UBS

Advanced Planning

2018 year-end planning guide

Now is the time to work with your financial team to see if there are ways to reduce your overall tax burden for 2018 and beyond.

In today's world, the pursuit of your life's goals is being challenged in new ways. Which makes now the perfect time to review your goals in terms of "Advice. Beyond investing." Because when we collaborate on what matters most to you, we can create a plan tailored for you.

Advice. Beyond investing. plan access save borrow grow* protect* give

* Investing involves risks, including the potential of losing money or the decline in value of the investment. Performance is not guaranteed.

Year-end tax planning includes a review of gains and losses and the active management of your portfolio to help minimize income tax consequences of this year's market activity.

As we approach the end of 2018, it is a good time to pause, reflect on the year's events and plan for the future. This year brought significant change, including the largest reform of our country's tax system in the past 30 years, and with change comes opportunity. Now is the time to work with your financial team to see if there are ways to reduce your overall tax burden for 2018 and beyond.

Year-end tax planning includes a review of gains and losses, combined with the active management of your portfolio, to help minimize income tax consequences of this year's market activity. It is also a good time to position your holdings for next year and, where appropriate, realize gains, harvest losses and make family and philanthropic gifts. You may wish to consider transferring interests in family-owned businesses using valuation discounts or taking advantage of techniques that work particularly well in a low interest rate environment. Pursuing some of these steps now may add value to your portfolio and increase your family's wealth. Use your year-end planning meeting to set the stage for 2019 and plot a course that will help you meet your goals and objectives in the years to come.

Legislation watch

At the close of 2017, Congress passed what is commonly referred to as the Tax Cuts and Jobs Act (the "Act"). The Act is the most sweeping tax legislation since 1986.

The following summary provides a general overview of many of the key changes in the Act that affect individuals and businesses. It should be noted that most of the provisions affecting individuals will sunset starting in 2026, while those affecting businesses are generally permanent.

Item	Changes
Income tax rate brackets	The top individual income tax rate was lowered to 37%, and additional modifications were made to the income levels for other brackets as well as for trusts.
Standard deduction and personal exemptions	The standard deduction was increased to $24,000 for taxpayers who are married filing jointly and $12,000 for taxpayers who file as single. Personal exemptions were eliminated.
Itemized deductions	A number of changes were made to itemized deductions, including: the repeal of the Pease Limitation, reduction of deductible mortgage interest to loan amounts not exceeding $750,000 of acquisition indebtedness, a cap on state and local income taxes, property taxes and sales taxes of $10,000, and the repeal of miscellaneous itemized deductions subject to the two percent floor (including tax preparation fees, investment expenses and unreimbursed business expenses).
Alternative Minimum Tax (AMT)	AMT has been modified with an increased exemption amount of $109,400 and a phase-out threshold of $1,000,000 for taxpayers who are married filing jointly ($70,300 and $500,000 respectively for taxpayers who file as single).
Estate tax	Under the Act, the basic exclusion increased from $5 million to $10 million (indexed annually for inflation) for estates of

	decedents dying and gifts made after 2017 and before 2026. In 2018, the exemption is $11.18 million.
Pass-through business income	The Act provides a 20% deduction for qualified business income from a partnership, S corporation or sole proprietorship. The 20% deduction combined with a top ordinary income tax rate of 37% will result in a top rate of 29.6% for such income in the absence of other limitations. The Act also provides that trusts and estates are eligible for the 20% deduction.
Carried interest	The Act re-characterizes certain gains of partnership interest from long-term to short-term capital gains to the extent such gains relate to property with a holding period not greater than three years, effective for tax years beginning in 2018. *This provision does not sunset*.
Net operating losses	The Act limits a taxpayer's ability to utilize net operating losses (NOLs) incurred after 2017 to 80% of taxable income. The law will generally eliminate carryback of these NOLs, but would allow for an indefinite carryforward. *This provision does not sunset*.
Like-kind exchanges	The law limits the applicability of the gain deferral rules to like-kind exchanges of real property, effective for exchanges completed after December 31, 2017. *This provision does not sunset*.
Child/elder-care benefits	The child tax credit has been increased to $2,000 per child. The refundable portion of this credit is $1,400. This credit applies for children under the age of 18. In addition, a $500 nonrefundable credit is allowed for a qualifying dependent who is not a child. The income phase-out threshold has been increased to $400,000 for taxpayers who are married filing jointly and $200,000 for all other taxpayers. The increased phase-out threshold will result in some taxpayers who have not been able to claim this credit in the past to be eligible for it in 2018.
Corporate tax structure	The Act reduces the corporate tax rate to a flat 21% rate. Previously, income over $10 million was taxed at 35%. *This provision does not sunset.*

Proposed rules to curb avoidance of SALT deduction limit. The Tax Cuts and Jobs Act places an annual $10,000 limit on state and local tax (SALT) deductions under new IRC Section 164(b)(6)(B). This new limitation has prompted certain states (including California, New Jersey and New York) to consider legislative proposals that would allow their residents to avoid the SALT cap by providing a credit against certain state (and local) taxes for contributions to charitable organizations that support state (and local) functions. In August 2018, the Treasury issued proposed regulations intended to address whether taxpayers may claim a charitable deduction for contributions made to such state programs. Under the proposed regulations, the Treasury stated that transfers to a state agency or charitable organization in lieu of paying state and local taxes would be deductible as a charitable contribution only to the extent that the taxpayer making the donation did not receive a quid pro quo. If

The Tax Cuts and Jobs Act provides a 20% deduction for qualified business income from certain pass-through businesses under new IRC Section 199A.

enacted, the proposed regulations may effectively stymie certain states' efforts to provide relief for taxpayers from the newly enacted SALT cap.

