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Private Wealth Management

# Year-End Tax and Financial Planning Ideas

## Prospects for tax reform loom large as we approach the end of 2017

While not much has changed for 2017, there is the possibility of significant tax reform heading into 2018. Here we identify some planning strategies to consider now, with an eye towards planning for next year.

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After the 2016 Presidential election, we knew that 2017 was going to mean a change in direction for the country. President Trump ran on a platform of reform, which seemed to signal a new frontier for tax and financial planning strategies. So a year later, where do we stand?

As we near the end of the year, the prospect of significant tax reform grows by the day. Although these reform proposals appear unlikely to affect 2017, 2018 could see more significant changes than we've seen in years. The House issued the opening bid when it comes to reform with the release of the Tax Cut and Jobs Act November 2. This bill contained many of the proposals we expected:

- Consolidated tax brackets with lower marginal rates at most income levels.
- An elimination of many of the deductions we've become accustomed to, including personal exemptions, state income taxes and medical expenses. To offset these, the standard deduction would be greatly expanded.
- An expansion of the child credit.
- A repeal of the estate tax and the Alternative Minimum Tax.
- Reduced tax rates on businesses, including those operating as a "pass-through", such as partnerships and sole proprietorships.

The bill had plenty of surprises, as well, including provisions affecting homeowners, a loss of deductions we didn't expect (such as alimony payments) and significant changes to education-related tax benefits. These proposals are far from reality yet, however. To begin with, the Senate will be issuing their own proposal in the coming days, and then the two bills will need to be consolidated into one that can pass both sides of Congress. And all of this will have to be done with only Republican votes, as Democrats remain united in opposing these reforms.

Because of the prospect for lower rates and fewer deductions for 2018, the traditional recommendation to defer income/accelerate deductions may be even more applicable this year. Pushing income into 2018, where it might be taxed at a lower rate, could be appropriate, although most individuals don't have the flexibility to do that. On the other hand, if most deductions are eliminated next year and are replaced with a new, larger standard deduction, there is added incentive to make charitable gifts and pay medical expenses or state income or property taxes before the end of 2017.

As always, tax planning is an individual process. The approach that is generally good for most may be the exact wrong thing in your own situation. Taxpayers whose income will fluctuate significantly between 2017 and 2018 – due to job change, retirement, sale of a business, etc. – might consider different year-end strategies. Remember also that tax planning is not done in a one-year vacuum. The decision to accelerate or defer income or deductions should be done with an eye towards the tax impact over both this and next year. Lastly, be sure to look at any changes to state income tax laws in the context of year-end tax planning.

The following list of year-end tax and financial planning strategies is a starting point to discuss with your Baird Financial Advisor along with your tax consultant. While investment decisions shouldn't be driven entirely by tax issues, there are instances where sound investment decisions can be made that will decrease an investor's overall tax liability. It could be that if tax reform is, in fact, passed this year, the recommendations made below would need to be revised, so be sure to stay aware of any new developments.

## PLANNING FOR CAPITAL GAINS & LOSSES

Deciding to sell a portfolio position should be primarily an investment decision rather than a tax decision. However, understanding the implications of that sale can help drive the timing of a transaction. Unfortunately, determining the tax impact of realizing a gain or loss can be very complicated thanks to multiple tax rates, as well as the Net Investment Income tax. The House reform proposal did not include any changes to the treatment of capital gains, so at this point it appears to be business as usual on this front.

- For 2017, taxpayers in the two lowest tax brackets can realize tax-free long-term capital gains (assets held more than one year). While that doesn't mean low-income taxpayers can have an unlimited amount of tax-free gains, it does provide a planning opportunity for those taxpayers. Taxpayers who find themselves in those lower ordinary tax brackets for 2017 (taxable income below $75,900 for couples and $37,950 for singles) should consider realizing some tax-free gains this year. However, they should be sure to work with a tax advisor as there are rules limiting the overall benefit.
- Once taxpayers exceed those income levels, long-term gains will be subject to a 15% tax rate.
- Taxpayers reaching the highest ordinary tax bracket are subject to a 20% tax rate on their long-term capital gains. This rate applies for couples with taxable income over $470,700 and singles over $418,400 in 2017.
    - While the House proposal would consolidate the ordinary income tax brackets in 2018, the income breakpoints for the various capital gain rates would not change. The 0%, 15% and 20% rates would be tied to the same dollar amounts as they are today, rather than being tied to a particular tax bracket.
- Lastly, couples with Modified Adjusted Gross Income (MAGI) above $250,000 for 2017 ($200,000 for singles) will also owe a 3.8% tax on their investment income over those thresholds. Because MAGI is always greater than taxable income, taxpayers could be subject to this tax even though their taxable income ends up below this threshold. Also, the threshold for this tax is not subject to inflation adjustments, so taxpayers whose income was just below the threshold in 2016 may find they're over it for 2017.

