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Smart Tax Planning

Here are 5 last-minute tax moves you can still make before you file

Andrew Osterland
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Most of the last-minute opportunities to reduce your tax liabilities for 2018 have come and gone.

You can't deduct charitable contributions you make in 2019 from last year's income, nor can you deduct expenses against last year's income for medical procedures you get now. You can't give 2018 tax-free gifts to your heirs today or harvest losses on investments tomorrow to offset gains realized last year.

The bulk of the things you could do reduce your tax bill for last year expired on Dec. 31. But not all of them. There are still a number of steps taxpayers can take to help reduce the bite on April 15. Some have been available to taxpayers for years, while others are a result of the Tax Cuts and Jobs Act passed last year.

Here are five things to consider before filing your return this year.

1. Individual retirement account contributions.

Taxpayers can still make tax-deductible contributions to an IRA. Unlike 401(k) contributions that have to be made before year-end, taxpayers have until April 15 to contribute to their IRAs and still deduct them from 2018 income.

"It's one easy thing you can still do now to reduce your taxable income for last year," said Amy Wang, a senior manager of tax policy and advocacy for the American Institute of CPAs.

If you don't participate in a workplace retirement plan, you can deduct up to $5,500 in IRA contributions and can add in another $1,000 "catch-up" contribution if you're over age 50. If you are in a 401(k) plan at work, you can still deduct IRA contributions to the full $5,500 limit if you're adjusted gross income is less than $63,000. The deduction phases out for taxpayers with income between $63,000 and $73,000 and disappears over that income level.

2. Getting "in the zones."

One of the key job-creating incentives in the Tax Cuts and Jobs Act is the creation of more than 8,700 low-income "opportunity zones" across the country. Individuals or companies that invest in these zones through qualified funds can defer or avoid taxes on capital gains they've made elsewhere.

For example, if you sell a $100,000 portfolio of stocks that has produced $50,000 in capital gains, you would owe as much as $10,000 in taxes on the gain depending on your level of income. However, if investors roll the gain into a qualified opportunity fund, they can defer the taxes due until 2026 or until they sell the new investment.

They can also reduce the taxable gain if they hold the investment for at least five years. The longer the holding period, the greater the reduction of the gain subject to tax.

"As long as people make the new investment within six months of selling the other assets, there's no limit on how much they can invest," said Robert Spielman, a tax partner at New York-based accounting firm Marcum. "They can do that now."

Most of the investments in the qualified opportunity funds are in real estate projects and local businesses within the opportunity zone. Rules apply. Individuals or entities looking to take advantage of the incentive should consult a business expert or accountant on their options.

3. Changes in accounting method.

For self-employed taxpayers and small-business owners, changing the method of accounting for your business from an accrual to a cash basis or vice versa can save on taxes. "Any business with gross receipts of less than $25 million can change its accounting method this year," said Spielman.

Switching from an accrual basis — recognizing income when it's earned — to a cash basis — recognizing it when you get actually get paid — will reduce taxable income in 2018. Taxpayers can make the change in either direction regardless of the accounting method they used in the prior year. Depending on the timing of income you earned and when you received it, the difference — and the taxes thereon — can be substantial.

4. The qualified business deduction.

One of the key benefits to small businesses in the Tax Cuts and Jobs Act is the new 20 percent qualified business deduction. If a sole proprietor or business owner earns less than $315,000 of income, they can take a full 20 percent deduction on income before itemizing their other deductions. The size of the deduction decreases on income over that amount and goes to zero on income over $415,000.

While small-business owners can't make any investments now that would alter the size of the 2018 deduction they can take, they can take steps to lower their income to get under the $315,000 threshold.

Chief among them is taking advantage of more flexible rules on depreciation expenses in the Tax Cuts and Jobs Act. Businesses can now depreciate the full cost of qualified property in the year they purchased it. They can also increase the so-called Section 179 depreciation expenses they claim up to $1 million for 2018.

It may not always make sense to accelerate depreciation expense. Some professional advice on these complicated rules is probably a good idea. "The rules related to businesses are complex, but there are significant tax-saving opportunities," said Spielman. "For our clients, we generally look over a two- to three-year period to maximize benefits."

5. Revisit your withholding taxes.

It won't change your tax situation for last year, but planning for this year sooner rather than later always makes sense for taxpayers. "This is a good time to plan for next year too," said Wang.

Item No. 1 on the to-do list for many taxpayers is probably an adjustment to their W-4 tax withholding schedules with their employer. Tax refunds are way down this year, and many people are very unpleasantly surprised to find they owe the government more taxes.

People generally saw their paychecks increase last year due to the cuts in marginal tax rates, but in many cases, changes to the withholding schedules left taxpayers owing more money at the end of the year. To avoid another unpleasant experience next year, act now. "If you're getting a large refund this year or owe a lot of taxes, you need to adjust your withholding with your employer now," said Wang.