Guidance on new pass-through business deduction. The Tax Cuts and Jobs Act provides a 20% deduction for qualified business income from certain pass-through businesses under new IRC Section 199A. In August 2018, the Treasury issued proposed regulations to provide clarity on this new rule. In addition to defining key terms required to calculate the deduction (including what constitutes an applicable "trade or business" for purposes of qualification), a number of anti-abuse rules were proposed. While these proposed regulations will likely change to some degree prior to being finalized, business owners should certainly discuss the implications of this new rule with their tax advisors prior to undergoing a restructuring of their business.

Tax proposals and the legislative process are dynamic and can catch even the most diligent observers off guard. The UBS U.S. Office of Public Policy will continue to report on developments in these areas.

Tax figures to note

	2018	2019
Maximum income tax	37%	37%
Maximum capital gains rate	20%	20%
Maximum qualified dividends rate	20%	20%
Net investment income tax[1]	3.8%	3.8%
Medicare payroll tax rate on employees[1]	2.35%	2.35%
Estate tax exemption	$11.18 million	$11.4 million[2]
Maximum estate tax rate	40%	40%
Gift tax exemption	$11.18 million	$11.4 million[2]
Maximum gift tax rate	40%	40%
Generation-skipping transfer (GST) tax exemption	$11.18 million	$11.4 million[2]
Maximum GST rate	40%	40%
Annual gift tax exclusion	$15,000 per donee	$15,000 per donee
Annual exclusion gift to non-citizen spouse	$152,000	$155,000[2]

[1] Applies to taxpayers with income over certain threshold amounts.
[2] Projected inflation-indexed amounts.

Tax planning strategies

Net gains and losses. Examine your 2018 short-term gains and losses and long-term gains and losses and determine your capital gains and loss carry forwards to ensure that you are aligning them to the greatest extent possible. You may be able to use up to $3,000 of net capital losses to offset ordinary income for 2018.

Harvest tax losses. Traditionally, investors consider making end-of-year sales of assets held in taxable (i.e., nonretirement) accounts that have losses. Capital losses first offset capital gains, and if capital losses exceed capital gains, they can offset up to $3,000 of other income. Note that if you sell securities in order

Discuss with your tax advisor and Financial Advisor whether it makes sense to convert a traditional IRA to a Roth IRA.

to recognize a loss, you cannot immediately repurchase the same security to reestablish your market position and still deduct the loss (see discussion below on the "wash sale" rule).

Mutual fund capital gain distribution estimates. Mutual funds are required to distribute 98.2% of their net capital gains each year in order to avoid an excise tax. Mutual funds generally post their distribution estimates beginning in October. Once you have reviewed this information with your advisors, you may wish to estimate the potential tax liability related to your mutual fund holdings and consider offsetting a capital gain with losses or selling the shares in advance of a distribution. In addition, you may wish to consider waiting to purchase the shares of a mutual fund until after the fund distributes a substantial capital gain.

Roth IRA conversion. Discuss with your tax advisor and Financial Advisor whether it makes sense to convert a traditional IRA to a Roth IRA. When converting to a Roth IRA, the converted amount of the traditional IRA will be taxed as ordinary income in the conversion year. A Roth IRA can offer significant benefits, most notably tax-free growth of assets, tax-free distributions and no required minimum distributions (RMDs) during the original account holder's lifetime. Some factors to consider when deciding whether to make a conversion include the following:

– *Potential changes to the account holder's applicable tax rate over time.* A conversion may not be ideal for taxpayers who expect to pay income tax in a lower bracket (or at a lower rate) at retirement age.
– *Liquidity analysis.* Any potential benefits of a conversion may be less impactful if the taxpayer must draw from the converted account assets (instead of other liquid assets) to satisfy the additional tax.

Roth IRA re-characterization—New in 2018. The Tax Cuts and Jobs Act contains a provision that eliminates an investor's ability to re-characterize a *conversion* made after the 2017 tax year. Previously, an IRA owner could re-characterize a conversion up until the due date of their return, including extensions. The ability to re-characterize a Roth IRA *contribution* to a traditional IRA or vice versa is not affected by this new legislation.

Provision for IRA distributions donated to charity. A qualified charitable distribution ("QCD") from a traditional IRA or an inherited IRA is any otherwise taxable distribution that is made directly from the IRA trustee to a qualified charity (generally, public charities but not private foundations or donor-advised funds) after the IRA owner or a beneficiary maintaining an inherited IRA has attained age 70½. Taxpayers who are age 70½ or older can exclude up to $100,000 of IRA distributions from gross income if the distributions qualify as QCDs. This provision was made permanent with the passage of the PATH Act of 2015.

