Westover Capital Advisors®, LLC

2019 TAX AND WEALTH PLANNING GUIDE

www.westovercapital.com

Westover's 2019 Tax and Wealth Planning Guide

We are pleased to share our checklist of key wealth and tax planning considerations to help make sense of the complex array of tax laws affecting higher-income taxpayers. Westover has researched and distilled the new and existing tax laws to help you better understand and plan for the upcoming tax season while helping meet your personal goals, such as: leveraging tax benefits to which you are entitled, preserving investment returns, structuring charitable giving to make the most of your donations and preparing for a secure retirement, among others. We look forward to working with you to evaluate, assess and implement actions to mitigate tax consequences and maximize your wealth.

The New Law

The Tax Cuts and Jobs Act (TCJA) was enacted in December of 2017. The new law introduced significant changes to many areas of the U.S. tax system. Many of the individual provisions are indexed for inflation (but not all) and virtually all individual provisions are scheduled to expire after 2025 and revert to their pre-enactment form. Below is a table of key changes in 2018 and 2019 affecting individuals.

Key TCJA Tax Changes Affecting Individuals

Old vs. New Tax Brackets for Married Filing Jointly

2017 Taxable Income	Tax Rate	2018 Taxable Income	Tax Rate
$0 - $19,050	10%	$0 - $19,050	10%
$19,051 - $77,400	15%	$19,051 - $77,400	12%
$77,401 - $156,150	25%	$77,401 - $165,000	22%
$156,151 - $237,950	28%	$165,001 - $315,000	24%
$237,951 - $424,950	33%	$315,001 - $400,000	32%
$424,951 - $480,050	35%	$400,001 - $600,000	35%
$480,051+	39.6%	$600,001+	37%

Old vs. New Capital Gains Rates for Married Filing Jointly

2017 Taxable Income	Tax Rate	2018 Taxable Income	Tax Rate
$0 - $75,900	0%	$0 - $77,200	0%
$75,901 - $470,700	15%*	$77,201 - $479,000	15%*
$470,701+	20%*	$479,001+	20%*

*The Net Investment Income Tax (NIIT) is a 3.8% surtax imposed on taxpayers with MAGI in excess of $250,000 married filing jointly and is applied to only investment income that exceeds the threshold. Income from investments includes interest, dividends, short- and long-term capital gains, rental and royalty income, passive business income and gains from sale of primary residence to the extent they exceed $500,000 for married filing jointly.

Standard deduction:	2018: $12,000 for single filers, $24,000 for married couples filing a joint return (approx. 1.67% inflation-adjusted for 2019); an additional standard deduction amount for age 65+ or blind individuals applies ($1,300 per spouse for married couples, $1,650 for single filers).
Mortgage interest deduction:	Deduction of interest on up to $750,000 of aggregate mortgage debt used to build, acquire, or improve a property (including interest on a HELOC). Grandfather provision applies to debt acquired prior to 12/15/17; allows interest on up to $1 million to be deducted.
State and local taxes (SALT) deduction:	Capped at $10,000 in aggregate.
Estate/gift tax exemption:	2018: $11.18 million unified credit exemption adjusted for inflation ($11.4 million in 2019).
Annual gift tax exclusion amount:	$15,000 per person.

2019 Tax-Smart Planning Opportunities

Keeping your tax liability to a minimum is key to overall financial health. Fortunately, there are tried and true ways to achieve that goal. Below are some of the tax reduction strategies to consider in 2019. Please note that this list is not all-inclusive and some exceptions may apply. We look forward to reviewing with you to determine which strategies make sense for you.

1. **Maximize deductions in years when itemizing (see worksheet)**: With the large increase in the standard deduction under recent tax law changes, and the scaling back of many popular deductions, fewer taxpayers will choose to itemize on their tax return going forward. Some taxpayers may benefit by alternating between claiming the standard deduction some years and itemizing deductions other years. If possible, it would make sense to "lump" as many deductions into those years when itemizing to clear the standard deduction hurdle. For example, taxpayers may want to consider making a substantial charitable contribution during a tax year when itemizing instead of making regular, annual gifts. In addition, with the repeal of the "Pease rule," there are no phaseouts on itemized deductions at higher income levels.

