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Tax & Business Alert

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WEIGH THE TAX IMPACT OF INCOME VS. GROWTH WHEN INVESTING

As the 2018 tax-filing season heats up, investors have much to consider. Whether you structured your portfolio to emphasize income over growth — or vice versa, or perhaps a balance of the two — will have a substantial impact on your tax liability. Let's take a look at a couple of the most significant "big picture" issues that affect income vs. growth.

DIFFERING DIVIDENDS

One benefit of dividends is that they may qualify for preferential long-term capital gains tax rates. For the 2018 tax year, the top rate is 20% for high-income taxpayers (income of $425,800 or more). For those with incomes between $38,601 and $425,800, the rate is 15%. Individuals with incomes of $38,600 and below pay 0% on long-term capital gains.

Keep in mind, however, that only "qualified dividends" are eligible for these rates. Nonqualified dividends are taxed as ordinary income at rates as high as 37% for 2018. Qualified dividends must meet two requirements. First, the dividends must be paid by a U.S. corporation or a qualified foreign corporation. Second, the stock must be held for at least 61 days during the 121-day period that starts 60 days before the ex-dividend date and ends 60 days after that date.

A qualified foreign corporation is one that's organized in a U.S. possession or in a country that has a current tax treaty with the United States, or whose stock is readily tradable on an established U.S. market. The ex-dividend date is the cutoff date for declared dividends. Investors who purchase stock on or after that date won't receive a dividend payment.

TIMING IS EVERYTHING

One disadvantage of dividend-paying stocks (or mutual funds that invest in dividend-paying stocks) is that they accelerate taxes. Regardless of how long you hold the stock, you'll owe taxes on dividends as they're paid, which erodes your returns over time.

When you invest in growth stocks (or mutual funds that invest in growth stocks), you generally have greater control over the timing of the tax bite. These companies tend to reinvest their profits in the companies rather

WHAT ARE YOUR INVESTMENT OBJECTIVES?

When re-evaluating your investment portfolio, it's important to consider whether your objectives have changed. There are many factors to consider, both tax and nontax. Some investors seek dividends because they need the current income or they believe that companies with a history of paying healthy dividends are better managed. Others prefer to defer taxes by investing in growth stocks. And, of course, there's something to be said for a balanced portfolio that includes both income and growth investments. When preparing to file your 2018 taxes, take a moment to identify your objectives and determine if you met them or fell short.

than pay them out as dividends, so taxes on the appreciation in value are deferred until you sell the stock.

KEEPING AN EYE OUT

Regardless of your investment approach, you need to understand the tax implications of various investments so you can make informed decisions. You should also keep an eye on Congress. As of this writing, further tax law reform beyond the Tax Cuts and Jobs Act of 2017 isn't on the horizon — but it's being discussed. Contact our firm for the latest news and to discuss your tax and investment strategies. ■

DEDUCTING CHARITABLE GIFTS DEPENDS ON A VARIETY OF FACTORS

Whether you're planning to claim charitable deductions on your 2018 return or make donations for 2019, be sure you know how much you're allowed to deduct. Your deduction depends on more than just the actual amount you donate.

WHAT YOU GIVE

Among the biggest factors affecting your deduction is what you give. For example:

Cash or ordinary-income property. You may deduct the amount of gifts made by check, credit card or payroll deduction. For stocks and bonds held one year or less, inventory, and property subject to depreciation recapture, you generally may deduct only the lesser of fair market value or your tax basis.

Long-term capital gains property. You may deduct the current fair market value of appreciated stocks and bonds held for more than one year.

Tangible personal property. Your deduction depends on the situation. If the property isn't related to the charity's tax-exempt function (such as a painting donated for a charity auction), your deduction is limited to your basis. But if the property is related to the charity's tax-exempt function (such as a painting donated to a museum for its collection), you can deduct the fair market value.

Vehicle. Unless the vehicle is being used by the charity, you generally may deduct only the amount the charity receives when it sells the vehicle.

Use of property or provision of services. Examples include use of a vacation home and a loan of artwork. Generally, you receive no deduction because it isn't considered a completed gift. When providing services, you may deduct only your out-of-pocket expenses, not the fair market value of your services. You can deduct 14 cents per charitable mile driven.