Assess alternative minimum tax ("AMT") liability. Work with your tax advisor to determine if you may be impacted by the AMT in 2018. The Tax Cuts and Jobs Act maintained the AMT but increased exemption levels to $109,400 for married couples ($70,300 for individuals) and exemption phase-out thresholds to $1,000,000 for married couples ($500,000 for individuals). Given the increased exemption and phase-out thresholds as well as the limitation of certain itemized deductions, many clients may find that they are no longer subject to the AMT.

Trustees of irrevocable trusts that are treated as separate taxpayers may consider making income distributions to trust beneficiaries who are taxed at lower rates than the trust.

If you are subject to the AMT, your marginal federal income tax rate is 26% or 28% compared with a top marginal bracket rate of 37% for regular tax. If you expect to be subject to the AMT in 2018 but not 2019, consider accelerating ordinary and short-term capital gain income in order to take advantage of the lower AMT rate.

Conversely, if you are not subject to the AMT in 2018 but expect to be in 2019, you may wish to consider reversing the acceleration of income and deferral of deductions previously mentioned. In short, shifting income and expenses between tax years can result in tax savings, but it is crucial to work with your tax advisor to review a "before and after" tax projection prior to implementing a strategy.

Year-end distributions from non-grantor trusts. Trustees of irrevocable trusts that are treated as separate taxpayers may consider making income distributions to trust beneficiaries who are taxed at lower rates than the trust. This can be particularly beneficial in light of the compressed income tax brackets applicable to trusts and the lower threshold at which the 3.8% net investment income tax applies to trusts. Depending on the terms of the trust agreement and applicable state law, it may also be beneficial to distribute capital gains to beneficiaries in lower income tax brackets. Note that trustees may be able to take advantage of the "65-day rule," which permits a trustee to treat distributions made during the first 65 days of 2019 as having been made on the last day of 2018. Trustees must consider the tax status, goals and objectives of the trust and beneficiaries before making any tax-motivated distributions to beneficiaries.

ABLE Accounts. Congress passed legislation in 2014 to establish the framework for ABLE accounts (i.e., 529A plans). These accounts are intended for certain individuals who were diagnosed with significant disabilities prior to attaining age 26. ABLE accounts grow tax-deferred and allow for tax-free distributions for qualified expenses without the individual having to forfeit certain public benefits. Eligible beneficiaries may be able to choose among several states' plans, allowing for more control over investment options and expenses. The individual state legislatures are in various stages of enacting or developing laws to establish ABLE Act programs.

The Tax Cuts and Jobs Act allows individuals to roll over amounts from a qualified tuition plan to an ABLE account if the ABLE account is owned by the same designated beneficiary as the 529 Plan or a member of the designated beneficiary's family before January 1, 2026. The aggregate annual contribution/rollover limit to an ABLE account cannot exceed the annual gift tax exclusion amount. For 2018 and 2019, this limit is $15,000. However, under certain circumstances this limit may be increased.

Bonus depreciation. The tax break allowing taxpayers to deduct an amount of the depreciable basis of certain tangible property over and above regular depreciation was amended by the Tax Cuts and Jobs Act. This "bonus" allowance permits businesses to write off their costs more quickly. Businesses may take 100% bonus depreciation on qualified property both acquired and placed in service after September, 27, 2017 and before Jan. 1, 2023. Property acquired prior to September 28, 2017 but placed in service after September 27, 2017 would remain eligible for bonus depreciation under pre-Act law (50% in 2017, 40% in 2018 and 30% in 2019). Full bonus depreciation is phased down by 20% each year for property placed in service after 2022 and before 2027.

Contact your accountants, attorneys and other advisors to review tax law changes in states where you are subject to tax.

Qualified opportunity zones. The Tax Cuts and Jobs Act created a significant new tax incentive to encourage investment in businesses and properties located in "qualified opportunity zones." A qualified opportunity zone is a low-income community nominated by a state's governor that is then certified and designated as such a zone by the Secretary of the Treasury. This addition to the tax code provides a flexible deferral mechanism for short- and long-term capital gains, including such gains attributable to the sale of real property. Note that this incentive and its associated tax benefits are not available for sales or exchanges or investments in qualified opportunity zones after December 31, 2026.

2018 state tax law changes. Contact your accountants, attorneys and other advisors to review tax law changes in states where you are subject to tax. It is important to determine how these changes may affect your individual, fiduciary and corporate income tax situation for 2018 and beyond. The following are examples of recent state law changes:

– The state income taxation of trusts continues to evolve. The relevant factors that classify a trust as a resident trust vary from state to state. Some states consider the residence of the trustee. Other states consider the residence of the grantor at the time the trust was created. A third approach followed by some states is to tax trust income if one or more beneficiaries are residents of the state, regardless of where the trust is administered. Decisions in two recent cases on appeal to the North Carolina and Minnesota Supreme Courts provide additional touchpoints to this ongoing evolution:

  In *Kaestner 1992 Family Trust v. North Carolina Department of Revenue*, the Supreme Court of North Carolina affirmed the North Carolina Court of Appeals decision that it is unconstitutional for the state to tax a trust's income based solely on the residence of the beneficiaries in North Carolina.

