



## Saving Taxes Under the New Tax Bill

This is the first tax season under the new tax bill passed by Congress on January 1, 2018. As we all now know, some will have a happy surprise, others not so much. But for all of us there will be changes, making many of us a bit nervous about how this bill will affect us individually, and whether these changes will increase our tax liability.

For those who are motivated to lower their tax bill in 2019, there is no time like the present to start this process! Here are the best ways for most to shield income from taxation in 2019 and beyond:

## Increase your retirement plan contributions!

Probably the single best way to shield money for the majority of taxpayers is to maximize retirement savings via contributions to available retirement plans. While all achieve tax savings, this is especially useful for those in the 22% federal tax bracket. Each dollar contributed to your retirement plans creates federal tax savings **as well as** state tax savings.

As an example, here are potential tax savings **for every additional \$1,000 in retirement plan contributions** based on your tax bracket:

Federal tax rate of 12%; OR tax rate of 9%: **\$210 in tax savings**

Federal tax rate of 22%; OR tax rate of 9%: **\$310 in tax savings**

Note below the new tax brackets based on taxable income and tax filing status:

2019 Tax Brackets		
RATE	SINGLE FILERS	MARRIED FILERS
10%	\$0 - \$9,700	\$0 - \$19,400
12%	\$9,701 - \$39,475	\$19,401 - \$78,950
22%	\$39,476 - \$84,200	\$78,951 - \$168,400
24%	\$84,201 - \$160,725	\$168,401 - \$321,450
32%	\$160,726 - \$204,100	\$321,451 - \$408,200
35%	\$204,101 - \$510,300	\$408,201 - \$612,350
37%	\$510,301+	\$612,350+

In addition, the limits for some retirement plans have gone up, allowing taxpayers to shield more dollars from taxation. For the first time since 2013, Congress increased the maximum contribution taxpayers are able to make to Traditional and Roth IRAs.

Here are the maximum contribution limits for tax year 2019, for the most commonly used retirement plans:

Maximum workplace retirement plan contribution amounts	2018	2019
401(k), 403(b), most 457 plans & federal TSP for those <b>under 50</b> :	\$18,500	\$19,000
401(k), 403(b), most 457 plans & federal TSP for those <b>over 50</b> :	\$24,500	\$25,000
<b>IRA contribution limits</b>		
Traditional and Roth IRAs for those <b>under 50</b> :	\$5,500	\$6,000
Traditional and Roth IRAs for those <b>over 50</b> :	\$6,500	\$7,000
SIMPLE IRA for those <b>under 50</b> :	\$12,500	\$13,000
SIMPLE IRA for those <b>over 50</b> :	\$15,500	\$16,000

Of course, there are other requirements and phase out limits potentially limiting your ability to fully contribute to your plan, so be sure to check with your tax person to confirm your contribution eligibility.

**One last item:** The income caps to qualify for the **Saver's Credit** are increasing as follows:

\$64,000 for married couples filing jointly,

\$48,000 for heads of household, and

\$32,000 for singles and married individuals filing separately.

For those who are just getting started on the long road to retirement, the tax deduction plus the Saver's Credit can provide a nice boost.

### Make a Qualified Charitable Distribution (QCD) from your IRA.

**Note: to be eligible to make a QCD you must be 70 ½!**

For those who have attained the Required Minimum Distribution (RMD) age of 70 ½, have an IRA, and are charitably minded, a QCD is an excellent way to make your donations while saving taxes. This is especially valuable for two reasons:

1. Congress has made QCDs permanent, so you can use QCDs to make your donations for years to come
2. The new tax law may have voided the tax deductibility of your previously made charitable CASH donations

The reason QCDs are so valuable is because, unlike itemized deductions, QCDs reduce adjusted gross income. In addition, if you are one of many who will be taking a standard deduction instead of itemizing your deductions, you will lose the tax benefit of making charitable donations in cash. A QCD lets you make donations, remove income from taxation, whether you take the standard deduction or not. A great benefit indeed!!

In the following example, note how Mary reduces her tax by utilizing the QCD:

*Mary has been making cash donations to her favorite non-profit, Our Healthy Forests, of \$6,000 per year. Before the new tax bill, she had been itemizing her deductions instead of taking the standard deduction. This allowed her to deduct her cash contribution to Our Health Forests. After the new tax bill doubled the standard deduction, Mary must now take the standard deduction, losing the ability to itemize her deductions. However, Mary has just turned 71, and must take her required minimum distribution (RMD) from her IRA. Mary's RMD for 2019 is \$7,125. If she distributes this RMD to herself, and then pays the \$6,000 to Our Healthy Forests, she will pay*

taxes of \$1,496 on the distribution, and will not be able to deduct the charitable contribution to Our Healthy Forests. However, if she makes her contribution of \$6,000 as a QCD **directly** to Our Healthy Forests, and distributes the remaining \$1,125 to herself, she will pay \$236 in taxes, quite a reduction! If she decides to find another charity and make a contribution of \$1,125 to them as a QCD, then she will pay \$0 in tax on her RMD.

*\* assuming a 12% Federal tax rate and a 9% OR state tax rate*

**Be advised:** There are very strict rules about how to complete a QCD, so be sure to check with me *before* you distribute your RMD if you are interested in using your RMD to make charitable donations.

**Of particular note:** the 1099-R you receive recording a QCD does not specify it as anything different than an RMD, **so it is up to you to account for this correctly on your tax return!**

### A few additional items of note:

#### Income & Medicare Part B Premiums

Medicare Part B premiums rose just \$1.50, to \$135.50 per month in 2019 for the majority of retirees. However, if your modified adjusted gross income (MAGI) from 2 years prior exceeded \$85,000 (single) or \$170,000 (married, filing jointly) your monthly premium for 2019 and beyond could be much higher. Careful tax planning should be completed if your future income is anticipated to be higher than these income numbers, as it could cause a substantial increase in your Medicare Part B premium in coming years. An increase in your Medicare Part B premium can only be reversed by having your MAGI decrease, but any change in premium will stay throughout the tax year.

#### Obamacare Penalties End in 2019, NOT 2018!

While the Republican administration and Congress have thus far been unsuccessful in repealing the Affordable Care Act, the Tax Cuts and Jobs Act did eliminate the individual mandate -- aka the "Obamacare penalty." This is the penalty you pay for not having health insurance. However, the penalty is only repealed in tax years 2019 and beyond. If you did not maintain qualifying health coverage throughout 2018, you still may face the penalty when you file your tax return in 2019!

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