Being aware of these breakpoints can help taxpayers better understand the cost of their investment decisions. For example, for those whose income is expected to drop in 2018 due to retirement, realizing a gain in 2017 may end up costing more in taxes than it would by deferring it to the next year when they could be subject to a lower tax rate.

On the other hand, the investment risk associated with that deferral can't be ignored. Investors thinking of realizing a gain late in the year may be willing to accept the investment risk for a bit longer in order to defer the gain into January 2018. Investors facing that same decision earlier in the year may not be so willing to accept that risk for a longer time.

Other considerations to keep in mind when it comes to managing gains and losses at year-end include:

- Investors should review net long-term and short-term gains and losses for the year to see if there may be an opportunity to sell a losing stock and offset gains from other sales. Since short-term gains (assets held one year or less) are taxed at the ordinary income tax rate, it's important to plan to offset those first, which may require realizing only short-term losses.

- Conversely, investors may look at realizing gains before year-end to absorb any losses realized earlier in the year. Short-term losses first offset short-term gains, and long-term losses first offset long-term gains. If there are net losses in one category, those losses can offset net gains in the other category. If total losses exceed total gains for the year, up to $3,000 of the remaining loss can be used to offset other income that year. Losses in excess of this are carried over to the next year to offset gains in that year. These excess losses can be carried forward indefinitely.
- Another thing to consider when trying to zero-out capital gains for the year: mutual fund distributions. When mutual fund investors sell their fund shares, it forces the fund managers to sell positions to generate cash. The positive run in the stock market these last few years means many funds could be forced to realize significant gains to generate that cash, and those gains must be passed through to the remaining investors. Investors that continued to hold those funds will likely receive larger capital gain distributions than were expected.
- Lastly, avoid the urge to recognize gains in order to “use up” losses realized during the year, only to immediately repurchase the item sold at a gain because it still makes sense to own. Those losses can instead be carried forward to the next year and be used to offset a gain on something you no longer wish to own. Using up losses this year can result in taxable gains in the future that can’t be offset.

### OTHER INVESTMENT PLANNING STRATEGIES

Beyond issues concerning when to recognize capital gains and losses, there are other portfolio planning opportunities to consider before year-end:

- While the House proposed significant changes to the treatment of mortgage interest, the deduction for investment interest was left unchanged. In order to fully deduct any investment interest expense paid during the year, an equal or larger amount of interest income and short-term capital gains must be recognized during the year. Investment interest is deductible only against those types of investment income, although excess interest expense may be carried over indefinitely to offset future investment income.
    - Investors have the option of foregoing the lower tax rates on qualified dividends and long-term gains in order to treat those items as investment income for purposes of this deduction. Making this election essentially means taking a lower tax benefit for deducting that interest expense this year rather than carrying the deduction forward for perhaps a larger benefit in the future. Those considering this election should consult with a tax advisor who can prepare projections under both scenarios.
- Beware of the wash sale rules while divesting of investments at a loss. These rules prevent investors from deducting a capital loss from the sale of an item if they buy a “substantially identical” position during a 61-day period, including the 30 days before the day of sale and continuing for 30 days after the sale. The wash sale rules don’t apply to any sales for a gain, nor do they apply to gifts of appreciated stock to charity. While a loss under the wash sale rules is usually only deferred rather than permanently lost, taxpayers would likely prefer receiving the full tax benefit of any realized losses sooner rather than later.
    - An exception to the loss deferral after a wash sale is when an IRA is involved. Selling a security for a loss in a taxable account and then repurchasing it in an IRA can trigger the wash sale treatment. In this scenario, the loss on the sale is permanently lost. Therefore, investors must be aware of their entire portfolio when it comes to avoiding a wash sale.
    - Investment firms are required to account for wash sales when the exact same position is bought and sold in the same account. However, wash sales involving positions that are not exactly the same but that are “substantially identical” (such as selling a stock and then buying a call option on the same

stock) or when they occur over multiple accounts are not required to be tracked by those firms. Taxpayers will need to watch for those potential wash sales themselves.

