastly, should you make 13 mortgage payments in 2019? There may be some merit to making a January 2020 mortgage payment in December 2019. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more.

Talk with a qualified financial or tax professional today. Vow to focus on being healthy and wealthy in 2019.

For more information on investment choices for your retirement plan, please call our plan's advisor at 703-595-4444 or email at info@pointoak.com

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