OTHER FACTORS

First, you'll benefit from the charitable deduction only if you itemize deductions rather than claim the standard deduction. Also, your annual charitable deductions may be reduced if they exceed certain income-based limits.

In addition, your deduction generally must be reduced by the value of any benefit received from the charity. Finally, various substantiation requirements

apply, and the charity must be eligible to receive tax-deductible contributions.

PLANNING AHEAD

For 2018 through 2025, the Tax Cuts and Jobs Act nearly doubles the standard deduction — plus, it limits or eliminates some common itemized deductions. As a result, you may no longer have enough itemized deductions to exceed the standard deduction, in which case your charitable donations won't save you tax.

You might be able to preserve your charitable deduction by "bunching" donations into alternating years, so that you'll exceed the standard deduction and can claim a charitable deduction (and other itemized deductions) every other year.

THE YEARS AHEAD

Your charitable giving strategy may need to change in light of tax law reform or other factors. Let us know if you have questions about how much you can deduct on your 2018 return or what's best to do in the years ahead. ■

DID YOU REPAIR YOUR BUSINESS PROPERTY OR IMPROVE IT?

Repairs to tangible property, such as buildings, machinery, equipment or vehicles, can provide businesses a valuable current tax deduction — as long as the so-called repairs weren't actually "improvements."

The costs of incidental repairs and maintenance can be immediately expensed and deducted on the current year's income tax return. But costs incurred to improve tangible property must be capitalized and recovered through depreciation.

BETTERMENT, RESTORATION OR ADAPTATION

Generally, a cost must be depreciated if it results in an improvement to a building structure, or any of its building systems (for example, the plumbing or electrical system), or to other tangible property. An improvement occurs if there was a betterment, restoration or adaptation of the unit of property.

Under the "betterment test," you generally must depreciate amounts paid for work that is reasonably expected to materially increase the productivity, efficiency, strength, quality or output of a unit of property or that is a material addition to a unit of property.

Under the "restoration test," you generally must depreciate amounts paid to replace a part (or combination of parts) that is a major component or a significant portion of the physical structure of a unit of property.

Under the "adaptation test," you generally must depreciate amounts paid to adapt a unit of property to a new or different use — one that isn't consistent with your ordinary use of the unit of property at the time you originally placed it in service.

SAFE HARBORS

A couple of IRS safe harbors can help distinguish between repairs and improvements:

1. Routine maintenance safe harbor. Recurring activities dedicated to keeping property in efficient operating condition can be expensed. These are activities that your business reasonably expects to perform more than once during the property's "class life," as defined by the IRS.

Amounts incurred for activities outside the safe harbor don't necessarily have to be depreciated, though. These amounts are subject to analysis under the general rules for improvements.

2. Small business safe harbor. For buildings that initially cost $1 million or less, qualified small businesses may elect to deduct the lesser of $10,000 or 2% of the unadjusted basis of the property for repairs, maintenance, improvements and similar activities each year. A qualified small business is generally one with gross receipts of $10 million or less.

MORE TO LEARN

To learn more about these safe harbors and other ways to maximize your tangible property deductions, contact us. ■

THERE MAY BE UNCLAIMED PROPERTY WITH YOUR NAME ON IT

It may sound too good to be true, but there may be valuable unclaimed property out there with your name on it. The term generally refers to financial assets being held for owners who haven't been found. Just a few examples include uncashed dividend and payroll checks; unclaimed tax refunds; and insurance payments, refunds or policies with cash value.

If you're interested in looking, there are search databases maintained by the state or states where you live and work, as well as states where you (or a deceased relative) previously lived and worked. Unclaimed property is sent to the state of the owner's last known address.

Most states participate in MissingMoney.com, a free, national unclaimed property database. For states that don't participate, you can find links to every state's unclaimed property database on unclaimed.org, the website of the National Association of Unclaimed Property Administrators. You can also use this site to find links to relevant federal programs.

If you discover unclaimed property in your name, follow the instructions on the website where you found it. Typically, you'll need to provide proof of ownership or, in the case of a deceased owner, a death certificate and proof that you're entitled to the assets (such as a will).

Finally, be wary of companies that offer to locate and obtain property for a fee. Some of these offers are scams. But even if they're legitimate, in most cases you can find and claim assets yourself for free or by paying a nominal handling fee. ■

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