2019 Year-End Planning

Year-end is a time when many individual investors re-assess not only their portfolio values and current asset allocations, but also their tax situations, charitable giving and opportunities to transfer wealth to future generations. The topics are somewhat linked: strong portfolio performance creates a need to re-assess risks and can result in potentially current and future higher tax burdens, but can also support potentially higher donations to charity and intergenerational gifts to family members.

The 2017 Tax Act brought several important changes to federal income, estate, gift, and generation-skipping transfer (GST) tax law. Many of the provisions that went into effect in 2018 will automatically expire (or "sunset") unless Congress proactively extends them. Although that sunset does not occur until the end of 2025, there are a variety of planning actions related to the new tax law that we think should be evaluated.

Of course, there is no magic or rational reason for waiting until December to think about your plans and consult with an advisor on financial planning. However, with 2019 producing some of the best portfolio returns of the past decade, and with recent tax law changes affecting how many investors look at the various roles of their portfolios, we thought it valuable to briefly summarize some of the key topics to consider now and as the year 2020 gets underway.

Key Themes and Considerations for Private Clients

1) **Raise Cash.** With equity markets hitting all-time highs in late 2019, use this opportunity to rebalance investment portfolios back to target asset allocations, and to potentially trim appreciated assets to generate cash for various reasons. Clients should consider trimming over-valued equities for the following uses, if applicable:

    - **Expected Spending.** As a general rule of thumb, we think setting aside cash to cover 12-18 months of spending needs is prudent at this late stage in the economic cycle.

    - **Pay Down Debt.** Evaluate lines of credit and mortgages, and consider paying down balances or completely paying off balances, especially where the tax benefits may not be as great as they once were.

2) **Charitable Giving Strategies.** Strong equity markets tend to produce more highly appreciated stock portfolios (and consequently, higher long-term tax liabilities) in client portfolios. Additionally, while the 2017 tax act increased the standard deduction for personal income taxes ($24,000 for married couples in 2019), it also limited deductions for state and local taxes ("SALT") and eliminated miscellaneous itemized deductions. For some clients, therefore, the standard deduction now exceeds their itemized deductions for SALT and mortgage interest. In such cases, clients may not get the full tax benefit from charitable deductions.

2020 Tax Brackets and Rates

Rate	For Single Individuals, *Taxable Income Over*	For Married Individuals Filing Joint Returns, *Taxable Income Over*
Standard Deduction		
	$12,400	$24,800
Ordinary Income Tax		
10%	$0	$0
12%	$9,875	$19,750
22%	$40,125	$80,250
24%	$85,525	$171,050
32%	$163,300	$326,600
35%	$207,350	$414,700
37%	$518,400	$622,050

Given this confluence of potentially high unrealized capital gains on appreciated stock along with limits on deductions, clients could consider the following:

- Donating highly appreciated stock to satisfy charitable obligations.
- Consider "bunching" several years' charitable gifts to maximize tax deductions by gifting. A useful technique may be gifting multiple years' worth of charitable gifts into a single year to maximize the charitable deduction during that year and preserve the benefit of the standard deduction in non-gifting years.
- Gifting Qualified Charitable Distributions from IRAs (individuals over age 70.5).

3) **Interest Rates Declined in 2019.** Three cuts in the Fed Funds Rate during 2019 mostly resulted in lower interest rates in comparison to last year. This has created opportunities for the following strategies:

- **Refinance Mortgages.** Refinancing opportunities for real estate-backed mortgages and home equity lines of credit. Existing ARM loans that are set to lock-in a fixed interest rate might be refinanced at a lower floating rate.
- **Intra-Family Loans.** Lower interest rates result in lower long term AFR rates that are applied to such financing. This creates an opportunity to consider new loans or refinance existing intra-family loans.
- **Tax Planning Strategies**. Consider various estate tax planning strategies (e.g., GRATs, CLATs) which work well in a low interest rate environment.

4) **Family Giving.** Reduce potential estate taxes by making gifts to family members. Although the **lifetime exemption** for gifts is increasing to $11.58 million per individual in 2020, this limit is among those scheduled to sunset in 2025. The **annual gift exclusion** ($15,000 per person per donor in 2019,) is scheduled to remain the same in 2020. Other ways to pass assets to family include paying for medical and tuition expenses; 529 plans allow you to fund up to five years of gifts during a single tax year.

Other Important Thresholds (2020 vs. 2019)

Retirement	2020	2019
401(k), 403(b), 457 limits	$19,500	$19,000
Catch-up contributions (Age 50+)	$6,500	$6,000
IRA contribution	$6,000	$6,000
IRA catch-up contribution	$1,000	$1,000
Estate and gift tax		
Annual gift exclusion	$15,000	$15,000
Estate and GST exemption amount	$11,580,000	$11,400,000

5) **Tax Planning Strategies.** Political guesswork plays no part in our planning efforts for clients, however we think it is important for clients to understand how their plans may be impacted if the new tax law expires in 2025—or on a more rapid timetable if that law is changed or reversed. Realization of capital gains at the current rates (0%, 15%, 20% based on income thresholds) and Roth IRA conversions may be tools worth exploring if your current effective income tax rate is potentially lower today than it may be in the future.

Long-Term Capital Gain Tax

Rate	For Single Individuals, *Taxable Income Over*	For Married Individuals Filing Joint Returns, *Taxable Income Over*
0%	$0	$0
15%	$40,000	$80,000
20%	$441,450	$496,600

Finally, please refer to our annual financial planning "checklist" below for a broad summary of topics to explore before closing out the tax year. And, please consult with your investment officer to discuss how these topics relate specifically to you and your family.

Happy Holidays and Best Wishes for 2020!
Mill Creek Capital Advisors

Annual Planning Checklist for Private Clients

Income Planning

- Review opportunities for tax loss harvesting to offset realized gains
- Review opportunities to accelerate / decelerate income and capital gains
- Review charitable gifts and assets to maximize deductions
- Maximize retirement plan contributions
- Consider converting traditional retirement assets to Roth IRAs based on current vs projected income tax rate

Balance Sheet and Investment Planning

- Rebalance investment portfolio to target weight and evaluate potential needs for immediate liquidity
- Review current mortgages and opportunities to reduce, pay off or refinance to lower rate
- Compete annual review of trust, retirement and life insurance beneficiaries
- Complete required minimum distributions from IRAs and inherited IRAs as appropriate

Gift and Estate Planning

- Complete annual exclusion gifts ($15,000 in 2019, no change for 2020)
- Review opportunities to complete payments of tuition and medical expenses for additional gifting opportunities
- Review lifetime gift opportunities and consider use of increased exemption ($11.4 million in 2019, $11.58 million in 2020)
- Review intrafamily loans and opportunities to reduce interest rates

Charitable Giving

- Review long term appreciated securities for charitable giving
- For IRA owners over 70 1/2, consider up to $100,000 qualified charitable distribution direct to charity
- Consider other charitable structures such as donor advised funds, private foundations, and charitable remainder or lead trust instruments
- Evaluate opportunities to maximize tax deductions by "bunching" charitable gifts in single tax year

Risk Management and Protection Planning

- Review insurance policies in light of changes that may have taken place with tangible assets
- Review wills, trusts, living trust, health care proxys and other important documents to ensure all details up to date

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