

ADVISOR THOUGHTS

MAY 2018

What 2018 Tax Reform Changes Affect IRA's - Gifting, Funding and Conversions

Using Your IRA To Make A Charitable Gift – Income Tax Free

With the new tax code change are you looking to still be able to give to a charity of your choosing, while maximizing tax benefits? There is a way! The tax rule that remains in place, allows for individuals who are at least age 70 1/2 to gift up to a maximum of \$100,000 per year from their IRA directly to a qualified charity. The distribution, when gifted directly from the IRA, is not recognized as taxable ordinary income on your tax return. The effect of gifting from your IRA in this manner will reduce your Adjusted Gross Income (AGI). It's important to keep your AGI lower when possible. For example a lower AGI can prevent an increase to your Medicare Part D deductible, as well as reducing taxes on your social security income.

Key Points

- Gift must be made payable to a qualified charity
- Money must pass directly from the IRA to the charity to adhere to the rule
- You must be 70 ½ to be eligible
- Maximum gifting from your IRA is \$100,000

Roth IRA's Updates

Income limits for Roth contributions have been increased. In 2018, for single filers, your ability to contribute to a Roth phases out once you hit \$120,000, and completely maxes out at the \$135,000 level. For those married and filing jointly, the phase-out range for Roth IRA contributions is \$189,000 to \$199,000. The income limits in 2017 were slightly lower: \$186,000 to \$196,000 for married filing jointly and \$118,000 to \$133,000 for single filers.

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If you're thinking of recharacterizing your IRA, you better act fast! The tax reform bill has removed the ability to recharacterize any Roth IRA conversions done in 2018 and onward. However, you can still recharacterize your 2017 Roth IRA conversions up until October 15, 2018. Consult with your Financial Advisor if you are considering this option. Not sure what recharacterizing is? Recharacterization is the reversal of an [IRA conversion](#), such as from a Roth IRA back to a traditional IRA, generally to achieve better tax treatment.

What changes affect my 401(k) in 2018?

In 2018 you should consider adjusting the amount of money you're depositing monthly into your 401(k). That's because the contribution limit for 401(k) programs is rising in 2018. It's not jumping much – you will be able to contribute a maximum of \$18,500 to your 401(k) in 2018 if you're under age 50 – but the increase means that you might want to change the amount you contribute with every paycheck. Not a large bump but a modest increase. And if you're 50 or older? In 2018, you can contribute even more to your 401(k). The new maximum contribution limit for this age group is \$24,500.

If you have questions regarding gifting from your IRA please contact your Advisor or CPA or myself at Ledyard Financial Advisors at 603.545.7285.



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