Before the Ball Drops

Some financial moves you may want to make before the new year.

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What has changed for you in 2017? Did you start a new job or leave a job behind? Did you retire? Did you start a family? If notable changes occurred in your personal and/or professional life, you will certainly want to review your finances before year end.

Even if 2017 has been relatively uneventful for you, the end of the year is still a good time to strategize and see where you can maximize your tax savings.

Do you itemize deductions? If so, now would be a good time to gather the receipts and assorted paperwork. You may be eligible to deduct for: state sales tax, student loan interest, military-related allowances, energy efficiency investments and/or estate tax paid on inherited IRA assets.

The GOP Tax Plan proposes doubling the standard deduction while eliminating (or reducing) the deductions for state and local income tax, medical expenses and home mortgage interest as early as next year. As such, it may make sense to “speed up” your expenses to bring them into 2017, when we know you will be able to deduct them. For instance, if your state allows it, prepay your 2018 property tax and make your first 2018 estimated state tax payment before December 31. Do the same with medical expenses, long-term care premiums, and mortgage interest payments, if these are items you usually itemize and deduct. It is unknown whether these deductions will still exist in the new year, so take advantage of them now.

It may also make sense to contribute a lump-sum to a Donor Advised Fund before the end of 2017, as this tax-saving strategy could also be eliminated if the GOP Tax Bill is passed in its current form. You’ll receive the benefit of the charitable contribution deduction for 2017, even if you do not distribute the assets to your
chosen charities this year, or even next.

An added advantage of a 2017 DAF contribution is that you can transfer highly-appreciated stock into the DAF. You will receive the charitable deduction for the fair market value of the asset, and ultimately be able to donate that full amount to causes you care about, and avoid having to pay capital gains tax on the asset’s appreciation.

**Could you ramp up 401(k) or 403(b) contributions?** Contributions to these retirement plans lower your yearly gross income. If you lower your gross income enough, you might be able to qualify for other tax credits or breaks available to those under certain income limits. Note that contributions to Roth 401(k)s and Roth 403(b)s are made with after-tax rather than pre-tax dollars, so contributions to those accounts are not deductible and will not lower your taxable income for the year. They will, however, help to strengthen your retirement savings.

**Are you thinking of gifting?** The federal gift tax exclusion is $14,000 for 2017. So, as an individual, you can gift up to $14,000 to as many people as you wish this year. A married couple can gift up to $28,000 to as many people as they desire in 2017. Unfortunately, the I.R.S. prohibits a current-year income tax deduction for the value of a non-charitable gift (note that the gift tax exclusion rises to $15,000 in 2018).

While we’re on the topic of estate planning, why not take a moment to review the beneficiary designations for your IRA, your life insurance policy, and workplace retirement plan? If you haven’t reviewed them for a decade or more (which is all too common), double-check to make sure these assets will go to the intended recipient(s) should you pass away. Lastly, look at your will to see that it remains valid and up-to-date.

**Should you convert all or part of a traditional IRA into a Roth IRA?** You will be withdrawing money from that traditional IRA someday, and those withdrawals will equal taxable income. Withdrawals from a Roth IRA you own are not taxed during your lifetime, assuming you follow the rules. If you have already retired and do not have much income, it may make sense to convert a small percentage of your traditional IRA into a Roth IRA. This enables you to “fill up” your low tax bracket before your required minimum distributions begin which will push you into a higher tax bracket. If you think this makes sense for you, please contact your BakerAvenue advisor before the end of the year.

**Look-out for scams.** How can you tell if a scammer is claiming to be the I.R.S. in an effort to steal your money or personal information? Watch for these giveaways:

- The I.R.S. will never call you to demand immediate payment of income taxes. Anyone owing federal taxes first receives a written notice from the agency, in the form of a bill.

