

# GERSTEIN TAX SERVICE

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## How To Give Gifts And Not Trip On The Gift Tax

It may be better to give than to receive, as the old saying goes, but it's also best to avoid the taxes on your generosity. What's also smart is knowing when you have to file a tax form as a gift giver.

You can give one person up to \$15,000 yearly without incurring any taxes. In fact, you can give multiple people a gift of up to that amount, and they don't even have to be related to you — your son, your daughter, your best friend, your manicurist, whoever.

are on the hook to pay any tax, and not the recipient.

The tax stops people from giving all their money and property away during their lifetimes to skirt the estate tax when they die. The good news is that — with a little planning — you don't have to pay the gift tax right away, and maybe never.

In addition to the \$15,000 per recipient annual limit, there's a lifetime exclusion amount, \$11.4 million in 2019 — this covers *all* your lifetime

## Client Service: Old- - Or New-Style, Have It Your Way

Wow! Have things changed since we opened our doors 40+ years ago! No e-mails, Internet, laptops, e-commerce, or (gasp!) even cell phones those days. How did we ever manage?

Don't get us wrong: We're all for bringing tech to tax services, especially since for many 30-somethings and younger, digital is replacing face-to-face chats. Some clients want a mix of both styles. For us, it's all part of providing premier client service—however our clients like it.

It's not only *how* but *what*: addressing the unique needs of each client—whether they come to us at Tax Season for expert filing or they interact with us more often for ongoing tax advice.

Great service is also *staying in contact with our clients*. You know that you can always call us (or e-mail us, or chat with us online), and we'll likely be there. If by chance we're not, we'll get back to you—fast. And if you want to visit us, or you want *us* to contact *you*, just tell us when. Those kinds of things are important, even “old-fashioned”, for lack of a better word. But they're why so many of our clients have become our friends.

And so we thank you for your continuing trust and confidence.

Warm regards,  
**The Gerstein Tax Service Client Team**



So, if you give your favorite niece \$25,000, you only owe taxes on the \$10,000 above the \$15,000 limit. And a gift need not be cash. It could be stock or real estate or cars.

What's more, the limit is per person, not per couple. Your spouse could give that lucky soul the same amount, doubling your household's giving and you're personally still staying under the yearly \$15,000 ceiling. Note that only you, the giver,

giving to everybody. With the lifetime exclusion, your estate pays what you gave in excess of that cap.

The lifetime exclusion allows people more freedom to give big gifts. Example: You give your sister \$40,000 this year. The extra \$25,000 (\$40,000 gift minus \$15,000 annual exclusion) is taxable. Instead of paying that tax now, you count it against the \$11.4 million

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# Give To Charity From An IRA To Lower Your Tax Bill

**T**o keep your tax bill down, if you are over 70½, consider a qualified charitable contribution, which makes donations of up to \$100,000 from an Individual Retirement Account (IRA) to a fully deductible charity.

A qualified charitable distribution (QCD) lets you donate from a traditional or inherited IRA, provided you meet the age requirements.

A QCD can help you eliminate, or at least reduce, taxes owed on your required minimum distribution (RMD).

That's the amount you are required to take out of your IRA account annually after turning 70½.

Example: Your yearly RMD is \$20,000, which counts as taxable income. But if you donate that amount to a charity, it's not counted as income, which may drop you into a lower tax bracket.

Moreover, you don't have to itemize to take this tax deduction. That's good news for Americans no longer itemizing deductions on their

returns. To be sure, some taxpayers are hurt by the Tax Cuts and Jobs Act's \$10,000 cap on state and local tax deductions, so a qualified charitable distribution can make sense.

not make a QCD and also itemize charitable deductions. You must pick one. Plus, the charity must not be a private foundation or a donor-advised fund. These technical details are crucial.

Another QCD tip: Make the contribution straight from your IRA. The RMD money must never be in your personal, non-IRA account. Send your IRA custodian instructions to send the check directly to the charity, with the organization's



You don't have to donate the entire amount to a single charity. You can divvy up a QCD among multiple IRS-eligible charities, within the \$100,000 annual limit. You don't have to use 100% of your RMD for the donation, of course, and can keep what you need to pay for your living expenses and donate the rest.

QCDs require careful attention to ensure your donation is made from an individual retirement account — not a 401(k) or 403(b). In addition, you may

name on the check. Have the IRA custodian send you documentation that you made the donation.

