

NAVIGATING THE NEW TAX LANDSCAPE TO PRODUCE POSITIVE FINANCIAL OUTCOMES

By Bryan Tracy, Vice President & Director of Financial Planning

For the first time in decades, individuals this year saw a meaningful change in how they filed their taxes to maximize their returns or reduce the amount they owe.

In filing 2018 tax returns, everyone has now realized the first wave of changes to the tax code which was signed into law in December of 2017. The intended goal of these changes was to simplify the tax law. However, for many individuals, the process likely has become slightly or significantly more complex, as these changes have introduced countless new rules for taxpayers, accountants, and financial professionals to learn and monitor.

The initial changes altered many of the tax rates that applied to different income brackets, many of which were reduced. Bracket structures were also changed on top of these tax rates. The standard deduction for all filing statuses increased significantly as well. In 2019, for those filing as an individual, the standard deduction is now \$12,000 and for a married couple filing jointly it is \$24,400. However, as many individuals have now realized, those gains were largely offset by the fact that filers can no longer take personal exemptions.

Obviously, these changes impacted everyone differently based on their own unique financial situations. Seeing as individuals have now had a full year under their belt to witness these tax changes firsthand while filing 2018 returns, the time has come to begin strategizing for 2019. In fact, there are a number of additional changes for 2019 that must be accounted for before Tax Day arrives next year.

An individual's investments and financial plan play a key role in their tax filing strategy, and certain decisions must be made in the year ahead in order to maximize the tax efficiency of their investments. At Haverford Trust, we always try to take tax implications into account for our clients. Here are a few considerations to understand now to prepare yourself for the 2019 tax year ahead.

2019 TAX CHANGES AND STRATEGIES

A number of additional adjustments to the tax code are set to kick in this year. Starting with retirement planning, annual employee 401k and IRA contribution limits are rising \$500 in 2019, to \$19,000 and \$6,000, respectively. The over-50 "catch up" limits will remain unchanged, holding steady at an additional \$6,000 for 401ks and \$1,000 for IRAs. For those considering a Roth IRA conversion, 2019 could be the year to do it considering that tax rates will remain lower until at least 2025.

Individuals currently receiving Medicare benefits should also be aware of adjustments to Medicare premiums and the corresponding income thresholds. Premiums for Medicare Part B, which covers many medically necessary and preventative services, now vary based on your income tax bracket. As an individual's taxable income rises, monthly Medicare premiums will also rise. Total monthly premiums can vary by hundreds of dollars depending on an individual's taxable income. It is important to work with your advisors to help mitigate or avoid higher Medicare premiums.

Individuals should also consider their philanthropy objectives in light of changes from the 2017 tax reform. For individuals that will still be itemizing their deductions, the changes are beneficial as the new law increased the adjusted gross income (AGI) for charitable gifts of cash to public charities from 50% of AGI to 60% of AGI through 2025. In addition, the act eliminated the phase-out of all itemized deductions – the Pease limitations – through 2025. For individuals that will not be itemizing their deductions, there are ways to mitigate the loss of the charitable deduction. Consider making your charitable gifts from your IRA, "bunching" your deductions, or contributing appreciated property.

At Haverford Trust, we do everything we can to implement our clients' strategic tax plans. By taking an intimate look at each individual client's specific situation, we can apply various tactics to ensure you are best positioned for the future based on your financial goals.

In this light, we've compiled a few charts worth reviewing with your investment advisor and accountant ahead of next year's tax season to make sure you make the right moves far in advance of April 15, 2020.

Standard Deductions

Amounts	2018	2019
Married filing jointly or surviving spouse	\$24,000	\$24,400
Head of household	\$18,000	\$18,350
Unmarried	\$12,000	\$12,200
Married filing separately	\$12,000	\$12,200
Dependent- Standard deduction cannot exceed the greater of	\$1,050 or \$350+ earned income	\$1,100 or \$350+ earned income
Additional deduction for aged or blind (single or head of household)	\$1,600	\$1,650
Additional deduction for aged or blind (all other filing statuses)	\$1,300	\$1,300

2019 Federal Income Tax Rate Schedules

(Individuals, Trusts, and Estates)

