Year-end is an opportune time to consider financial and tax planning strategies. The enactment of the 2017 tax cut legislation last December makes year-end planning this year more important than ever. The tax cut legislation effected significant changes, such as lowering tax rates and, at the same time, reducing or eliminating some tax deductions, credits, and exclusions. Taken together, these changes could dramatically impact your tax liability for the year. As a result, we encourage you to review your withholding and estimated tax payments before year-end to ensure there are no surprises when tax returns are filed on or around April 15th.

**Income Taxes:** Last year's legislation retained the seven tax brackets that apply to individual income but lowered the top tax rate to 37 percent. In addition, the legislation lowered rates for several of the middle-income tax brackets. These rate changes will produce a lower effective (or average) tax rate for many, but due to changes in the way that taxable income is calculated (see below), your total tax bill may not go down.

Perhaps the most significant change in the new tax law is the doubling of the standard deduction and the elimination of personal exemptions. For 2018, the standard deduction nearly doubles to $12,000 for individuals and $24,000 for married couples filing jointly. At the same time, a number of commonly-claimed itemized deductions have been reduced or eliminated, with the most important being the imposition of a $10,000 limit on state and local taxes for both individuals and married couples. The itemized deduction for home mortgage interest is retained (although generally limited to loans of $750,000 or, if you are married filing separately, $375,000) as is the charitable contribution deduction. As a result, it is expected that the number of taxpayers who will itemize their deductions will fall dramatically from approximately 33 percent of all filers to less than 10 percent. It is imperative that you compare the total amount of itemized deductions available to you under the new law with the increased standard deduction amount. Year-end planning decisions can turn on this comparison.

**Bunching**: If you claimed itemized deductions in the past, you may now want to consider "bunching" those deductions into one year in order to exceed the standard deduction amount and claim the standard deduction in other years. Perhaps the easiest itemized deductions to bunch are for charitable contributions. One way to accomplish this is to combine tax-deductible contributions that would otherwise be given in two or more years into one. Another 2017 tax law change that increased the annual cap on cash contributions to charity from 50 percent of adjusted gross income to 60 percent can make "bunching" even more attractive.

*Action Item: Make charitable contributions in the "bunching" year to a new or existing donor advised fund ("DAF") offered by* ***The Jewish Community Foundation of Greater Ann Arbor****. Claim the charitable deduction in the year you make the contributions and spread distributions to charities over several years.*

*Action Item: Shift some of your tax burden to a future year. Tried and true strategies for lowering your tax bill include deferring receipt of a bonus payment to 2019, accelerating remaining deductions in to this year by prepaying a deductible expense, or making larger charitable gifts. Put those saved tax dollars in your pocket rather than the government's.*

**Investment Assets:** Because 2018 continues to be a good year in the stock market, year-end is an opportune time to review your investment portfolio and consider timing the recognition of capital gains and losses for assets held long-term - more than one year - and short-term. The top income tax rate on long-term capital gains remains at 20 percent. (A 3.8 percent tax on net investment income could also apply). Part of your capital asset review could be consideration of a gift of appreciated securities to charities. You can avoid paying any capital gains tax on the value of securities transferred to the Federation/Foundation, and you may be able to receive a charitable contribution deduction for the full fair market value of the securities at the time of the gift.

*Action Item: Give appreciated assets. They are fully deductible up to 30 percent of adjusted gross income and any excess can generally be carried forward and be deductible for up to an additional five years.*

*Action Item: Donate appreciated stock, to establish a DAF or add to an existing DAF at the **Jewish Community Foundation of Greater Ann Arbor**. It is an excellent way to maximize tax savings from such gifts and retain the privilege of making grant recommendations in the future.*

*Action Item: Sell depreciated stock, recognize the tax loss and then give the proceeds to charity. If you make a charitable gift of stock with a fair market value less than its cost basis, your charitable deduction will be limited to the fair market value.*

**IRA Charitable Rollover:** Over the past ten years, many individuals over age 70 ½ have utilized the IRA charitable rollover to transfer up to $100,000 each year from their IRAs directly to public charities, such as the Federation/Foundation. Qualifying direct distributions may count against the minimum required distribution amount. (Note: transfers to DAFs, supporting organizations, and private foundations do not qualify for this tax benefit.) *An IRA Charitable Rollover is not deductible, but because it is not included in gross income, the net effect may be the same as it would have been had you made a charitable contribution. As a bonus, you do not have to itemize to get the tax benefit of your gift, so you can still claim the higher standard deduction under the 2017 tax law changes.*

*Action Item: Use your IRA Charitable Rollover to pay your Annual Campaign pledge, establish a Lion of Judah (LOJE) or Perpetual Annual Campaign Endowment (PACE) or use it to establish an endowment fund to support a charitable cause that is a passion of yours.*

**Estate Taxes:** Several provisions in the 2017 tax law operate to provide new opportunities for estate and gift tax planning and encourage lifetime giving to family members and others. The estate tax exemption amount has doubled to over $22 million for married couples, greatly reducing the number of estates that will be subject to tax. The annual gift tax exclusion has been increased to $15,000 per recipient, ($30,000 if the spouse joins in the gift). The bottom line is that this is an opportune time to review estate planning documents including trust agreements and wills.

*Federation/Foundation endowment professionals remain available to work with you and your other professional advisors to maximize the benefits of these and other tax planning strategies for you and the Jewish community.*

For more information, contact Sharyn J. Gallatin, Esq. at 734.677.0100 ext. 228 or at sharyn@jewishannarbor.org.

*This letter is for informational purposes only and should not be construed as legal, tax or financial advice. When considering gift planning strategies, you should always consult with your own legal and tax advisors.*