

2018 Year-End Tax Planning for Individuals

There is still time to reduce your 2018 tax bill and plan ahead for 2019 if you act soon. This letter highlights several potential tax-saving opportunities for you to consider. I would be happy to meet with you to discuss specific strategies.

Individual taxpayers file their income tax return on Form 1040, U.S. Individual Income Tax Return, with a standard due date of April 15, 2019, with an automatic 6-month extension until October 15, 2019. U.S. persons holding any financial interest in, or signature or other authority over, a foreign financial account exceeding \$10,000 at any time in a calendar year must file a Report of Foreign Bank and Financial Accounts (FBAR) with the Treasury Department. The due date for 2018 is the same as the U.S. tax filing deadline of April 15, 2019, with an automatic six-month extension to October 15, 2019 if the original due date is not met.

As a general reminder, there are several ways in which you can file an income tax return: married filing jointly, head of household, single, and married filing separately. A married couple, which includes same-sex marriages, may elect to file one return reporting their combined income, computing the tax liability using the tax tables or rate schedules for "Married Persons Filing Jointly." If a married couple files separate returns, in certain situations they can amend and file jointly, but they cannot amend a jointly filed return to file separately once the due date has passed. A joint return may be filed even though one spouse has neither gross income nor deductions. If one spouse dies during the year, the surviving spouse may file a joint return for the year in which his or her spouse died. Certain married persons who do not elect to file a joint return may be entitled to use the lower head of household tax rates. Generally, in order to qualify as a head of household, you must not be a resident alien, you must satisfy certain marital status requirements, and you must maintain a household for a qualifying child or any other person who is your dependent, if you are entitled to a dependency deduction for that person.

Basic Numbers You Need to Know

Because many tax benefits are tied to or limited by adjusted gross income (AGI)—IRA deductions and medical expenses, for example—a key aspect of tax planning is to estimate both your 2018 and 2019 AGI. Also, when considering whether to accelerate or defer income or deductions, you should be aware of the impact this action may have on your AGI and your ability to maximize itemized deductions that are tied to AGI. Your 2017 tax return and your 2018 pay stubs and other income- and deduction-related materials are a good starting point for estimating your AGI.

Another important number is your "tax bracket," i.e., the rate at which your last dollar of income is taxed. The tax rates for 2018 are as follows: 10%, 12%, 22%, 24%, 32, 34%, and 37%. The 2018 brackets start at lower taxable income amount thus making your 2017 income possibly subject to lower rates in 2018. Although tax brackets are indexed for inflation, if your income increases faster than the inflation adjustment, you may be pushed into a higher bracket. If so, your potential benefit from any tax-saving opportunity is increased (as is the cost of overlooking that opportunity).

For some employees who moved during 2017, their 2018 income and AGI could be affected. The IRS has indicated that reimbursements an employer pays to an employee in 2018 for qualified moving expenses incurred in a prior year are excludible from the employee's income. The same is true if the employer pays a moving company in 2018 for qualified moving services provided to an employee before 2018. To qualify, the reimbursements or payments must be for work-related moving expenses that would have been deductible by the employee if the employee had directly paid them before January 1, 2018. The employee also must not have deducted the moving expenses in 2017. (Employers that treated the reimbursements or payments as taxable are supposed to adjust the employee's wages for 2018).

IRA, Retirement Savings Rules

Tax-saving opportunities continue for retirement planning due to the availability of traditional and Roth IRAs and other retirement savings incentives.

Traditional IRAs: Individuals who are not active participants in an employer pension plan may make deductible contributions to an IRA. The annual deductible contribution limit for an IRA for 2018 is \$5,500. For 2018, a \$1,000 “catch-up” contribution is allowed for taxpayers age 50 or older by the close of the taxable year, making the total limit \$6,500 for these individuals. Individuals who are active participants in an employer pension plan also may make deductible contributions to an IRA, but their contributions are limited in amount depending on their AGI. For 2018, the AGI phase-out range for deductibility of IRA contributions is between \$63,000 and \$73,000 of modified AGI for single persons (including heads of households), and between \$101,000 and \$121,000 of modified AGI for married filing jointly. Above these ranges, no deduction is allowed.