Single Taxpayers

If taxable income is:	Your Tax is
Not over \$9,700	10% of taxable income
Over \$9,700 to \$39,475	\$970 + 12% if the excess over \$9,700
Over \$39,475 to \$84,200	\$4,543 + 22% of the excess over \$39,475
Over \$84,200 to \$160,725	\$14,382.50 + 24% of the excess over \$84,200
Over \$160,725 to \$204,100	\$32,784.50 + 32% of the excess over \$160,725
Over \$204,100 to \$510,300	\$46,628.50 + 35% of the excess over \$204,100
Over \$510,300	\$153,798.50 + 37% of the excess over \$510,300

Married filing jointly and surviving spouses

If taxable income is:	Your Tax is
Not over \$19,400	10% of taxable income
Over \$19,400 to \$78,950	\$1,940 + 12% if the excess over \$19,400
Over \$78,950 to \$168,400	\$9,086 + 22% of the excess over \$78,950
Over \$168,400 to \$321,450	\$28,765 + 24% of the excess over \$168,400
Over \$321,450 to \$408,200	\$65,497 + 32% of the excess over \$321,450
Over \$408,200 to \$612,350	\$93,257 + 35% of the excess over \$408,200
Over \$612,350	\$164,709.50 + 37% of the excess over \$612,350

Married individuals filing separately

If taxable income is:	Your Tax is
Not over \$9,700	10% of taxable income
Over \$9,700 to \$39,475	\$970 + 12% if the excess over \$9,700
Over \$39,475 to \$84,200	\$4,543 + 22% of the excess over \$39,475
Over \$84,200 to \$160,725	\$14,382.50 + 24% of the excess over \$84,200
Over \$160,725 to \$204,100	\$32,784.50 + 32% of the excess over \$160,725
Over \$204,100 to \$306,175	\$46,628.50 + 35% of the excess over \$204,100
Over \$306,175	\$82,354.75 + 37% of the excess over \$306,175

Heads of Household

If taxable income is:	Your Tax is
Not over \$13,850	10% of taxable income
Over \$13,850 to \$52,850	1,385 + 12% if the excess over \$13,850
Over \$52,850 to \$84,200	\$6,065 + 22% of the excess over \$52,850
Over \$84,200 to \$160,700	\$12,962 + 24% of the excess over \$84,200
Over \$160,725 to \$204,100	\$31,322 + 32% of the excess over \$204,100
Over \$204,100 to \$510,300	\$45,210 + 35% of the excess over \$204,100
Over \$510,300	\$152,380 + 37% of the excess over \$510,300

Trusts and estates

If taxable income is:	Your Tax is
Not over \$2,600	10% of taxable income
Over \$2,600 to \$9,300	\$260 + 24% if the excess over \$2,600
Over \$9,300 to \$12,750	\$1,868 + 35% of the excess over \$9,300
Over \$12,750	\$3,075.50 + 37% of the excess over \$12,750

Neither Haverford nor its representatives provide tax or legal advice. Consult with your tax advisor or attorney regarding specific issues.

Information can be found on the IRS website – www.IRS.gov.

Education and Estate Planning

Gift Tax Exclusion

Gift tax	2018	2019
Annual gift tax exclusion- single individual	\$15,000	\$15,000
Annual gift tax exclusion- joint gift	\$30,000	\$30,000
Lump-sum gift to 529 plan - single individual	\$75,000	\$75,000
Lump-sum gift to 529 plan - joint gift	\$150,000	\$150,000

Estate Planning

Key indexed figures	2018	2019
Annual gift exclusion:	\$15,000	\$15,000
Gift and estate tax applicable exclusion amount:	\$11,180,000 + DSUEA ¹	\$11,400,000 + DSUEA ¹
Noncitizen spouse annual gift exclusion:	\$152,000	\$155,000
Generation skipping transfer (GST) tax exemption:	\$11,180,000	\$11,400,000 ²
Special use valuation limit (qualified real property in decedent's gross estate):	\$1,140,000	\$1,160,000

¹ Basic exclusion amount plus deceased spousal unused exclusion amount (exclusion is portable for 2011 and later years)