  In *Fielding v. Commissioner of Revenue*, the Minnesota Supreme Court upheld the Minnesota Tax Court ruling that insufficient contact existed between the trusts in question and the state of Minnesota to permit state income taxation of non-Minnesota source income. Minnesota is one of a group of states that taxes an irrevocable trust created by a Minnesota resident as a "resident trust" forever. The Supreme Court held that it was necessary to examine all relevant contacts, including the relationship between the income earned by the trusts and the benefits conferred by the state. It reasoned that the residency of the grantor upon trust creation was not in itself sufficient contact to allow the state to subject all trust income to Minnesota income tax.

A number of states changed their estate tax systems in 2018:

– In late 2017, Connecticut increased the state estate and gift tax to $2,600,000 in 2018, $3,600,000 in 2019 and to the federal estate and gift tax exemption in 2020. On May 15, 2018, Connecticut changed its estate tax law to extend the phase-in of the exemption to 2023 in order to reflect the increased federal exemption under the Tax Cuts and Jobs Act. The Connecticut exemption will be $3,600,000 in 2019, $5,100,000 in 2020, $7,100,000 in 2021, $9,100,000 in 2022 and the federal exemption in 2023. Unfortunately, Connecticut passed another estate tax bill on May 31, 2018 that limited the exemption to $5.49 million in 2020 with no future increases. Connecticut may take corrective action to make it clear that the earlier bill is the "correct" bill, but that may not happen until late 2018 or early 2019.

- The District of Columbia estate tax exemption was changed from matching the federal exemption to $5,600,000 retroactive to January 1, 2018.
- Hawaii amended its estate tax law in June to set the state exemption to $5,000,000 (indexed to inflation) retroactive to January 1, 2018. Including inflation adjustments, the exemption is $5,600,000 in 2018.
- In April, Maryland law changed to cap the state estate tax exemption at a fixed $5,000,000 in 2019 rather than being equal to the inflation-adjusted federal exemption as provided under prior law. The new law also provides for the portability of the unused predeceased spouse's Maryland exemption amount to the surviving spouse beginning in 2019.

Your tax advisors will be able to discuss the impact of relevant changes on your personal circumstances.

Your Financial Advisor can help you consider strategies to reduce the tax impact of diversification or hedge against the downside of continued concentration.

Investment planning

Concentrated stock positions. Based on the maximum capital gain tax rate of 20% plus the 3.8% net investment income tax, the tax cost of diversifying out of a particular appreciated position can be high. Investors who have concentrated positions may also be concerned about liquidity, cash flow, volatility and more. Your Financial Advisor can help you consider strategies to reduce the tax impact of diversification or hedge against the downside of continued concentration. Consider whether systematic sales, equity collars, exchange funds, prepaid variable forwards, gifts to charity or charitable remainder trusts (discussed further in the *Charitable Planning* section) make sense in your situation and whether it would be helpful to implement any of these strategies before year end.

Wash sale rule. In general, the "wash sale" rule prohibits you from recognizing the loss on a sale of securities if you purchase substantially identical securities within the period beginning 30 days before the sale date and ending 30 days after the sale date. If you don't want to wait 31 days to buy the same stock or security, you may consider replacing the investment you sold at a loss with an exchange traded fund (ETF) tied to the company's industry or sector. Your ownership of the ETF can serve as a temporary approximate proxy for an individual stock holding while enabling you to recognize the loss on your original position. You can also replace actively managed mutual fund shares sold at a loss with an ETF, but if you plan to substitute one ETF for another, ensure that the funds track different indexes to avoid triggering the wash sale rule.

Securities-backed lending. Fourth quarter estimated tax payments are due on January 15, 2019, so this may be a good time to revisit your credit line needs. Even though interest rates have risen this year, they remain at historically low levels. Taxpayers with short-term cash requirements may borrow in order to satisfy their need for cash. Establishing a credit line before it's needed allows for immediate reaction to time-sensitive opportunities, as well as planned (e.g., taxes) and unplanned liabilities. Moreover, borrowing against eligible securities in a portfolio may provide access to needed funds while still allowing you to pursue your long-term financial strategy.

Portfolio review. The end of the year is an excellent time to reevaluate the goals of your portfolio, risk levels and liquidity needs that will influence the next two, five or 10+ years of your financial life. Market volatility over the past several years may give you pause and it is important for you to discuss your concerns with your Financial Advisor. Reassessing your portfolio may provide

Consider funding 529 plans by December 31 to apply 2018 annual gift tax exclusion treatment to the contributions.

you with a sense of comfort and help you identify appropriate tax planning techniques.

Dates to note

November 30: Since the last trading day of the year is December 31, November 30 is the last day to "double up" for 2018. Doubling-up on a security means that you buy a second lot of a security in the same amount of shares as your original holding. You can recognize a loss in 2018 by selling the original holding on December 31 and still benefit from any potential appreciation during the wash sale period. Note: Undertaking this strategy will result in holding twice the level of stock during the "doubling up" period. During this time, you would be exposed to twice as much gain or loss in the stock.

December 31: Last day to sell a security in 2018 for a loss, provided that you did not purchase the same security within the past 30 days.

January 31: If you sold a security for a loss on December 31 without previously "doubling up," you must wait until at least January 31, 2019 to repurchase the same or substantially similar security in order to avoid the wash sale rule.