In addition, an individual will not be considered an “active participant” in an employer plan simply because the individual's spouse is an active participant for part of a plan year. Thus, you may be able to take the full deduction for an IRA contribution regardless of whether your spouse is covered by a plan at work, subject to a phase-out if your joint modified AGI is \$189,000 to \$199,000 (\$0 - \$10,000 if married filing separately) for 2018. Above this range, no deduction is allowed.

IRA Rollovers: For 2018, taxpayers may make only one IRA-to-IRA rollover per year. (Direct rollovers from trustee to trustee are not affected.) A second attempted rollover will be treated as a withdrawal and taxed at regular rates, plus a possible 10% early withdrawal penalty.

Spousal IRA: If an individual files a joint return and has less compensation than his or her spouse, the IRA contribution is limited to the lesser of \$5,500 for 2018 plus age 50 catch-up contributions (\$1,000 for 2018), or the total compensation of both spouses reduced by the other spouse's IRA contributions (traditional and Roth).

Roth IRA: This type of IRA permits nondeductible contributions of up to \$5,500 (\$6,500 if making eligible catch-up contribution) for 2018, but no more than an individual's compensation. Earnings grow tax-free, and distributions are tax-free provided no distributions are made until more than five years after the first contribution and the individual has reached age 59½. Distributions may be made earlier on account of the individual's disability or death. The maximum contribution is phased out in 2018 for persons with an AGI above certain amounts: \$189,000 to \$199,000 for married filing jointly, and \$120,000 to \$135,000 for single taxpayers (including heads of households); and between \$0 and \$10,000 for married filing separately who lived with the spouse during the year.

Roth IRA Conversion Rule: Funds in a traditional IRA (including SEPs and SIMPLE IRAs), §401(a) qualified retirement plan, §403(b) tax-sheltered annuity, or §457 government plan may be rolled over into a Roth IRA. Such a rollover, however, is treated as a taxable event, and you will pay tax on the amount converted. No penalties will apply if all the requirements for such a transfer are satisfied. If you made a Roth IRA conversion earlier in the tax year, you do not have the option to use recharacterization to undo the conversion. This strategy is not available beginning in 2018. Previously, the strategy could be used for investments that have gone down in value so that if the conversion were accomplished later in the year, taxes owed would be lower.

In addition, for 2018, if the taxpayer's employer-sponsored §401(k) plan, §403(b) plan, or governmental §457(b) plan has a qualified designated Roth contribution program, a distribution to an employee (or a surviving spouse) from such account under the plan that is not a designated Roth account is permitted to be rolled over into a designated Roth account under the plan for the individual. **401(K) Contribution:** The §401(k) elective deferral limit is \$18,500 for 2018. If the taxpayer's § 401(k) plan has been amended to allow for catch-up contributions for 2018 and the taxpayer reaches age 50 by December 31, 2018, an additional \$6,000 may be contributed to the §401(k) account, for a total maximum contribution of \$24,500 (\$18,500 in regular contributions plus \$6,000 in catch-up contributions).

SIMPLE Plan Contribution: The SIMPLE plan deferral limit is \$12,500 for 2018. If the taxpayer's SIMPLE plan has been amended to allow for catch-up contributions for 2018 and the taxpayer will be 50 years old by December 31, 2018, an additional \$3,000 may be contributed.

Catch-Up Contributions for Other Plans: If the taxpayer will be 50 years old by December 31, 2018, an additional \$6,000 can be contributed to a §403(b) plan, SEP, or eligible §457 government plan.