2. **Consider Roth IRA/401(k) contributions or conversions:** A thoughtful strategy utilizing Roth accounts can be an effective way to hedge against the threat of facing higher taxes in the future. Younger investors or taxpayers in lower tax brackets should consider using Roth accounts to create a source of tax-free income in retirement. It is virtually impossible to predict tax rates in the future or to have a good idea of what your personal tax circumstances will look like years from now. Like all income from retirement accounts, Roth income is not subject to the new 3.8% surtax and is also not included in the calculation for the $200,000 income threshold ($250,000 for couples) to determine if the surtax applies. IRA owners considering a conversion to a Roth IRA should carefully evaluate that transaction since the option to recharacterize, or un-do, a Roth IRA conversion is no longer available.

3. **The Qualified Charitable Deduction (QCD):** Retired IRA owners (age 70½ and older) may benefit from directing charitable gifts tax free from their IRA. Since even more retirees will claim the higher standard deduction, they will not benefit tax-wise from making those charitable gifts unless they itemize deductions. Account owners are limited to donating $100,000 annually, which can include the required minimum distribution (RMD), and the proceeds must be sent directly to a qualified charity.

4. **Maximize the 20% deduction for Qualified Business Income (QBI):** The TCJA introduced a new provision (Section 199A) that allows certain taxpayers to generally deduct 20% of qualified business income on their tax return. Business income from pass-through entities such as sole proprietorships, partnerships, LLCs, and S Corps may qualify for this new deduction. Certain types of businesses —defined as a specified service trade or business (SSTB) — may be limited from taking the deduction based on the taxpayer's household taxable income. The deduction is subject to a phaseout for SSTBs once income exceeds $160,700 ($321,400 for married couples filing a joint return). SSTBs include businesses performing services in fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, and certain brokerage services. Business owners impacted by the income phaseout may want to consider strategies to reduce taxable income such as funding retirement accounts, deferring income, or accelerating business expenses.

5. **Review estate planning documents and strategies**: The increase in the lifetime exclusion amount for gifts and estates ($11.4 million per individual in 2019) may have unintended consequences for some individuals and families with wealth under that threshold. They may think that they do not have to plan for their estate. However, taxes are just one facet of estate planning. It is still critical to plan for an orderly transfer of assets or for unforeseen circumstances such as incapacitation. Strategies to consider include proper beneficiary designations on retirement accounts and insurance contracts, wills, powers of attorney, health-care directives, and revocable trusts. Additionally, existing trusts should be reviewed to determine if changes are needed as a result of the recent tax law changes.

Concluding Thoughts

While challenges abound in this new tax and financial planning environment, they will create many opportunities. It is important to remember that many of the TCJA's underlying provisions will expire after 2025 without any legislative intervention. Westover is here to help you assess your financial situation and assist you with implementing the appropriate strategies that fit you're your long-term financial goals.

2018 Standard/Itemized Deduction Worksheet

Determine Adjusted Gross Income (AGI) (Form 1040, line 7).	______________________
Identify expenses that may qualify for a deduction: 2a. Medical and Dental Expenses (that exceed 7.5% of AGI)	______________________
2b. Taxes You Paid (Property, real estate, SALT) capped at $10,000 ($5,000 for Married Filing Separately)	______________________
2c. Interest You Paid (home mortgage interest deduction may be limited and certain investment interest-limits apply)	______________________
2d. Gifts to Charity	______________________
2e. Casualty and theft loss (due to a federally-declared disaster)	______________________
2f. Other Itemized Deductions*	______________________
3. Add lines 2a-2f. If total in 2018 exceeds $12,000 (single filer) or $24,000 (Married Filing Jointly), you may itemize deductions on a Schedule A.*	______________________

* These are not common, but include gambling losses, but only to the extent of reported gambling winnings, casualty and theft losses of income-producing property, loss from other activities from Schedule K-1, federal estate tax on income in respect of a decedent, a deduction for amortizable bond premium, an ordinary loss attributable to a contingent payment debt instrument or an inflation-indexed debt instrument (for example, a Treasury Inflation-Protected Security), deduction for repayment of amounts under a claim of right if over $3,000, certain unrecovered investment in a pension, impairment-related work expenses of a disabled person.

** For 2019, the IRS has adjusted the standard deduction by 2% to account for inflation.