Estate planning

Annual exclusion gifts. Consider making annual exclusion gifts on or before December 31 each year. The annual exclusion is $15,000 ($30,000 for a married couple) in 2018; you can make annual gifts up to this amount to an unlimited number of individuals, free from gift tax and without using any of your estate and gift tax exemption. If you make such gifts to an irrevocable trust (e.g., a life insurance trust) that provides beneficiaries with limited withdrawal rights (often referred to as "Crummey rights"), the trustee should notify beneficiaries of their rights and keep appropriate documentation. Your legal advisors can help you with this process.

Fund education through 529 plans. Consider funding 529 plans by December 31 to apply 2018 annual gift tax exclusion treatment to the contributions. You can "front-load" 529 plans by making five years' worth of annual exclusion gifts to a 529 plan (i.e., in 2018, you could transfer $75,000 – $150,000 for a married couple – to a 529 plan without generating gift tax or using any of your estate and gift tax exemption). It is important to note, however, that if you die before the first day of the fifth year after "front-loading" a 529 plan, any portion of the funds that represent the use of annual exclusions from future years will be "clawed back" into your estate. For example, if you fund a 529 plan with $75,000 in year one and pass away on December 31 of year two, $45,000 of the amount transferred will be included in your estate. In addition, you should be sure to coordinate 529 plan contributions with your other gifting.

The Tax Cuts and Jobs Act provides for 529 accounts to be able to distribute up to $10,000 per student per year for tuition at a public, private or religious elementary or secondary school. Availability is dependent on when state law conforms their definition of eligible educational expenses to match this change to federal law. Please consult with your attorney as each individual state 529 Plan may or may not exempt such distributions from state income tax.

Establishing and funding IRAs for the next generation. Help your child or grandchild get an early start on saving for retirement. Consider making a gift of up to $5,500 to either a traditional or Roth IRA for your children or grandchildren who are not funding their own IRAs but have enough earned

The federal estate and gift tax exemption is $11,180,000 per taxpayer in 2018 and is projected to increase to $11,400,000 in 2019.

income to do so. Contributions to IRAs for your family members are taxable gifts, unless the annual exclusion applies, and should be coordinated with other gifts you make. While IRA contributions for the 2018 tax year may be made until April 15, 2019, the gift must be completed by December 31, 2018 if you want to use your 2018 annual gift exclusion.

Using the gift tax exemption to make substantial lifetime gifts. The federal estate and gift tax exemption is $11,180,000 per taxpayer in 2018 and is projected to increase to $11,400,000 in 2019. This exemption is indexed for inflation and may be used during your lifetime and/or at death to make gifts and reduce or eliminate estate taxes. You may consider utilizing a substantial portion (or even all) of your gift tax exemption by making gifts to your family members or others. Such gifts could remove the value of the gifted assets, plus any future appreciation on those assets, from your estate. Also, gifts made in the past may not be subject to estate tax upon your death if the exemption decreases in the future. Remember to inform your tax advisor of all gifts you made in 2018 so he/she can prepare a gift tax return if one is required. Note that Connecticut residents must also take the Connecticut gift tax into account. The Connecticut gift tax exemption for 2018 is $2,600,000. Connecticut is the only state with a gift tax.

Valuation Discounts. The IRS issued proposed regulations in August of 2016 that, if enacted, would have mostly eliminated the ability to take advantage of valuation discounts on family-controlled entities such as corporations, partnerships and limited liability companies for gift and estate tax purposes. In October of 2017, these proposed regulations were withdrawn by the Treasury. For those who have a family-controlled entity, consider transferring some portion of your interest to the next generation. You may be able to enhance this gift through a valuation discount on the transfer.

Review Family Partnerships. In May of 2017 the U.S. Tax Court issued *Estate of Powell v. Commissioner*, which ruled that if a taxpayer is entitled to vote on whether or not to dissolve a partnership (and this frequently occurs if a taxpayer maintains some portion of ownership within the partnership), all partnership assets may be subject to estate tax on the taxpayer's death. If you own an interest in a family limited partnership, you should discuss with your attorney whether your situation warrants further review and changes to strategy and governance in order to avoid this possibility.

End-of-year family meeting. Family meetings can help you coordinate financial and other matters and can be valuable learning experiences for children and grandchildren to help them understand the benefits and burdens of wealth. As the end of the year approaches, consider arranging a family meeting to discuss investments, planning, philanthropy and more. Your Financial Advisor can talk to you about best practices for organizing family meetings and engaging in productive discussions with children about money and the stewardship of wealth.

Charitable planning

Take note of limitations on the charitable income tax deduction:

Gifts to public charities. Cash contributions are deductible up to 60% of the taxpayer's adjusted gross income ("AGI"). The full fair market value of contributions of appreciated property (other than certain tangible personal property contributed) held for over one year is generally deductible up to 30% of AGI.

In order to obtain an income tax charitable deduction for 2018, gifts must be made by December 31.

Gifts to private foundations. Cash contributions are deductible up to 30% of AGI. The full fair market value of publicly traded securities (if owned for over a year) is deductible up to 20% of AGI. The deduction for gifts of other appreciated property (other than for contributions of marketable securities) may be limited to the taxpayer's cost basis.

Charitable income tax deduction. In order to obtain an income tax charitable deduction for 2018, gifts must be made by December 31. In the case of a gift of property that requires an appraisal (generally required for gifts of property with a value in excess of $5,000, other than publicly traded securities), you should start the process as soon as possible. Also bear in mind that it may take several weeks for a transfer of stock via physical stock certificate or stock power to be completed.

