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ASSET PROTECTION IS JUST AS IMPORTANT AS TAX PLANNING

Like many financially savvy individuals, you're probably already thinking about filing your tax return next year. But don't overlook another critical and equally important aspect of financial planning: asset protection. Here are some fundamental strategies to consider.

BUY LIABILITY INSURANCE

Liability insurance policies help protect your assets from the financial risks associated with personal liability that results from an adverse legal judgment. Auto and homeowner's policies, for example, usually include some liability coverage. Increasing your liability coverage beyond the standard amounts will provide additional asset protection.

Personal liability umbrella insurance can give you even more liability coverage above the limits of your auto and homeowner's policies. For instance, if you were sued for causing a car accident or found liable for injuries suffered by a visitor to your home, umbrella insurance could provide coverage up to the policy limits (such as $1 million).

LOOK TO STATUTORY PROTECTION

Federal or state law exempts certain kinds of property and assets from creditor liens. Thus, some assets you own may automatically be protected due to statutory guidelines. Qualified retirement plans are this type of asset, as are IRAs and 401(k) plans, life insurance proceeds and Section 529 college savings plans. But keep in mind that inherited assets may not have the same degree of protection.

The amount of home equity that's protected (generally called the "homestead exemption") depends on state law. In some states, it's very generous, but in others it's extremely limited, given the value of homes today. In a couple of states, there's no protection. Consult with an attorney about your state's laws.

ESTABLISH A TRUST

Assets placed in an irrevocable trust can't be removed, nor can the trust terms be changed. Thus, you've effectively relinquished control over the assets and put them out of reach of your creditors. The asset transfer

ASSET OWNERSHIP STRUCTURE IS KEY

Ownership of your assets plays an important role in whether they can be seized by creditors. Thus, it might be wise in some situations to transfer ownership of certain assets to your spouse. If you're at a high risk of liability — for example, you're a business owner — one strategy might be to retain ownership of assets with statutory protection, as mentioned in the main article, and transfer ownership of all other assets to your spouse.

must be done in advance of the act that created the liability, or the transfer could be nullified. In other words, the time to think about setting up such a trust is before you need to take advantage of it.

An irrevocable trust also can help you protect assets for your children and grandchildren. Consider structuring the trust in a way that effectively gives future generations the benefit of the assets without transferring ownership of them to your heirs. This can shield those assets from your descendants' future creditors.

If you decide to use trusts as part of your asset protection strategy, remember that they may be subject to higher income tax rates and additional tax filing requirements. Trusts also may be costly to set up and require expert legal counsel to administer and maintain.

OBTAIN EXPERT ASSISTANCE

The details involved in implementing asset protection strategies can be complex. We can offer you guidance in your case. ■

YEAR-END TAX AND FINANCIAL TO-DO LIST FOR INDIVIDUALS

With the dawn of 2020 on the near horizon, here's a quick list of tax and financial to-dos you should address before 2019 ends:

Check your Flexible Spending Account (FSA) balance. If you have an FSA for health care expenses, you need to incur qualifying expenses by December 31 to use up these funds or you'll potentially lose them. (Some plans allow you to carry over up to $500 to the following year or give you a 2½-month grace period to incur qualifying expenses.) Use expiring FSA funds to pay for eyeglasses, dental work or eligible drugs or health products.

Max out tax-advantaged savings. Reduce your 2019 income by contributing to traditional IRAs, employer-sponsored retirement plans or Health Savings Accounts to the extent you're eligible. (Certain vehicles, including traditional and SEP IRAs, allow you to deduct contributions on your 2019 return if they're made by April 15, 2020.)

Take required minimum distributions (RMDs). If you've reached age 70½, you generally must take RMDs from IRAs or qualified employer-sponsored retirement plans before the end of the year to avoid a 50% penalty. If you turned 70½ this year, you have until April 1, 2020, to take your first RMD. But keep in mind that, if you defer your first distribution, you'll have to take two next year.

Consider a qualified charitable distribution (QCD). If you're 70½ or older and charitably inclined, a QCD allows you to transfer up to $100,000 tax-free *directly* from your IRA to a qualified charity and to apply the amount toward your RMD. This is a big advantage if you wouldn't otherwise qualify for a charitable deduction (because you don't itemize, for example).