Maximize Retirement Savings: In many cases, employers will require you to set your 2019 retirement contribution levels before January 2019. But, if you did not elect the maximum 401(k) contribution for 2018, you may be able to increase your amount for the remainder of 2018 to lower your AGI in order to take advantage of some of the tax breaks described above. Maximizing your contribution is generally a good tax-saving move.

Deferring Income to 2019

If the taxpayer expects AGI to be higher in 2019 than in 2018, or anticipates being in the same or a higher tax bracket in 2018, he/she may benefit by deferring income to 2019. Deferring income will be advantageous so long as the deferral does not bump income to the next tax bracket. Deferring income could be disadvantageous, however, if the deferred income is subject to §409A, thus making the income includible in gross income and subject to additional tax. Some ways to defer income include:

Delay Billing: For self-employed taxpayers using the cash-basis of accounting, delay year-end billing to clients so that payments will not be received until 2019.

Interest and Dividends: Interest income earned on Treasury securities and bank certificates of deposit with maturities of one year or less is not includible in income until received. To defer interest income, consider buying short-term bonds or certificates that will not mature until next year. If there is a possibility of receiving dividends from a closely held company, the timing of receipt of those dividends should be weighed.

What Benefits Arise from Accelerating Income into the Current Year?

In limited circumstances, taxpayers may benefit by accelerating income into 2018. For example, if the taxpayer anticipates being in a higher tax bracket in 2019, or perhaps will need additional income in order to take advantage of an offsetting deduction or credit that will not be available in future tax years. Note, however, that accelerating income into 2018 will be disadvantageous if the taxpayer expects to be in the same or lower tax bracket for 2019. In any event, before any decision to implement this strategy is made, all the numbers need to be evaluated.

Accelerate Collection of Accounts Receivable: Self-employed taxpayers reporting income and expenses on a cash basis method, issue bills and attempt collection before the end of 2018. If some of clients or customers might be willing to pay for January 2019 goods or services in advance, bill and collect before year end. Any income received using these steps will shift income from 2019 to 2018.

Year-End Bonuses: If the taxpayer's employer generally pays year-end bonuses after the end of the current year, ask to have the bonus paid before the end of 2018.

Retirement Plan Distributions: For taxpayers that are over age 59½ and you participate in an employer retirement plan or have an IRA, consider making any taxable withdrawals before 2019. You may also want to consider making a Roth IRA rollover distribution, as discussed above.

How Can an Individual Plan His/Her Deductions?

Deduction timing is an important element of year-end tax planning. Deduction planning is complex, however, due to factors such as AGI levels, AMT, and filing status. Cash-method taxpayers should keep the following in mind:

Deduction in Year Paid: An expense is only deductible in the year in which it is actually paid. Under this rule, if the taxpayer's tax rate is going to increase in 2018, it is a smart strategy to postpone spending until after year end to take the deduction in 2019.

Payment by Check: Date checks before the end of the year and mail them before January 1, 2019.

Promise to Pay: A promise to pay or providing a note does not make the expense deductible. But a deduction can be taken if the taxpayer pays with money borrowed from a third party. Hence, paying by credit card in 2018, allows the taking of a deduction even though the credit card bill won't be paid until 2019.

AGI Limits: The overall limitation on itemized deductions (i.e., the so-called "Pease" limitation) does not apply in 2018. In addition, certain deductions may be claimed only if they exceed a percentage of AGI: 7.5% 10% for medical expenses, and 10% for casualty losses due to federally declared disasters. Note that the 2017 tax act (P.L. 115-97) suspended the ability to deduct all miscellaneous itemized deductions subject to the 2% AGI floor.