It is important to obtain a proper receipt for any gifts in excess of $250 before filing your tax return, even if the donation was made to your own private foundation. Such a receipt must be in writing, state the amount donated, describe any non-cash donations and indicate the value of any goods or services provided by the charity as consideration for the donation. A canceled check does not meet these requirements. Several court cases in recent years have denied taxpayers a charitable deduction for failing to strictly comply with these substantiation requirements.

Selecting assets to give to charity. Giving appreciated property to charity (as opposed to selling the property, recognizing the gain and 3.8% net investment income tax, and contributing the cash proceeds to charity) provides an income tax deduction equal to the fair market value of the property (subject to AGI limitations). The charity can then sell the property and pay no capital gain tax because it is a tax-exempt entity, unless it is a private foundation in which case it will pay a 1% or 2% excise tax on the gain. It is critical that the appreciated property qualify as long-term capital gain property (i.e., the property should be held for more than one year prior to the time it is gifted and meet certain other requirements); otherwise, the deduction will be limited to the donor's basis in the property. The deduction will also be limited to the donor's basis if real estate or nonmarketable appreciated property (such as shares in a privately held company) is contributed to a private foundation (as opposed to a public charity), even if the property qualifies for long-term capital gain treatment.

Donor-advised funds. Contributing assets to a donor-advised fund can allow you to receive an immediate charitable income tax deduction (at the maximum amount allowed for gifts to public charities), while affording you and your family time to determine the ultimate charitable beneficiaries.

Consider working with your tax advisor to determine if it is beneficial to bunch multiple years of charitable gifts into a single year. With the passage of the Tax Cuts and Jobs Act, many clients will not have sufficient itemized deductions in future years to exceed the increased standard deduction. This scenario may result in the loss of an income tax deduction for some portion of your charitable gifts. Bunching multiple years of charitable gifts may allow you to exceed the increased standard deduction and therefore maximize your charitable income tax deduction. If you typically make annual gifts to charity, you may instead contribute the "bunched" amount to a donor-advised fund and then make grants periodically in future years according to your original giving plan.

If you would like to create a donor-advised fund in 2018, you can establish one at UBS as late as the last business day of the year; however, additional time may be needed if you plan to fund the account with anything other than cash.

Private foundations. Founders and managers of private foundations may wish to discuss the following ideas with their tax advisors to help optimize the efficiency of the foundation:
– In order to minimize the 1% – 2% excise tax on net investment income, consider making grants of low-basis stock instead of selling the stock to raise cash for the grants, which could trigger gains.
– Consider offsetting gains with losses. Private foundations cannot carry forward capital losses. A foundation that has significant losses can sell appreciated securities, recognize the gain and buy the securities back in order to establish a higher basis in the assets. The wash sale rule does not apply here because the foundation is recognizing a gain (not triggering a loss).
– Approximately 5% of the value of a foundation's net investment assets for the prior year must be distributed for charitable and administrative purposes each year. Foundation managers should determine liquidity needs to meet the payout requirements.
– Consider making a grant from your private foundation to a donor-advised fund prior to the end of the year if you run out of time and cannot decide which charities should receive some or all of the 5% grant requirement.
– UBS, through its relationship with Foundation Source, can facilitate the formation of a private foundation. Contact your Financial Advisor for more information.

Charitable remainder trust planning. If you hold a low-basis concentrated position and would like to diversify your holding in a tax-efficient manner while also benefitting charity in the future, consider speaking with your attorney and tax advisor about establishing a charitable remainder trust (CRT) and contributing the appreciated securities to it. A CRT is a tax-exempt entity, so the trustee can sell trust assets without paying any capital gains tax. You retain the right to receive a fixed amount from the trust each year—either an annuity or a unitrust payment—of at least 5% but not more than 50% of the trust assets (in any event, the present value of the remainder interest must equal at least 10% of the fair market value of contributed property at the time of contribution). Although the trust is tax exempt, the payments you receive will be taxable to you upon receipt (allowing you to defer the capital gains tax associated with the sale of the appreciated assets inside the trust). At the end of the trust term (either upon your death or after a fixed term of up to 20 years), the trust assets will pass to one or more charitable organizations that you or your trustee designate. You are also entitled to an income tax charitable deduction when you establish the trust for the present value of the charitable beneficiaries' projected remainder interest.

Taxpayers who are subject to the AMT in certain years but not others should consider whether a charitable deduction would be more valuable this year or next.

Charitable donations and the AMT. Taxpayers who are subject to the AMT in certain years but not others should consider whether a charitable deduction would be more valuable this year or next. Charitable deductions are permitted under the AMT regime, but they are generally less valuable at the top AMT tax rate of 28% than at the top regular income tax rate of 37%. Therefore, taxpayers who are not consistently subject to the AMT might consider delaying their donations. While tax planning does not generally drive charitable giving, it may be appropriate to consult your tax advisors to determine the potential tax consequences of making a donation in January 2019 instead of December 2018.

