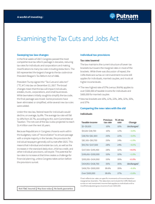
2018 Year-end planning ideas

As the year-end approaches, consider contacting clients with these timely planning ideas.

1. Determine the impact of the tax law on 2018 tax returns

The Tax Cuts and Jobs Act (TCJA) represents the most sweeping changes to the tax code in decades. While clients will benefit from the lower tax-rate structure, many tax preference items such as deductions were scaled back or eliminated altogether. Clients should consult with a tax professional to understand how the new law impacts their taxes and if there are any strategies that may be considered based on individual circumstances. For example, a first step is determining their marginal income tax rate for 2018 based on the new brackets to see if strategies to increase, reduce, or defer income before the end of the year make sense. Also, based on drastic reductions in deductions for many taxpayers, will clients who historically have itemized deductions opt for the increased standard deduction instead?



Examining the Tax Cuts and Jobs Act — II964

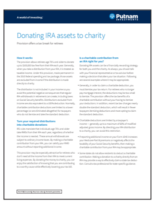
2. Review required minimum distributions (RMDs) with clients

Since many investors typically request distributions from retirement accounts annually in December to satisfy minimum distribution requirements, it is a good idea to contact clients now to make sure they are on track. The Internal Revenue Service has specific rules for taking RMDs. In fact, the penalty for not taking a required distribution is steep: 50% of the required amount. Having a conversation about RMDs may also lead to identifying stray retirement accounts for consolidation. Or, grandparents not relying on income from RMDs may also be interested in using those funds to establish a 529 savings account for grandchildren.

What you need to know about required IRA withdrawals — IR704

3. **Consider tax-smart strategies for charitable giving**

Historically, a third of taxpayers itemize deductions on their tax return. A near-doubling of the standard deduction, coupled with reductions in many popular deductions (state and local taxes for example), means that less than 10% of taxpayers will likely itemize in 2018. This has profound implications for making charitable gifts. For taxpayers who are planning on claiming the standard deduction in 2018, there are two strategies to consider. For those age 70½ or older, distributing funds from an IRA tax free directly to a qualified charity (up to $100,000 per IRA owner and can include RMDs) may be a good option. Another strategy is the concept of "lumping" multiple years of charitable gifts into one year in order to itemize deductions on that year's tax return. For example, instead of a couple gifting $10,000 annually to a charity, consider gifting $30,000 in one year, representing three years' worth of gifts. The couple could benefit from itemizing deductions that tax year and claim the higher standard deduction the next two years.



Donating IRA assets to charity — II828

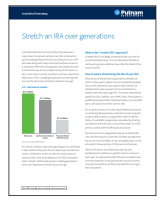
4. **Identify opportunities to harvest tax losses**

In the process of reviewing portfolios, are there opportunities to strategically generate losses to offset other gains? For example, using a tax-swap strategy for mutual fund holdings allows you to realize a tax loss while retaining essentially equivalent market exposure.

Using investment losses to your advantage — II867

5. **Conduct annual beneficiary reviews**

This is a great way not only to help your clients avoid potential pitfalls, but also to uncover other retirement accounts for consolidation. Clients who own IRAs that will not be used for retirement income should consider treating the account as a "Stretch IRA," ensuring that the tax-deferred income benefits extend to future generations. Annual beneficiary reviews are also a good way to connect with younger heirs of existing clients.



Stretch an IRA over generations — IR705

6. **Update affluent clients and prospects on the current estate and gift tax rules**

Are clients and prospects aware of current estate and gift tax laws? Year-end provides an opportunity to review existing estate plans and consider gifting strategies. The annual gift tax exclusion for individuals increases slightly to $15,000, and the lifetime estate and gift tax exclusion doubles to $11.18 million for 2018. The drastic increase in the lifetime exclusion means that clients should review existing trusts and other documents with their attorney to see if any modifications are necessary. Also, there may be opportunities for large lifetime gifts, considering the doubling of the exclusion amount.

A closer look at the current estate and gifting tax rules — II546

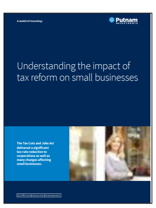
7. Discuss year-end gifting strategies using 529s

Remind key clients, such as grandparents, that the annual gifting limit for 2018 is $15,000, and that a special 529-plan exclusion allows five years' worth of gifts — up to $75,000 or $150,000 for married couples — to be contributed at once, provided that no other gifts are made within the next five-year period. And there's also an added benefit for grandparents who own 529s: These assets are not currently factored as assets for determining federal financial aid under the FAFSA process. However, distributions from these accounts may be counted as part of the *income* test portion of the financial aid calculation.

Strategies to make the most of college savings — II940

8. Help business owners maximize the new 20% deduction for qualified business income (QBI)

The new tax law introduced a provision (IRC Section 199A) that allows certain taxpayers to deduct 20% of qualified business income (QBI) on their tax returns. Business income from pass-through entities — sole proprietorships, partnerships, LLCs, and S Corps — may qualify for the new deduction. Business owners at higher income levels ($207,500 for individuals, $415,000 for couples) may be limited or restricted from utilizing the deduction, so strategies to reduce taxable income under these thresholds may be appropriate.



Understanding the impact of tax reform on small businesses — II966

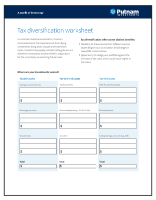
9. Talk to small-business owners about how to transform net operating losses (NOLs) into tax-free income with a Roth IRA conversion

Small-business owners who will record a net operating loss (NOL) this year may be able to use it to their advantage. NOLs may be carried forward to offset ordinary income on future tax returns. Unlike net capital losses, where taxpayers are limited to using only $3,000 annually to offset any ordinary income, taxpayers can generally apply NOLs against 80% of ordinary income. Clients carrying forward large NOLs can use those losses to offset the additional income from a Roth IRA conversion. The rules on calculating and utilizing NOLs are complicated, so it is critical for clients to consult with a qualified tax professional. Forming strategic relationships with local CPAs who can assist business owners with these types of transactions is a good idea. Such relationships can also potentially lead to referrals for retirement and other investment business opportunities. More information on NOLs can be found within IRS publication 536, "Net Operating Losses for Individuals, Estates, and Trusts."

Find even more at putnamwealthmanagement.com, including legislative updates and new business-building ideas.

10. Talk to your clients about diversifying their tax liabilities

During client reviews, consider grouping clients' investments into three categories: taxable, tax deferred, and tax free. For many, this exercise may illustrate that they are "overweight" in one area, namely traditional, tax-deferred retirement accounts. Many clients could benefit from increasing their allocations to tax-free vehicles by investing in municipal bonds or by converting an account to a Roth IRA.



Tax diversification worksheet — II905

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