Standard Deduction versus Itemized Deduction Planning: Deduction planning is also affected by the standard deduction. For 2018 returns, the standard deduction is \$12,000 for single filers and married couples filing separately, \$24,000 for married couples filing jointly and surviving spouses, and \$18,000 for head of household. As can be seen from the numbers, for 2018, the standard deduction for married taxpayers is twice the amount as that for single taxpayers. If itemized deductions are relatively constant and are close to the standard deduction amount, little or no benefit will be gained from itemizing your deductions each year. But simply taking the standard deduction each year means the loss of the benefit of itemized deductions that exceed the standard deduction. To maximize the benefits of both the standard deduction and itemized deductions, consider adjusting the timing of deductible expenses so that they are higher in one year and lower in the following year. This can be accomplished by paying in 2018 deductible expenses, such as mortgage interest due in January 2019, state estimated tax payments due in early 2019, or doubling up on your charitable contributions every other year. The \$10,000 cap on the state and local tax deduction and suspension of the deduction for miscellaneous itemized deductions may significantly impact deduction planning.

Medical Expenses: For 2018, medical expenses, including amounts paid as health insurance premiums, are deductible only to the extent that they exceed 7.5% of AGI for all taxpayers. Bunching medical expenses in one calendar year can help maximize the allowable deduction.

State and Local Income Taxes and General Sales Taxes: If the taxpayer anticipates a state income tax liability for the next tax year and plans to make an estimated payment most likely due in January, consider making the payment before the end of 2018. Or, taxpayers may elect to itemize and deduct state and local general sales taxes in lieu of the itemized deduction for state and local income taxes on 2018 returns. Note that for 2018, there is a \$10,000 cap on the state and local tax deduction.

Charitable Contributions: Consider making charitable contributions at the end of the year. This will give the taxpayer use of the money during the year and simultaneously permit him/her to claim a deduction for that year. A credit card can be used to charge donations in 2018 even though the bill will not be paid until 2019. A mere pledge to make a donation is not deductible, however, unless it is paid by the end of the year. Note, however, for claimed donations of cars, boats and airplanes of more than \$500, the amount available as a deduction will significantly depend on what the charity does with the donated property, not just the fair market value of the donated property. If the organization sells the property without

any significant intervening use or material improvement to the property, the amount of the charitable contribution deduction cannot exceed the gross proceeds received from the sale.

To avoid capital gains, consider donating appreciated property to charity. Regarding charitable contributions the following rules apply for charitable donations of household items or clothing: (1) no deduction is allowed for charitable contributions of clothing and household items if such items are not in good used condition or better; and (2) the IRS may deny a deduction for any item with minimal monetary value. If a single household item or clothing is not in good or used condition or better and the taxpayer plans to claim a deduction of \$500 or more, a qualified appraisal must be included with his or her return. Charitable contributions of money, regardless of the amount, will be denied a deduction, unless the donor maintains a cancelled check, bank record, or receipt from the donee organization showing the name of the donee organization, and the date and amount of the contribution.

A special provision gives taxpayers the ability to distribute tax-free to charity up to \$100,000 from a traditional or Roth IRA maintained for an individual who has reached age 70 1/2.

What Tax Benefits are Available for Taxpayers with Children?

Child Tax Credit: A tax credit of \$2,000 per qualifying child under the age of 17 is available on this year's return. In order to qualify for 2018, the child must qualify as a dependent of the taxpayer. Another qualifying determination is that the qualifying child must be younger than the taxpayer. The credit is phased out at a rate of \$50 for each \$1,000 (or fraction of \$1,000) of modified AGI exceeding the following amounts: \$400,000 for married filing jointly, and \$200,000 for all other taxpayers. As much as \$1,400 (adjusted for inflation) is refundable. A \$500 nonrefundable credit for dependents other than qualifying children also is available.

Credit for Adoption Expenses: For 2018, the adoption credit limitation is \$13,810 of aggregate expenditures for each child, except that the credit for an adoption of a child with special needs is deemed to be \$13,810 regardless of the amount of expenses. The credit ratably phases out for taxpayers whose income is between \$207,140 and \$247,140.

