SARD
WEALTH MANAGEMENT GROUP, LLC

CLIENT NEWSLETTER **BY: JONATHAN SARD, CFP®**

1st Quarter - 2019

IMPORTANT INFORMATION

The 2019 retirement contribution and benefit limits have been released. 401k, 403B, and 457 maximum elective deferrals are increasing from $18,500 to $19,000; however, the catch-up contribution limit is staying the same at $6,000 for a total contribution limit of $25,000. Simple IRA contribution limits are also increasing. Going from $12,500 to $13,000, while the catch-up contribution limit is also staying the same at $3,000 for a total contribution limit of $16,000. Traditional and Roth IRA contributions limits are also increasing. Going from $5,500 to $6,000, while the catch-up contribution limit is also staying the same at $1,000 for a total contribution limit of $7,000. Keep in mind that catch-up contributions are only available for those who will be 50 or older at any time during 2019.

As many of you know, December was a challenging month for stock markets around the world. In fact, it was the worst December for the US stock market since 1931. Fortunately, at the time of this writing, markets have rebounded roughly 10% off the lows. Let's hope for a more positive 2019! Regardless of what the markets do in 2019, there are always things you can do to help improve your financial situation. Below is a 2019 Financial To-Do List…

Your 2019 Financial To-Do List

What financial, business, or life priorities do you need to address for 2019? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward meeting specific objectives. There are plenty of options, from building your retirement fund to lowering your taxes. Below is a brief list of options to consider:

Can you contribute more to your retirement plans this year? You should consider making retirement plan contributions to your employer plan, and/or your own IRA. The 2019 limits are written above in Important Information.[1]

Your retirement plan contribution could help your tax picture. If you won't turn 70½ in 2019 and you participate in a traditional qualified retirement plan or have a traditional IRA, you can cut your taxable income through a contribution. Should you be in the new 24% federal tax bracket, you can save $1,440 in taxes as a byproduct of a $6,000 traditional IRA contribution.[2]

What are the income limits on deducting traditional IRA contributions? If you participate in a workplace retirement plan, the 2019 MAGI phase-out ranges are $64,000-$74,000 for singles and heads of households, $103,000-$123,000 for joint filers when the spouse making IRA contributions is covered by a workplace retirement plan, and $193,000-$203,000 for an IRA contributor not covered by a workplace retirement plan, but married to someone who is.[1]

Roth IRAs and Roth 401(k)s, 403(b)s, and 457 plans are funded with after-tax dollars, so you can't take an immediate federal tax deduction for your contributions to them. The upside is that if you follow I.R.S. rules, the account assets may eventually be withdrawn tax free.[3]

Should you go Roth in 2019? Roth IRAs are great to accumulate assets tax-free, but keep in mind that the IRS no longer gives you a chance to undo it, and the tax impact of the conversion must be weighed versus the potential future benefits. If you are a high earner, you should know that income phase-out limits may affect your chance to make Roth IRA contributions. For 2019, phase-outs kick in at $193,000 for joint filers and $122,000 for single filers and heads of household.

Consult a tax or financial professional before you make any IRA decisions to see how those changes may affect your overall financial picture. If you have a large, traditional IRA, the projected tax resulting from a Roth conversion may make you think twice.

What else should you consider in 2019?

Make charitable gifts. The individual standard deduction rises to $12,000 in 2019, so there will be less incentive to itemize deductions for many taxpayers, but charitable donations are still deductible if they are itemized. If you plan to gift more than $12,000 to qualified charities and non-profits in 2019, remember that the paper trail is important.[6]

If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record or a written communication from the charity with the date and amount. You must contribute to a qualified charity to claim a federal charitable tax deduction. Incidentally, the Tax Cuts and Jobs Act lifted the ceiling on the amount of cash you can give to a charity per year as you can now gift up to 60% of your adjusted gross income in cash per year, rather than 50%.[6,7]

What if you gift appreciated securities? If you have owned them for more than a year, you will be in line to take a deduction for 100% of the fair market value and avoid capital gains tax that would have resulted from simply selling the investment and donating the proceeds. The non-profit organization gets the full amount of the gift, and you can claim a deduction of up to 30% of your adjusted gross income.[8] You should always request a receipt for a cash gift, no matter how large or small the amount.[8]

If you aren't sure if an organization is eligible to receive charitable gifts, check it out at www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.

Open an HSA. If you are enrolled in a high-deductible health plan, you may set up and fund a Health Savings Account in 2019. You can make fully tax-deductible HSA contributions of up to $3,500 (singles) or $7,000 (families); catch-up contributions of up to $1,000 are permitted for those 55 or older. HSA assets grow tax deferred, and withdrawals from these accounts are tax free if used to pay for qualified health care expenses.[9]

Practice tax-loss harvesting. By selling depreciated shares in a taxable investment account, you can offset capital gains or up to $3,000 in regular income ($1,500 is the annual limit for married couples who file separately). In fact, you may use this tactic to offset all your total capital gains for a given tax year. Losses that exceed the $3,000 yearly limit may be rolled over into 2020 (and future tax years) to offset ordinary income or capital gains again.[10]

Review your withholding status. You may have updated it last year when the IRS introduced new withholding tables, but you may want to adjust for 2019 due to any of the following factors.

