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Lynn's Top Five

By Lynn Ballou, Certified Financial Planner

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I wrote this while waiting for the power outage ax to fall. Not exactly how I was hoping to enjoy those otherwise beautiful fall days and I'm sure you shared my frustration! When the power was back on and your lives returned to "normal," your thoughts might have wandered to pondering any year-end tax moves you should be considering.

Especially important for 2019: this could be a record year for pass through capital gains. Not only do you need to think about the gains you create with your investment moves, but you must also consider those that could flow from investments such as mutual funds. Because investors in general have been nervous this year, that's been translating into bigger than typical withdrawals from equity mutual funds. When that occurs, fund managers are forced to sell positions to provide liquidity and as an investor, you will share in a pro-rata amount of any gains from those sales - even if you didn't elect to sell your shares. What should you do to mitigate and/or plan for any unavoidable impact? Here are a few ideas.

1) Income tax forecasting: On your own with robust software, or alongside your valued advisers, estimate your 2019 tax bite based on what you know today including any year-end capital gain distribution forecasts from your mutual fund holdings and investment advisors. Determine if you are on track to underpay your tax bill this year, and if so, are you penalty free or are adjustments needed? One solution if you determine you'll owe money to the IRS and/or FTB: pay estimated taxes. Another: withhold more tax via any remaining paychecks or planned retirement account/pension distributions before end of day 12/31/19. The latter is often the best solution in minimizing or avoiding under payment penalties if you should have paid in taxes earlier in the year and are just now catching up.

2) Gift appreciated assets before year end: Time to look at your year-end charitable gifting. Especially for those who are sitting on highly appreciated equity positions, this might be the year to make donations to qualified organizations whose cause and calling matter most to you. Not sure which charities should receive your largess? Think about Donor Advised Funds. Setting these up properly allows you to take the charitable deduction this year but spread the actual gift to charities of your choosing over future years if you wish. Your trusted advisers can help you set these up in a timely and appropriate manner.

3) RMD's for those between ages 70-1/2 and 72: A frustrating unknown is whether or not the potential new tax law known as Secure Act 2019 will pass before year-end. Earlier in the year it looked like a shoe in, but now, very unclear. One provision of this legislation was moving RMD age to become 72 from the current age of 70-1/2. So, if this law is enacted in its current form before year-end, some of you may not need to take your Required Minimum Distribution as defined under current rules this year if you are younger than 72 years of age. Hopefully we'll know soon so you can either take your RMD or defer if you are eligible. This possible benefit could result in sizeable tax savings for those of you with large retirement accounts.

4) Tried and true tax loss harvesting: Sitting on an asset with losses that you could liquidate? If you have sizable realized taxable gains to report on your returns this year, it's a good idea to consider offsetting those with any losses you can realize (lock in) before year-end. If you are worried about being out of the market after such a sale, unfortunately you must wait to buy back the same position until after 30 days. If you don't, you may not take that loss this year. However, you could still go ahead with such an asset sale, purchasing something similar but not precisely the same right away as a kind of "placeholder." After 30 days, you can liquidate that position and buy what you previously held. Work with your adviser(s) who specializes in these rules to be sure you are on point and not in danger of disqualifying your tax moves.

5) Changing your withholding now and then resetting for 2020: If you do make changes in your withholding,

don't forget to adjust again in 2020. After receiving a lot of complaints about their poor tax withholding estimator tools, the IRS updated their software for taxpayers to better determine their appropriate amount of withholding. You can access this improved calculator at this address: irs.gov/individuals/irs-tax-withholding-estimator Whew!

Here's to a stress-free, enjoyable holiday season (with full power)! Cheers!

Reach the reporter at: info@lamorindaweekly.com

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