Education Credits: The American Opportunity Tax Credit is available for qualified tuition and fees paid on behalf of a student (i.e., the taxpayer, the taxpayer's spouse, or a dependent) who is enrolled on at least a half-time basis. The maximum credit is \$2,500 (100% on the first \$2,000, plus 25% of the next \$2,000). The credit is available for the first four years of the student's post-secondary education. The credit is phased out at modified AGI levels between \$160,000 and \$180,000 for joint filers, and between \$80,000 and \$90,000 for other taxpayers. Forty percent of the credit is refundable, which means that a taxpayer can receive up to \$1,000 even if no taxes are owed.

The term "qualified tuition and related expenses" includes expenditures for "course materials" (books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance).

One way to take advantage of the credit for 2018 is to prepay spring 2019 tuition. In addition, if it is known what books the student will need for the spring 2019 semester, those can be bought in 2018 and the costs qualify for the credit for 2018.

The Lifetime Learning credit maximum in 2018 is \$2,000 (20% of qualified tuition and fees up to \$10,000). A student need not be enrolled on at least a half-time basis so long as he or she is taking post-secondary classes to acquire or improve job skills. As with the American Opportunity Tax Credit, eligible students include the taxpayer, the taxpayer's spouse, or a dependent. For 2018, the Lifetime Learning credit begins to phase out at modified AGI levels of \$57,000 for single taxpayers and \$114,000 for joint filers.

Coverdell Education Savings Account: The aggregate annual contribution limit to a Coverdell education savings account is \$2,000 per designated beneficiary of the account. The limit is phased out for individual contributors with modified AGI

between \$95,000 and \$110,000 and joint filers with modified AGI between \$190,000 and \$220,000. The AGI amounts are not indexed for inflation. The contributions to the account are nondeductible but the earnings grow tax-free. Coverdell account holdings can be distributed tax-free if used for qualifying expenses (higher education expenses, along with elementary and secondary education expenses).

Student Loan Interest: Taxpayers may be eligible for an above-the-line deduction for student loan interest paid on any "qualified education loan." The maximum deduction is \$2,500. The deduction for 2018 is phased out at a modified AGI level between \$135,000 and \$165,000 for joint filers, and between \$65,000 and \$80,000 for individual taxpayers.

Kiddie Tax: For tax years beginning after December 31, 2017, the unearned income of a child is subject to ordinary and capital gains rates applicable to trusts and estates. The earned income of a child is taxed according to an unmarried taxpayer's brackets and rates. The "kiddie tax" is not affected by the tax situation of the child's parents or unearned income of any siblings. The kiddie tax applies to: (1) children under 18 who do not file a joint return; (2) 18-year-old children who have unearned income in excess of the threshold amount, do not file a joint return, and who have earned income, if any, that does not exceed one-half of the amount of the child's support; and (3) children between the ages of 19 and 23 if, in addition to the above rules, they are full-time students. Investment earnings in excess of \$2,100 will be taxed at the rates that apply to trusts and estates.

Achieving a Better Life Experience (ABLE) Accounts: This is a type of savings account for individuals with disabilities and their families. For 2018, taxpayers can contribute up to \$15,000 (tied to the annual gift tax exclusion). Distributions are tax-free if used to pay the beneficiary's qualified disability expenses.

Are There Energy Incentives to Consider? Residential Energy Efficient Property Credit: Tax incentives are available to taxpayers who install certain energy efficient property, such as photovoltaic panels and solar water heating property. A credit is available for the expenditures incurred for such property up to a specific percentage. Taxpayers making or planning to make improvements to their home by the end of 2018 should consult their tax preparer to determine the maximum allowable credit.

What Tax Savings Are Available for Taxpayers with Investment Income

The following rules apply for most capital asset transactions in 2018:

Capital gains on property held one year or less are taxed at an individual's ordinary income tax rate. • Capital gains on property held for more than one year are taxed depending on your regular income tax bracket. The maximum rate is 20% for a taxpayer in the 37% tax bracket. Other capital gains rates are: 0% and 15% for taxpayers in the lower tax brackets.