Finally, be sure to make the donation before you take your RMD. Should you take the RMD first, you can't give the money back to the retirement account and will be ineligible to deduct it.

The QCD is a fairly complex solution to lower taxes and we encourage you to reach out to us to assist in the execution of this strategy. ●

## Risk And Tax Effects Of An Installment Sale Of A Home

**A**n installment sale of real estate is a variety of seller financing in which the buyer is borrowing from the seller. Why would a seller want to do this? Isn't it better to get the money up front? No, not always, especially when a sizable real estate capital gain would push you into a higher tax bracket.

An installment plan can give a home-seller a way to unload homes in bad market conditions and enable buyers who otherwise would not qualify for a mortgage to buy a home. Installment financing is a familiar concept for big-ticket consumer items, like cars and furniture, but handily applies to dwellings.

Some of this arrangement tracks the standard housing finance playbook. The buyer makes a down payment and agrees to pay the rest over a set term, which can be whatever the two parties want it to be. And they also set an interest rate on the loan.

What's more, to protect the seller in the event that the buyer defaults on loan payments, the buyer takes out a purchase-money mortgage. This is posted with the local property records agency, which establishes the arrangement in case disputes arise. The seller can foreclose if there's non-payment and take possession of the home. Point is, the seller can be well-

protected but full and fair disclosure of the terms must be managed diligently.

In tax terms, the results can be favorable to sellers. Sellers owe no income taxes on the portion of the monthly installment payments considered to be the cost basis—that is, the amount the seller originally paid for the home. The amount of the installment payment above the cost-basis is a capital gain, however, and, depending upon the seller's income, is taxed at a 15% or 20% rate, much lower than ordinary income tax rates. Therein lies the tax advantage. The interest portion of the installment payments is subject to ordinary rates.

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# HSA Or FSA: Which Is Better For Medical Savings?

**H**ealth insurance deductibles and co-payments, plus uncovered items like your child's braces, can put a dent on your bank account.

That's why flexible spending and health savings accounts, where you put money away tax-free to pay for out-of-pocket health-care expenses, generally are good ideas. What's better, the saved money from an FSA and an HSA lowers your reported taxable income, just like contributing to a retirement account. Which is the best for you, though, an FSA or an HSA?

First let's look at how they are constructed. You can get into these health accounts during your employer's open enrollment period, which usually runs through December.



In addition to avoid being pushed up to a higher tax bracket with a big onetime gain from a traditional sale, higher-income sellers skirt the 3.8% net investment income tax. Sellers subject to this additional tax are singles with adjusted gross incomes over \$200,000 and married couples with AGIs above

You also can enroll if you have a "qualifying life event," such as a change in marital status, a new child, or the death of a spouse or dependent. And if you take a new job, you can sign up within 30 days.

Most employers don't offer both an FSA and an HSA and, usually if they do, you can't get into both. If you have a choice, knowing the differences is important. Among other things, you can put more money into an HSA and roll it over into a new year. But an FSA lets you take money out even before you have contributed it.

**Flexible spending accounts.** For 2019, the maximum contribution you can make is \$2,700. That's not a lot, but if your spouse has health coverage, he or she can take out another FSA.

A big downside is the use-it-or-lose-it rule. Should you fail to spend all the money in your fund by year-end, you lose it. As a result, you have

\$250,000.

This strategy has its downsides in certain circumstances. If you're a seller of a business property and have taken big depreciation deductions on it, then the installment plan might not work.

Depreciation recapture rules could trigger a 25% tax on previous write-offs for depreciation. In addition, mortgage lenders must be prepared to deal with late payments from borrowers, which can become complicated and ugly.

True, a house is not always a home, but it can be a tax savings, if everything goes right. ●



to estimate how much you'll need to pay yourself in the coming year.

At least companies have the option of giving employees until March 15 to spend leftover money or even keep up to \$500 for the next year. Many don't do that, though.

The good thing is that you can start spending the whole sum you designated for the year ahead on Jan. 1, even though your contributions are spread over the coming 12 months. Leave the job and you can't take the money with you, as you would with a retirement account—or an HSA.

**Health savings accounts.** The advantage here, of being able to sock away more money and not forfeiting the unused amount on Dec. 31, is considerable.