² The GST tax exemption is not portable

Retirement Planning

Employee/individual contribution limits

Elective deferral limits	2018	2019
401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs ¹ (includes Roth 401(k) and Roth 403(b) contributions)	Lesser of \$18,500 or 100% of participant's compensation	Lesser of \$19,000 or 100% of participant's compensation
SIMPLE 401(k) plans and SIMPLE IRA plans ¹	Lesser of \$12,500 or 100% of participant's compensation	Lesser of \$13,000 or 100% of participant's compensation

¹ Must aggregate employee contributions to all 401(k), 403(b), SAR-SEP and SIMPLE plans of all employers. 457(b) plan contributions are not aggregated. For SAR-SEPs, the percentage limit is 25% of compensation reduced by elective deferrals (effectively, a 20% maximum contribution).

IRA contribution limits	2018	2019
Traditional IRAs	Lesser of \$5,500 or 100% of earned income	Lesser of \$6,000 or 100% of earned income
Roth IRAs	Lesser of \$5,500 or 100% of earned income	Lesser of \$6,000 or 100% of earned income

Additional "catch-up" limits (individuals age 50 or older)	2018	2019
401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs ¹	\$6,000	\$6,000
SIMPLE 401(k) plans and SIMPLE IRA plans ¹	\$3,000	\$3,000
IRAs) traditional and Roth	\$1,000	\$1,000

Government Benefits

Social Security

Social Security Cost-of-living adjustment (COLA)	2018	2019
For Social Security and Supplemental Security Income (SSI) beneficiaries	2.00%	2.80%

Maximum taxable earnings	2018	2019
Social Security (OASDI only)	\$128,400	\$132,900
Medicare (HI only)	No limit	No limit

Maximum Social Security benefit	2018	2019
Worker retiring at full retirement age (monthly figure)	\$2,788	\$2,861

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Medicare

Medicare monthly premium amounts- Part A (hospital insurance) premium	2018	2019
Individuals with 40 or more quarters of Medicare-covered employment	\$0	\$0
Individuals with less than 40 quarters of Medicare-covered employment who are not otherwise eligible for premium-free hospital insurance	Up to \$422	Up to \$437

Medicare monthly premium amounts- Part B (medical insurance) monthly premium- for beneficiaries who file an individual income tax return with income that is :	2018	2019
Less than or equal to \$85,000	\$134 ²	\$135.50 ²
\$85,001-\$107,000	\$187.50	\$189.60
\$107,001- \$133,500	\$267.90	\$270.90
\$133,501- \$160,000	\$348.30	\$352.20
\$160,001- \$499,999	\$428.60	\$433.40
\$500,000 and above	\$428.60	\$460.50

Medicare monthly premium amounts- Part B (medical insurance) monthly premium- for beneficiaries who file a joint income tax return with income that is:	2018	2019
Less than or equal to \$170,000	\$134 ²	\$135.50 ²
\$170,001-\$214,000	\$187.50	\$189.60
\$214,001- \$267,000	\$267.90	\$270.90
\$267,001- \$320,000	\$348.30	\$352.20
\$320,001- \$749,999	\$428.60	\$433.40
\$750,000 and above	\$428.60	\$460.50

Protection Planning

Eligible long-term care premium deduction limits:

LTC premium deduction limits	2018	2019
Age 40 or under	\$420	\$420
Age 41-50	\$780	\$790
Age 51-60	\$1,560	\$1,580
Age 61-70	\$4,160	\$4,220
Over age 70	\$5,200	\$5,270

Flexible spending account (FSA) for health care

Health care FSAs	2018	2019
Maximum salary reduction contribution	\$2,650	\$2,700

Health Savings Accounts (HSAs)

Annual contribution limit	2018	2019
Self-only coverage	\$3,450	\$3,500
Family coverage	\$6,900	\$7,000

High deductible health plan-self only coverage	2018	2019
Annual deductible-minimum	\$1,350	\$1,350
Annual out-of-pocket expenses required to be paid (other than for premiums) can't exceed	\$6,650	\$6,750

High deductible health plan-family coverage	2018	2019
Annual deductible-minimum	\$2,700	\$2,700
Annual out-of-pocket expenses required to be paid (other than for premiums) can't exceed	\$13,300	\$13,500

Catch-up contributions	2018	2019
Annual catch-up contribution limit for individuals age 55 or older	\$1,000	\$1,000

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