An additional 3.8% tax is levied on certain unearned income. The tax is levied on the lesser of net investment income (NII) or the amount by which modified AGI (MAGI) exceeds certain dollar amounts (\$250,000 for joint returns and \$200,000 for individuals). Investment income is: (1) gross income from interest, dividends, annuities, royalties, and rents (other than from a trade or business); (2) other gross income from any business to which the tax applies; and (3) net gain attributable to property that is not attributable to an active trade or business. Investment income does not include distributions from a qualified retirement plan or amounts subject to self-employment tax. This rule applies mostly to passive businesses and the trading in financial instruments or commodities. With this additional tax, the maximum net capital gains rate is 23.8% in 2018.

Year-end strategies to reduce exposure to the NII would be to: (1) exchange real property through a like-kind exchange to defer recognition of any gain until a future year when MAGI may be lower; or (2) if planning on selling your principal residence that has a gain over the exempted amounts from §121 (\$250,000/\$500,000 depending on filing status), consider postponing the sale until after the year, if income will be lower.

Timing of Sales: Consider timing the sale of assets so as to have offsetting capital losses and gains. Capital losses may be fully deducted against capital gains and also may offset up to \$3,000 of ordinary income (\$1,500 for married filing separately). In general, when losses are taken, long-term losses are first matched against your long-term gains, and short-term losses against short-term gains. If there are any remaining losses, they may be used to offset any remaining long-term or short-term gains, or up to \$3,000 (or \$1,500) of ordinary income. When and whether to recognize such losses should be analyzed in light of the possible future changes in the capital gains rates.

If you sell a stock at a loss, you can repurchase the same stock, but must wait 31 days or else be subject to the wash sale rules which would disallow the loss.

Dividends: Qualifying dividends received in 2018 are subject to rates similar to the capital gains rates. Therefore, qualifying dividends are taxed at a maximum rate of 20% (23.8% if subject to the net investment tax). Qualifying dividends include dividends received from domestic and certain foreign corporations. Nonqualifying dividends are subject to ordinary income rates (up to 40.8% (37% income tax rate plus 3.8% net investment income tax rate)).

Exclusion of Gain Attributable to Certain Small Business Stock: 100% of the gain on the sale of “small business stock” under §1202 that is acquired after September 27, 2010, is excluded from income. The stock must be held for more than five years to qualify. If the stock was acquired on or before September 27, 2010, other less favorable exclusion percentages apply.

Installment Sales: Generally, a sale occurs when property is transferred. If a gain will be realized on the sale, income recognition will normally be deferred under the installment method until payments are received, so long as one payment is received in the year after the sale. So if a taxpayer expects to sell property at year-end, and it makes economic sense, consider selling the property using the installment method to defer payments (and tax) until next year or later. Using the installment sale method may also defer exposure to the 3.8% NIIT.

Qualified Equity Grants: Individuals who work at a start-up company may be able to defer taxation on vested qualified stock while they have insufficient cash flow to cover their tax liability. The employee makes a special election regarding stock attributable to options exercised or restricted stock units settled in 2018 or later, so that no amount will be included in income for the first taxable year in which the rights of the employee in the stock are transferable or are not subject to a substantial risk of forfeiture. In many cases, a qualified equity grant defers taxation until five years after the employee vests in the qualified stock.

What Health Care Issues Should be Considered for Year-End Planning?

Individual Mandate: Under the 2010 health care law, sometimes called Obamacare, there is an individual mandate requiring individuals and their dependents to have health insurance that is minimum essential coverage or pay a penalty unless they are exempt from the requirement. Many people already have qualifying coverage, which can be obtained through the individual market, an employer-provided plan or coverage, a government program such as Medicare or Medicaid, or an Exchange. For lower-income individuals who obtain health insurance in the individual market through an Exchange, a premium tax credit and cost-sharing reductions may be available to offset the costs. The 2017 tax legislation made the penalty \$0 for 2019 and beyond, but the mandate and related penalties continue to apply for 2018.