Qualified conservation property. In December 2015, Congress passed legislation to permanently extend enhanced income tax benefits for gifts of conservation easements. A donor can take a charitable income tax deduction for the donation of "qualified conservation property" of up to 50% of AGI (100% of AGI for farmers and ranchers), subject to a 15-year carryforward for any excess deductions. Typically, this donation takes the form of an easement that restricts future development, but the easement can permit farming, timber, harvesting or other uses of a rural nature to continue. The restrictions must generally be perpetual.

You can make 2018 contributions to Roth or traditional IRAs until April 15, 2019.

Retirement planning

Maximize contributions to retirement accounts. You can make 2018 contributions to Roth or traditional IRAs until April 15, 2019. The following chart summarizes the 2018 annual contribution limits to IRAs and retirement plans:

Plan	Under age 50	Age 50 or older
IRA (traditional or Roth)[1]	$5,500	$6,500
401(k), 403(b), 457(b), SAR-SEP[2]	$18,500	$24,500[3]
SIMPLE[2]	$12,500	$15,500

[1] The maximum contribution or deductible contribution may be reduced depending on your modified adjusted gross income.
[2] Salary deferral contributions.
[3] For 457(b) plans, catch-up contributions may be made for governmental 457(b) plans only.

RMDs. Individuals who are age 70½ or older must generally take required minimum distributions from IRAs, profit sharing, 401(k), 403(b), 457(b) plans and other retirement plans by December 31 (there are no required minimum distributions for Roth IRAs prior to the original account holder's death).

– *Exceptions:* The first RMD can be delayed until April 1 of the year following the year in which the taxpayer turns age 70½. Additionally, RMDs for employer-sponsored qualified retirement plans may be delayed if the taxpayer is still employed, is not a 5% owner of the employer maintaining the plan and the plan permits RMDs to begin at the later of age 70½ or retirement.
– *Aggregation:* If you have more than one IRA (of which you are the original account owner), you can take the RMDs for multiple IRAs from one account. The same holds true for 403(b) plans, but not for other types of employer-sponsored retirement plans like 401(k) and 457(b) plans. Also, if you inherited an IRA as a beneficiary, you have separate RMD requirements for the inherited IRA and cannot aggregate those distributions with those from your own IRA. For inherited IRAs, the decedent's RMD for the year of death must be distributed to you if he or she did not take it prior to death. RMDs from the inherited IRA will be calculated separately from any RMDs you may have from your own IRAs.

Charitable distributions from IRAs. Individuals over age 70½ can make a qualified charitable distribution (QCD) to donate up to $100,000 to a charity (not including donor advised funds and most private foundations) from a traditional IRA and have it count toward their RMD.

Check beneficiary designations. Significant life events such as marriage, divorce and births can impact beneficiary designations. Consider whether any changed circumstances could affect the disposition of your retirement assets. For example: Under federal law, a surviving spouse is the default beneficiary for

The total of all contributions to a 401(k) cannot exceed $55,000 in 2018, which means that an employee may be able to make up to $36,500 in after-tax contributions before December 31 (in addition to $18,500 in pre-tax contributions).

a qualified retirement plan. Moreover, a spouse's written consent is required if you wish to name someone else as a beneficiary of your ERISA-governed retirement plan account. Additionally, if you have not designated beneficiaries, then the assets will pass according to the retirement plan default rules. Review your designations on a regular basis.

After-tax 401(k) contributions. The total of all contributions to a 401(k) cannot exceed $55,000 in 2018, which means that an employee may be able to make up to $36,500 in after-tax contributions before December 31 (in addition to $18,500 in pre-tax contributions). Moreover, the IRS has indicated that an employee may be able to roll over after-tax amounts into a Roth IRA, with the remainder to a traditional IRA. This could result in a significant amount of funds going to the Roth IRA.

Roth conversions. For a Roth conversion (as discussed previously), pre-tax amounts that are converted, earnings on those amounts and the earnings on all contributions are included as part of taxable income in the conversion year. Therefore, consider whether a Roth conversion may make better sense in 2018 or 2019. This decision should be made in consultation with your tax advisor and based on your specific investment history and other tax attributes.

Annual reminders—the end of the year is a great time to review various aspects of your financial and estate plan.

– Request a free credit report. The Fair Credit Reporting Act (FCRA) requires each of the nationwide credit reporting companies to provide you with a free copy of your credit report once every 12 months. This can be done through *annualcreditreport.com* at no charge (be wary of other websites that offer similar "free" reports as they may come with strings attached). While you may request a copy of your credit report from all three reporting companies at the same time, you may also choose to request the report at different times during the year and request a different company's report each time. For instance, you may choose to order your free credit report from Experian in December, then from Equifax in April and then from TransUnion in August so you can keep an eye open for issues year round. For more information, see the Federal Trade Commission website at *consumer.ftc.gov/articles/0155-free-credit-reports*. In light of recent events, you may also consider whether to place a fraud alert on your credit files or request a credit freeze from the three reporting companies. A credit freeze or security freeze restricts third party access to information about your credit, making it more difficult for identity thieves to open new accounts in your name. In May of 2018, Congress passed the Economic Growth, Regulatory Relief and Consumer Protection Act, which allows for consumers to freeze and unfreeze their credit reports at no cost. Note that each of the three credit bureaus require separate requests in order to take this action.
– Review your 2018 spending and create a 2019 budget. This should include reviewing any large planned asset sales or purchases so that you can plan for where the proceeds will be deployed or how the expenses will be covered. If liquid investment assets need to be sold to cover a purchase, this will give you and your Financial Advisor the opportunity to discuss the timing of these sales and whether to complete the sales before or after the end of the year to address income tax ramifications and/or planning opportunities. Or, if debt is going to be used, you can review loan options and ensure your credit report is accurate (see above).
– Review your outstanding debt (including interest rates and terms) to determine if there is an opportunity to refinance at better terms or whether

to consider converting a variable rate loan to a fixed rate loan.

