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Getting a bonus at work this year? How you can save on taxes

- The good news: The tax overhaul has lowered overall individual income tax rates.
- If you can control the timing of your bonus, consider receiving it in 2019 in order to limit your taxable income in 2018.
- Getting paid your bonus this year? Charitable giving can help you reduce your tax load.

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Here's one good reason to hold off on receiving your holiday bonus this year: It's a move that can help you save on taxes.

Wall Street workers — that is, employees in the securities industry in New York City — received an average bonus of \$184,220 in 2017, [according to a report](#) from the New York State Comptroller's office. That reflects an increase of 17 percent from the prior year.

Year-end bonuses have been more modest for other workers.

The average anticipated holiday bonus was \$1,797 last year, according to Accounting Principals' [online survey](#) of 500 HR and hiring managers, taken in the fall of 2017.

It's hard to say no to a year-end windfall, especially after [all that holiday shopping](#), yet accountants warn that workers could get a tax bite if they don't prepare.

"If there is an opportunity to defer, it pays to do so," said Carolyn Mazzenga, a CPA and leader of the family wealth services group at Marcum LLP.

Here's how your bonus could affect your tax bill.

Lower rates

In all, individual income tax rates have come down in 2018, since the Tax Cuts and Jobs Act has taken effect.

See below for your tax bracket in 2019.

2019 Individual Income Tax Rates	Single-Taxable Income	Married Filing Jointly - Taxable Income	Head of Household - Taxable Income
10 percent	0 to \$9,700	0 to \$19,400	0 to \$13,850
12 percent	\$9,701 to \$39,475	\$19,401 to \$78,950	\$13,851 to \$52,850
22 percent	\$39,476 to \$84,200	\$78,951 to \$168,400	\$52,851 to \$84,200
24 percent	\$84,201 to \$160,725	\$168,401 to \$321,450	\$84,201 to \$160,700
32 percent	\$160,726 to \$204,100	\$321,451 to \$408,200	\$160,701 to \$204,100
35 percent	\$204,101 to \$510,300	\$408,201 to \$612,350	\$204,101 to \$510,300
37 percent	\$510,301 and up	\$612,351 and up	\$510,301 and up

Filers near the top of one bracket could be subject to higher taxes if a year-end bonus pushes them into the next level.

Better to wait

That's where workers might benefit from postponing receipt of their holiday pay. "With bonuses, there's generally some control or no control over when it's paid," said Robert Westley, a CPA and member of the American Institute of CPAs' Personal Financial Specialist Credential Committee.

"If there is some control, you can ask if they can pay it to you in January instead of December," he said.

This way, you lower your income tax obligation for 2018.

You can also ask about spreading your bonus over multiple pay periods, Westley said. Be sure to work with your tax preparer in order to project your income and tax liability for 2019, he said.

Cutting your taxes

With sufficient time to prepare, you and your accountant can plan a few ways to offset the additional income from your bonus.

For instance, you can contribute to your favorite charity or make a gift to your donor-advised fund, which is a tax-favored account that you can use to direct grants to your favorite charitable organizations.

You can also "bunch" or cram in two or more years' worth of charitable donations into one year in order to snag a larger deduction.

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"The charitable contribution is the best strategy you can use if you know you're getting a bonus; it's still deductible," said Mazzenga.

However, in order to claim your charitable contributions, you must itemize deductions on your income tax return.

The standard deduction for 2019 will be \$12,200 for singles and \$24,400 for joint filers, so it's likely that fewer people will itemize going forward.

Save more, trim more

Here's another way to knock a few dollars off your tax bill if you're expecting a bonus: Stash some more money into your retirement plan.

In 2018, you can save up to \$18,500 in your 401(k) — that number goes up to \$19,000 in 2019.

"Increasing your contribution to your 401(k) can help reduce your taxable income in a year that you have higher income," said Westley.

Be aware that so-called "[highly-compensated employees](#)" who received more than \$120,000 in pay from a business in 2018 (\$125,000 in 2019) are [subject to limitations](#) on how much they can save in 401(k) plans and other workplace benefit plans.

Consult with your financial planner or tax advisor if that's the case.

Cut taxes even more

You can also step up your contribution to your [health savings account](#) if you have a high-deductible health insurance plan.

The so-called HSA allows you to save pre-tax or tax-deductible dollars, grow them free of taxes and withdraw the money tax-free if you're using it to pay for qualified medical expenses.

For 2018, individuals with self-only insurance coverage can contribute up to \$3,450 (\$3,500 in 2019), while those with family plans can save up to \$6,900 (\$7,000 in 2019).

"Maximizing your HSA can help you manage your taxable income for that year," Westley said.

Though you only have until the end of the year to make a 401(k) contribution for 2018, you can contribute to your HSA until April 15, 2019 – the due date of your 2018 tax return – and have it count for this year.