Health Care Flexible Spending Accounts: For 2018, cafeteria plans can provide that employees may elect no more than \$2,650 in salary reduction contributions to a health FSA. Typically, employers require the following year's election to be set prior to the end of the year. To estimate the best amount to contribute, taxpayers need to identify potential medical expenses.

Self-Employed Health Insurance Premiums: Self-employed individuals are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses, and their dependents as an above-the-line deduction, without regard to the general 7.5% of AGI floor.

Health Savings Accounts: A health savings account (HSA) is a trust or custodial account exclusively created for the benefit of the account holder and his or her spouse and dependents, and is subject to rules similar to those applicable to individual retirement arrangements (IRAs). Contributions to an HSA are deductible, within limits. For 2018, the annual limitation on deductions for an individual with self-only coverage under a high deductible health plan is \$3,450; for an individual with family coverage under a high deductible health plan is \$6,900. For 2018, a “high deductible health plan” is a health plan with an annual deductible that is not less than \$1,350 for self-only coverage or \$2,700 for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed \$6,650 for self-only coverage or \$13,300 for family coverage. In computing the annual HSA contribution amount, an individual who is eligible during the last month of a taxable year (December) is treated as having been eligible for all prior months during the taxable year and, thus, is allowed to make contributions for months before the individual was enrolled in a high deductible health plan.

Is the Taxpayer Subject to the Alternative Minimum Tax?

For 2018, the alternative minimum tax exemption amounts are: (1) \$109,400 for married individuals filing jointly and for surviving spouses; (2) \$70,300 for unmarried individuals other than surviving spouses; and (3) \$54,700 for married individuals filing a separate return. Also, for 2018, nonrefundable personal credits can offset an individual's regular and alternative minimum tax, and capital gains will be taxed at lower favorable rates for AMT. For 2018, the amount of AMTI above which the 28% rate applies is \$191,500 for married individuals filing joint returns and \$95,750, for other taxpayers.

If the taxpayer has stock holding due to the exercise of an incentive stock option during this year that is now below the value at the exercise date (underwater), consider selling the shares before the end of the year to avoid the AMT tax due on the original exercise of the option. Some of the standard year-end planning ideas will not reduce tax liability if the taxpayer is subject to the alternative minimum tax (AMT) because different rules apply. For example, state income and property tax deductions, miscellaneous itemized deductions, and personal exemption deductions are disallowed in calculating AMT.

Is the Taxpayer Required to Make Estimated Tax Payments?

An individual taxpayer may be able to avoid any underpayment penalties by paying estimated taxes based on 100% of the tax shown on the prior year return. However, if an individual's adjusted gross income as shown on the tax return for the preceding tax year exceeds \$150,000 (\$75,000 in the case of a married individual who files separately), the amount of the required installment is generally increased to 110% of the tax shown on the prior year's return. An income tax projection should be completed in order to determine the best option.

What Gift Giving Techniques Are Available to Reduce Gift Tax?

Annual Gift Tax Exclusion: The most commonly used method for tax-free giving is the annual gift tax exclusion, which, for 2018, allows a person to give up to \$15,000 to each donee without reducing the giver's estate and lifetime gift tax exclusion amount. A person is not limited as to the number of donees to whom he or she may make such gifts. Further, because the annual exclusion is applied on a per-donee basis, a person can leverage the exclusion by making gifts to multiple donees (family and non-family). Thus, if an individual makes \$15,000 gifts to 10 donees, he or she may exclude \$150,000 from gift tax. In addition, because spouses may combine their exclusions in a single gift from either spouse, married givers may double the amount of the exclusion to \$30,000 per donee. A person may not carry over his or her annual gift tax exclusion amount to the next calendar year. Qualifying tuition payments and medical payments do not count against this limit. The 2018 annual exclusion amount at \$15,000.