* You tend to pay a great deal of income tax each year.

* You tend to get a big federal tax refund each year.
* You recently married or divorced.
* A family member recently passed away.
* You have a new job, and you are earning much more than you previously did.
* You started a business venture or became self-employed.

Are you marrying in 2019? If so, why not review the beneficiaries of your workplace retirement plan account, your IRA, and other assets? In light of your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2019, you will need a new Social Security card.

Are you coming home from active duty? If so, go ahead and check the status of your credit and the state of any tax and legal proceedings that might have been preempted by your orders. Make sure any employee health insurance is still in place. Revoke any power of attorney you may have granted to another person.

Consider the tax impact of any upcoming transactions. Are you planning to sell (or buy) real estate next year? How about a business? Do you think you might exercise a stock option in the coming months? Might any large commissions or bonuses come your way in 2019? Do you anticipate selling an investment that is held outside of a tax-deferred account? Any of these actions might significantly impact your 2019 taxes.

If you are retired and older than 70½, remember your year-end Required Minimum Distribution (RMD). Retirees over age 70½ must begin taking Required Minimum Distributions (RMDs) from Traditional IRAs, 401(k)s, SEP IRAs, and SIMPLE IRAs by December 31 of each year. The IRS penalty for failing to take an RMD equals 50% of the RMD amount that is not withdrawn.[4,11]

If you turned 70½ in 2018, you can postpone your initial RMD from an account until April 1, 2019. All subsequent RMDs must be taken by December 31 of the calendar year for which the RMD applies. The downside of delaying your 2018 RMD into 2019 is that you will have to take two RMDs in 2019, with both RMDs being taxable events. You will have to make your 2018 tax year RMD by April 1, 2019, and then take your 2019 tax year RMD by December 31, 2019.[11]

Plan your RMDs wisely. If you do so, you may end up limiting or avoiding possible taxes on your Social Security income. Some Social Security recipients don't know about the "provisional income" rule – if your adjusted gross income, plus any non-taxable interest income you earn, plus 50% of your Social Security benefits surpasses a certain level, then some Social Security benefits become taxable. Social Security benefits start to be taxed at provisional income levels of $32,000 for joint filers and $25,000 for single filers.[11]

Lastly, should you make 13 mortgage payments in 2019? There may be some merit to making a January 2020 mortgage payment in December 2019. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more.

There are always a lot of strategies to think about and we always stress how important it is to plan. Be sure you are sitting down with us on a regular basis to discuss your entire financial situation. Each quarter we want to remind you to alert us to changes in your financial situation or investment objectives to ensure that we are aware of any situation that might require changes in the management of your accounts. Please remember to contact us to discuss how these changes impact your investment accounts!

Citations.
1 - forbes.com/sites/ashleaebeling/2018/11/01/irs-announces-2019-retirement-plan-contribution-limits-for-401ks-and-more [11/1/18]
2 - irs.com/articles/2018-federal-tax-rates-personal-exemptions-and-standard-deductions [11/2/17]
3 - irs.gov/Retirement-Plans/Traditional-and-Roth-IRAs [7/10/18]

4 - forbes.com/sites/bobcarlson/2018/10/26/7-ira-strategies-for-year-end-2018/ [10/26/18]
5 - irs.gov/newsroom/questions-and-answers-on-the-net-investment-income-tax [6/18/18]
6 - crainsdetroit.com/philanthropy/what-donors-need-know-about-tax-reform [10/21/18]
7 - thebalance.com/tax-deduction-for-charity-donations-3192983 [7/25/18]
8 - schwab.com/resource-center/insights/content/charitable-donations-the-basics-of-giving [7/2/18]
9 - kiplinger.com/article/insurance/T027-C001-S003-health-savings-account-limits-for-2019.html [8/28/18]
10 - schwab.com/resource-center/insights/content/reap-benefits-tax-loss-harvesting-to-lower-your-tax-bill [10/7/18]
11 - fool.com/retirement/2018/01/29/5-things-to-consider-before-tapping-your-retiremen.aspx [1/29/18]

We wanted to thank those of you who have participated in our Client Introduction program. As you know, marketing for new clients takes a great deal of money, time, and energy and we would much rather spend our resources improving your financial health. We, like most businesses are looking to grow; however, for the benefit of our existing clients we are only able to take on a limited number of new clients each year. Over the years, we have learned that encouraging you to introduce us to people you know works well for all of us…we help you, and you help us. If you aren't familiar with our friends helping friends program, please call our office or be sure to ask us at your next meeting. The few minutes it takes to learn about how it works will be well worth your time and energy!

Also, if you would like some of your friends, coworkers, relatives, business acquaintances, etc. to receive a FREE subscription to this newsletter, please call our office and we'll add them to the mailing list. We'll also send them a note with their first issue telling them that you had suggested they receive the newsletter, and to contact us if they would like to stop at any time. If you enjoy this newsletter, why not share it for FREE with people you know, with no hassle for you?