- The I.R.S. never leaves a taxpayer with no
**Make the Most of your Charitable Giving**

**Are you making charitable donations this holiday season?** You need to document each donation you make. Ideally, the charity uses a form it has on hand to provide you with proof of your contribution. If the charity does not have such a form handy (and some charities do not), then a receipt, a credit or debit card statement, a bank statement, or a cancelled check will have to suffice. The I.R.S. needs to know three things: (1) the name of the charity, (2) the gifted amount, and (3) the date of your gift.\(^2\) Make sure your gift goes to a qualified charity with 501(c)(3) non-profit status. Also, visit CharityNavigator.org, CharityWatch.org, or GiveWell.org to evaluate a charity and learn how effectively it utilizes donations. If you are considering a large donation, ask the charity involved how it will use your gift. If you donated money this year to a crowdsourcing campaign organized by a 501(c)(3) charity, the donation should be tax deductible.

**You could make a charitable IRA gift.** If you view the annual Required Minimum Distribution (RMD) from your traditional IRA as a bother, think about a qualified charitable distribution (QCD) from your IRA. Traditional IRA owners age 70½ and older can arrange direct transfers of up to $100,000 from an IRA to a qualified charity (Married couples have a yearly limit of $200,000.). The gift can satisfy some or all of your RMD; the amount gifted is excluded from your adjusted gross income for the year (you can also make a qualified charity a sole beneficiary of an IRA, should you wish).\(^5,\^6\)

**Do you have an unneeded life insurance policy?** If you make an irrevocable gift of that policy to a qualified charity, you can get a current-year income tax deduction. If you keep paying the policy premiums, each payment becomes a deductible charitable donation (deduction limits can apply).

If you pay premiums for at least three years after the gift, that could reduce the size of your taxable estate. The death benefit will be out of your taxable estate in any case.\(^7\)

**How can you make your gifts have more impact?** Thoughtful estate planning may help your gifts go further. A charitable remainder trust or a contract between you and a charity could allow you to give away an asset to a 501(c)(3) organization while retaining a lifetime interest. You could also support a charity with a gift of life insurance. You may wish to explore a gift of highly appreciated securities. This transfer can accomplish three things: you can avoid paying the capital gains tax you would normally pay upon selling the shares, you can take a current-year tax deduction for their full fair market value, and the charity gets the full value of the shares, not their after-tax net value.\(^5\)

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**How it Works: Charitable Remainder Trust**

- Contribute highly appreciated stock to Charitable Remainder Trust.
- Receive an immediate income-tax deduction and diversify low-basis stock without immediate tax consequences.
- You or another designated beneficiary receive fixed or %-based stream of income for life or set period.
- At end of donor’s life or other term, remainder of the account goes to your chosen charity or charities.
chance of appeal. Taxpayers are perfectly within their rights to question and contest I.R.S. claims that they owe federal taxes.

- The I.R.S. never threatens to sue taxpayers. A call, email, or letter threatening legal action with regard to your taxes is not an Internal Revenue Service communication.

- The I.R.S. never calls the police or sheriff to arrest taxpayers. It does not hire local law enforcement officers to collect taxes.

**Protect Your Identity.** More than half of Americans have had their personal information hacked over the past year. Hackers may use this information to file fraudulent tax returns.

**Why would someone want to file a tax return in your name?** Hackers use your personal information to file a return claiming a large tax refund, which they cash long before April 15.

**How does this impact you?** When you go to file your return, the IRS will notify you that a return has already been filed in your name. You will then have to prove that you were the victim of identity theft and need to get a new tax filing ID number. To avoid this frustrating, time-consuming process, file your 2017 tax return as early as possible.

**Waiting for K1s?** That's ok. File your return using last year's numbers and then, when you receive your 2017 K-1, amend your return. If someone else goes to file a return in your name, after you've already filed, the IRS will kick the return back to them asking them to prove who they really are.

**What can you do before the New Year?** Contact your financial or tax professional now rather than in February or March. Small year-end moves might help you improve your short-term and long-term financial situation.

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