CIBC PRIVATE WEALTH MANAGEMENT

INCOME TAX OVERVIEW

RESOURCES

Year-end tax planning should be a part of everyone's financial routine. The checklist below from our Wealth Strategies Group serves as a starting point. As always, we encourage you to speak with your CIBC Private Wealth Management advisor and outside tax advisors to help ensure that you are taking full advantage of all year-end tax savings opportunities.

INCOME TAX

☑ **Harvest capital losses to offset realized gains.** The tax rate for long-term capital gains for those who are in the highest tax bracket is 20%, plus the Net Investment Income (NII) tax[1] of 3.8%. Taxpayers should review unrealized loss positions within investment accounts as well as other assets, such as business assets or gains on the sale of a residence.

2018 Top Federal Tax Rates

Ordinary Income Tax Rate	37%[2]
Qualified Dividends	20%[3]
Long-Term Capital Gains Tax Rate	20%[3]
Short-Term Capital Gains Tax Rate	37%[3]
Net Investment Income Tax	3.8%[1]
Estate and Gift Tax Rate	40%

☑ **Consider donating appreciated capital gain assets that have been held for more than a year, rather than cash.** Such a donation may allow you to claim a charitable deduction for the full fair market value of the asset and avoid the capital gains tax and 3.8% NII tax had the assets otherwise been sold.

☑ **Plan for IRA and 401(k) distributions.** Individuals 70 1/2 or older must take required minimum distributions from their IRA or 401(k) plans by year's end. Taxpayers over age 70 1/2 may make tax-free contributions directly from an IRA to a charitable organization as a qualified charitable distribution (QCD), limited to $100,000 annually. This provision was made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2016.

☑ **Consider converting to a Roth IRA.** If you have limited taxable income for 2018 and the thresholds for the higher taxable income brackets do not apply, then a conversion may be beneficial. However, under the Tax Cuts and Jobs Act, Roth conversions, once made, are irrevocable.

☑ **If you are a trustee, consider whether it is appropriate under the terms of the trust agreement to make distributions to current beneficiaries.** In general, trusts are subject to the top tax bracket, 37%, and NII tax if the trust earns more than $12,500. Beneficiaries may have a lower adjusted gross income below the threshold amount and not be subject to the NII tax.

☑ **Maximize retirement plan contributions.** If you have an IRA or an employer-sponsored 401(k) or equivalent plan, consider making a contribution before year's end if you have not yet reached the limit. In 2018 taxpayers with IRAs can contribute up to $5,500 ($6,500 if over 50) and those qualified can contribute $18,500 ($24,500 if over 50) to their 401(k), 403(b) and 457(b) plans. The 2018 deferral limit for a SIMPLE IRA plan is $12,500 ($15,500 if over 50) and $55,000 for a SEP plan.

- **Be mindful of the Alternative Minimum Tax (AMT) trap.** The AMT exemption amount increased to $70,300 for single taxpayers and $109,400 for married taxpayers filing jointly. As always, the interplay between ordinary income, investment income, deductible expenses and phaseout thresholds should be reviewed with your tax adviser.

- **Consider the impact of the Kiddie Tax.** If you have dependents with unearned income, you may consider having the dependent file his or her own income tax return. Even though the dependent's income will generally still be taxed with reference to your tax rate, that additional income will generally not be included in your taxable income, thereby reducing the possibility of pushing you into a higher tax bracket along with being subject to the 3.8% NII tax.

- **Review the use of annual exclusion gifts.** The annual gift-tax exclusion for 2018 is $15,000 per gift recipient. Gifts can be made outright to the beneficiary, in trust, or to a Section 529 Plan as education funding vehicles (five-year accelerated gift option to 529 Plans allows an individual to make a $75,000 contribution [or a joint $150,000 contribution with your spouse] to any beneficiary without incurring federal gift tax). Note that the Tax Cuts and Jobs Act provides that up to $10,000 in 529 plan distributions may be used annually for education costs for kindergarten through 12th grade.

- **Review the use of the gift exclusion for payment of tuition and medical expenses.** Tuition and medical expenses must be paid directly to the providers and the exclusion includes payments to health insurance providers.

- **Consider intra-family loans.** The applicable federal rates (AFRs) for these types of loans change monthly and have continued to be low.

- **Revisit Grantor Retained Annuity Trusts (GRATs).** These trusts use the AFR, which changes monthly, to determine the value of the annual annuity payment back to the grantor. If the assets transferred to a GRAT appreciate at a rate above the AFR, there is a tax-free gift of the appreciation to the trust's beneficiaries, who are typically children. ■

1 *The Net Investment Income (NII) tax went into effect on January 1, 2013, and is imposed by Section 1411 of the Internal Revenue Code. The NII tax applies at a rate of 3.8% to certain net investment income, such as interest, dividends, capital gains, royalties, net rental income and certain passive activity income items, of individuals, estates and trusts that have income above statutory threshold amounts. The threshold amounts are $250,000 for joint filers, $200,000 for single filers, and $12,500 for estates and trusts. 2 This 37% rate applies only to joint filers earning income above $600,000 and single filers earning above $500,000. On top of this stated rate, joint filers earning in excess of $250,000 and single filers earning over $200,000 may be subject to an additional 0.9% Medicare Hospital Insurance tax on wages and self-employment income and a 3.8% surtax on net investment income (e.g., interest, dividends, capital gains, royalties and net rental income) and certain items of passive income. 3 This 20% rate applies only to joint filers earning above $479,000 and single filers earning above $425,800. On top of this stated rate, joint filers earning in excess of $250,000 and single filers earning over $200,000 may be subject to an additional 3.8% surtax on net investment income (e.g., interest, dividends, capital gains, royalties and net rental income) and certain items of passive income.*