- Update your financial statement/balance sheet. Having a complete listing of your assets and liabilities is becoming more important as we move away from receiving paper statements and instead rely on information provided electronically. There may no longer be a file cabinet full of paper statements that people can reference to determine what you own and what you owe in the event that you are not able to manage your own financial affairs.
- Create or update a list of all of your electronic user names and passwords. Similar to the prior point, it is important for those who step in to manage your affairs to be able to access your online bank and brokerage accounts, credit card accounts, social media accounts, frequent flyer and other loyalty programs, etc., and remember to properly safeguard this important information.
- Review your insurance portfolio with a qualified professional to determine whether or not your current life, long-term care and liability insurance continue to efficiently meet your coverage needs.
- Review your will and/or revocable living trust to ensure that you remain comfortable with bequests and dispositions, executors, trustees and guardians. Communicate the location and intention of your estate planning documents with the appropriate individuals. Documents should be placed somewhere safe and easily accessible by the individuals you have named to handle your affairs (e.g., executor, trustee and agents under financial or medical powers of attorney).
- Review agents named under financial and medical powers of attorney to ensure they are still appropriate. Review living wills to ensure you are comfortable with the healthcare and end-of-life-related instructions therein. Consult with your attorney periodically about the advisability of executing new documents.
- Revisit your beneficiary designations for your insurance policies, as well as your retirement plans, to ensure the assets will pass according to your wishes. Likewise, evaluate with your attorney the titling of your other assets to ensure they too are distributed according to your goals and objectives (and are coordinated with your estate plan). For example, titling assets as "tenants in common," in the name of a revocable trust, or TOD/POD to a revocable trust, rather than as "joint tenants with right of survivorship," can help to ensure assets pass according to the terms of a will or trust rather than by operation of the titling itself.

2018 year-end planning checklist

High income earners
- [ ] Monitor AMT liability
- [ ] Analyze mutual fund capital gain distribution estimates
- [ ] Assess a Roth IRA conversion
- [ ] Consider timing of charitable gifts, particularly if your income in 2018 and/or anticipated income in future years is (or will be) particularly high
- [ ] Review liquidity available for estimated tax payments, if required

Investors
- [ ] Net short- and long-term gains and losses
- [ ] Time loss recognition, remaining aware of the wash sale rule
- [ ] Analyze concentrated stock positions to determine if diversification or hedging is desired
- [ ] If you plan to make charitable gifts, consider contributing highly appreciated securities instead of cash
- [ ] Review portfolio for current risk level and circumstances

Wealth transferors
- [ ] Make annual exclusion ($15,000) gifts, and consider various gifting vehicles (e.g., 529 Plan accounts or trusts for children and grandchildren)
- [ ] Fund IRAs for family members who have earned income
- [ ] Consider whether year-end distributions from non-grantor trusts for tax planning purposes would be suitable

Philanthropists
- [ ] Review optimal timing of charitable gifts with respect to your taxable income
- [ ] Select optimal assets to give to charity
- [ ] If you are over age 70½, consider making a QCD to donate up to $100,000 to a charity from your traditional IRA and have it count toward your RMD.
- [ ] Consider charitable vehicles such as donor-advised funds or private foundations
- [ ] Be sure to leave sufficient time for year-end gifts to be implemented properly

Business owners, employees and retirees
- [ ] Maximize contributions to retirement plans
- [ ] Withdraw RMDs
- [ ] Consider life insurance to protect against liquidity shortfalls at death (e.g. estate taxes)

All clients
- [ ] Review estate planning documents, including powers of attorney and living wills
- [ ] Confirm beneficiary designations and asset titling
- [ ] Communicate location of important documents to appropriate individuals

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Market fluctuation, account and administrative fees and other charges will impact the amounts ultimately available for distribution from a donor-advised fund or private foundation.

529 plans are sold via Program Descriptions (sometimes called Program Brochures), which contain detailed information regarding the plan, risks, charges and tax treatment. Clients can obtain a free Program Description of their choice from the investment management company sponsoring a 529 plan or a Financial Advisor. Read the Program Description carefully before investing. 529 college savings plans are issued by individual states. Tax implications, as well as investment choices, of 529 plans may vary significantly from state to state. Most states offer their own tuition programs, which may provide advantages and benefits exclusively for their residents and taxpayers. By contributing to the plan issued by the state in which the client is a resident, clients may gain state, as well as federal, income tax advantages. However, taxes are only one issue to consider. Different 529 plans impose different fees, offer different investment approaches, and have a range of past performance records. Withdrawals not used for higher education costs will trigger state and federal tax as well as withdrawal penalties. The ability to withdraw earnings free of federal taxes may be impacted by changes in the tax exemptions.

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