In 2019, a single person can save \$3,500 in an HSA, while a family can save \$7,000. Further, if you're 55 and older, you can put in an extra \$1,000 as a catch-up. In addition, self-employed people can create an HSA for themselves, but not an FSA.

But HSAs have their weaknesses. To set one up in 2019, your health plan needs to have a yearly deductible of \$1,350 for an individual and \$2,700 for a family. That's a bit steep.

Regardless, either plan can be a boon tax-wise. Utilizing FSAs and HSAs are best considered within a strategic tax plan, which is technical and depends on your personal circumstances. We're here to help with any questions. ●





# Prepare For A Sweeping New Law On Retirement Account Taxes

**A** sweeping new law changing retirement investing tax rules was passed by the House of Representatives on May 29th. It's expected to be passed by the Senate and has the support of President Donald J. Trump. Although the legislation may not be signed into law until late this year, individuals with retirement accounts should consider how its enactment will affect them and their beneficiaries. Here's what you need to know now:

**Secure Act Misnomer.** The legislation is referred to as the Secure Act. Often buried or unmentioned in coverage is the full name of the legislation, "Setting Every Community Up for Retirement Enhancement Act of 2019."

**Kills Stretch IRAs.** A popular strategy for stretching tax deferral would be eliminated by the proposed law. The legislation's sweeping changes would kill stretch IRAs and represents a move to higher taxes on IRA beneficiaries. Non-spouse beneficiaries of Individual Retirement Accounts (IRAs) would no longer be permitted to defer taxes on payouts of inherited IRA over their expected

lifetime after 2019. Under current rules, you could leave an IRA to your children and your heirs who can take distributions from that IRA based on their life expectancy. This allows those inheriting IRAs to stretch deferral of taxes over many decades, and the IRA account compounds without being taxed in this period. Under the proposed change, heirs would be required to distribute an inherited IRA over 10 years.



**Exceptions.** The proposal carves out an exception for minors — 18 or 21 in most states — until they reach the age of majority, and then they would be required to distribute the assets in the IRA over 10 years. A surviving spouse,

those who are chronically ill or disabled are among those not affected by the new 10-year payout rule.

**Beginning Date Of Required Minimum Distributions (RMDs).** The new law would push back the age at which you must begin withdrawing money from an IRA. Under current law, you are required to begin taking distributions on the 1st of April following the year you turn age 70½. Under this new statute, that's going to be pushed back to age 72.

**Stay Tuned.** Waiting till the legislation is signed into law may not leave enough time to adjust your plans and minimize taxes for yourself and loved ones, and the legislation makes changes so sweeping and so new that its effects on long-term financial plans are still being researched. Please watch this space to learn details about ways to shield yourself and your beneficiaries from higher taxes on IRA payouts in the weeks ahead. Tax panning requires a qualified tax professional and personal attention. This is an early warning about an important issue affecting strategic long-term tax planning and not intended as tax or legal advice. ●

## How To Give Gifts And Not Trip

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lifetime number. After subtracting that \$25,000 from the lifetime exclusion, you have \$11.375 million still to go.

It's rare for most Americans to go over the \$11.4 million lifetime giving limit. But if you're well-heeled and very generous — your daughter's destination wedding in Corsica costs a bundle — then you can hit it. The gift tax rate ranges from 18% to 40%.

About filing with the IRS: Every year you go over the \$15,000 exclusion level, you need to file a Form 709. That way, the government can track who is on the road to reaching the lifetime \$11.4 million exclusion.

Some things may not seem to be gifts, but are, and you're required to file the form, like that large sum you blew on your daughter's costly nuptials. Or that \$100,000 you just plugged into



your grandchild's 529 college saving plan, which means \$85,000 of it is potentially taxable. And if you make an

interest-free loan to a friend, the IRS sees it as a gift, too.

Some gifts are tax-free, provided that you give them the right way. Such as gifts for medical or educational expenses. Should you pay someone else's hospital bill, don't give the money to the patient, who then settles the medical tab themselves. You pay the hospital directly. Ditto for education. Instead of giving the money to the student, write the check to the school. Giving to your spouse or a charity is also totally free from the gift tax.

One sure thing about gifts is that they make people happy. Staying within the rules makes the tax man happy, too. It's best to consult a qualified tax professional about this topic, and we are here to help. ●