Use it or lose it. Make the most of annual limits that don't carry over from year to year, even if doing so won't provide an income tax deduction. For example, if gift and estate taxes are a concern, make annual exclusion gifts up to $15,000 per recipient. If you have a Coverdell Education Savings Account, contribute the maximum amount you're allowed.

Contribute to a Section 529 plan. Sec. 529 prepaid tuition or college savings plans aren't subject to federal annual contribution limits and don't provide a federal income tax deduction. But contributions may entitle you to a *state* income tax deduction (depending on your state and plan).

Review withholding. The IRS cautions that people with more complex tax situations face the possibility of having their income taxes underwithheld because of changes under the Tax Cuts and Jobs Act. Use its withholding estimator (available at irs.gov) to review your situation.

If it looks like you could face underpayment penalties, increase withholding from your or your spouse's wages for the remainder of the year. (Withholding, unlike estimated tax payments, is treated as if it were paid evenly over the year.)

For assistance with these and other year-end planning ideas, please contact us. ■

5 LAST-MINUTE TAX MOVES FOR YOUR BUSINESS

The days of the calendar year are vanishing quickly, but there still may be some last-minute strategies that business owners can use to lower their 2019 tax bills. Here are five to consider:

1. Postpone invoices. If your business uses the cash method of accounting, and it would benefit from deferring income to next year, wait until early 2019 to send invoices. Accrual-basis businesses can defer recognition of certain advance payments for products to be delivered or services to be provided next year.

2. Prepay expenses. A cash-basis business may be able to reduce its 2019 taxes by prepaying certain expenses — such as lease payments, insurance premiums, utility bills, office supplies and taxes — before the end of the year. Many expenses can be deducted up to 12 months in advance.

3. Buy equipment. Take advantage of 100% bonus depreciation and Section 179 expensing to deduct the full cost of qualifying equipment or other fixed assets. Under the Tax Cuts and Jobs Act, bonus depreciation, like Sec. 179 expensing, is now available for both new *and used* assets. Keep in mind that, to deduct the expense on your 2019 return, the assets must be placed in service — not just purchased — by the end of the year.

4. Contribute to retirement plans. If you're self-employed or own a pass-through business — such as a partnership, limited liability company or S corporation — one of the best ways to reduce your 2019 tax bill is to increase deductible contributions to retirement plans. Usually, these contributions must be made by year end. But certain plans — such as SEP

IRAs — allow your business to make 2019 contributions up until its tax return due date (including extensions).

5. Qualify for the pass-through deduction. If your business is a sole proprietorship or pass-through entity, you may qualify for the pass-through deduction of up to 20% of qualified business income. But if your taxable income exceeds $160,700 ($321,400 for joint filers), certain limitations kick in that can reduce or even eliminate the deduction. One way to avoid these limitations is to reduce your income below the threshold — for example, by having your business increase its retirement plan contributions.

Most of these strategies are subject to various limitations and restrictions beyond what we've covered here, so please consult us before you implement them. We can offer more ideas, too. ■

PUMP THE BRAKES BEFORE DONATING THAT VEHICLE TO CHARITY

Many people might consider donating their vehicles to charity at year end to start the new year. Why not get a fresh ride *and* a tax deduction, eh? Pump the brakes — this strategy doesn't always work out as intended.

Donating an old car to a qualified charity may seem like a hassle-free way to dispose of an unneeded vehicle, satisfy your philanthropic desires and enjoy a tax deduction (provided you itemize). But in most cases, it's not the most tax-efficient strategy. Generally, your deduction is limited to the actual price the charity receives when it sells the car.

You can deduct the vehicle's fair market value (FMV) only if the charity 1) uses the vehicle for a significant charitable purpose, such as delivering meals to homebound seniors, 2) makes material improvements to the vehicle that go beyond cleaning and painting, or 3) disposes of the vehicle for less than FMV for a charitable purpose, such as selling it at a below-market price to a needy person.

If you decide to donate a car, be sure to comply with IRS substantiation and acknowledgment requirements. And watch out for disreputable car donation organizations that distribute only a fraction of what they take in to charity and, in some cases, aren't even eligible to receive charitable gifts. We can help you double-check the idea before going through with it. ■

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