- In order to claim a loss for a "worthless stock," an investor must be able to prove the stock had value at the end of 2016 but did not at the end of 2017. If it's uncertain whether the stock is truly worthless by the end of the year, owners should sell the stock for whatever value they can in order to claim a capital loss. In general, if the stock is still trading, it is not considered worthless. A bankruptcy filing by the company does not, on its own, mean a stock is worthless.
- The House is proposing to change the tax exemption for a gain on the sale of residence. Among the changes would be a longer ownership period and a phaseout of the exemption for couples with income over $500,000. Homeowners thinking of selling in 2018 may be incented to accelerate that sale into 2017 to avoid these new limits.

## TAX RATES, BRACKETS & FILING STATUS

The top tax bracket for 2017 is again 39.6%, although the income level at which that rate applies, like that of all other tax brackets, was adjusted upward for inflation. Beyond those annual inflation adjustments, there were no changes to the tax brackets for 2017. However, the House tax reform proposal calls for consolidating the current seven brackets to just four – 12%, 25%, 35% and 39.6%. The brackets for these rates would be modified significantly, leaving most taxpayers with a lower marginal tax rate in 2018.

- Taxpayers should review federal withholding and estimated income tax payments in order to avoid underpayment penalties. Even though a taxpayer's 2017 tax liability may have increased over 2016, it doesn't necessarily mean that increased tax must be paid to the IRS before the end of the year. To avoid a penalty for 2017, total tax payments must equal the lesser of (1) 90% of the current year tax liability or (2) 100% of last year's liability (110% if 2016 Adjusted Gross Income (AGI) was more than $150,000). For those taxpayers whose 2017 income is the same or higher than it was in 2016, there's a good chance they can wait to pay the increased tax until they file their 2017 tax return in April 2018.
    - Taxpayers whose income in 2017 is lower than it was last year may instead prefer to remit just 90% of their projected 2017 tax liability before the end of the year, leaving the remainder to pay with their tax return. In order to provide some cushion for unforeseen events, it may be better to target 93-95% of the projected liability.
- While there may be an incentive to accelerate state tax payments into the current year (see below), there is generally no such incentive for federal tax payments. Other than paying enough to avoid an underpayment penalty, the best cash management strategy is to defer as much of the federal tax liability until the due date for the tax return, while still avoiding an underpayment penalty. Keep in mind that requesting an extension of time to file a tax return doesn't extend the time for paying the tax.
    - Individual tax returns are generally due April 15, except when that day falls on a weekend, which is the case for 2018. Therefore, the filing deadline for 2017 tax returns would ordinarily move to the following Monday, April 16. However, that day is also a holiday in Washington DC, so the due date for 2017 tax returns, without filing an extension, has been moved to April 17, 2018.
- Taxpayers are often concerned that their tax rate will rise from one year to the next, but in some cases the opposite actually happens. For example, those who retired in 2017, or plan to in 2018, may have a decreased level of income that could trigger a fall to a lower bracket next year, and that bracket could have a lower marginal tax rate. If that's true, deferring income into 2018 from 2017 may be appropriate. The prospect of lower marginal rates overall in 2018 makes this even more appropriate to consider. While it's difficult for most taxpayers to control the recognition of income, self-employed individuals or those whose income is primarily commission-based may have more flexibility here.

- Couples who were married in 2017 will be filing joint tax returns for the first time. The tax impact of this change in filing status could vary significantly depending on the couple's income level.
  - When there is a significant difference in income between the two spouses, filing jointly may result in a net tax savings over what they each paid as single individuals.
  - When each spouse has similar levels of income, however, the "marriage penalty" could result in an increased tax liability over what they paid as single taxpayers. Newly married couples should be prepared for this potential tax increase.
  - Couples getting married in 2018 should consider the timing of their deductions in order to maximize the tax benefit over the two-year period. Those expenses should be paid in the year the couple will be subject to the highest marginal tax rate.
  - Same-sex couples who are considered legally married under state law are required to file a joint federal tax return. However, couples in a civil union or a registered domestic partnership are not considered married and therefore must file as single individuals.
- The Kiddie Tax applies to children under age 19, or under age 24 if they are a full-time student. As a result, parents will find it difficult to shift investment income from themselves to their children for a tax savings. For 2017, the first $1,050 of unearned income (such as interest, dividends and capital gains – basically anything other than wages or self-employment income) is exempt from tax. The next $1,050 is taxed at the child's tax rate, but any income over $2,100 is taxed as if it were the parents' income, including the higher capital gain tax rates and the Medicare tax on investment income.

## ITEMIZED DEDUCTION PLANNING

The House reform proposal included eliminating deductions such as medical expenses and state & local taxes, while putting new caps on the deductions for property taxes and mortgage interest, Many less common deductions would also be eliminated, such as casualty losses, some gambling losses, tax preparation fees, alimony, moving expenses and unreimbursed employee business expenses. Taxpayers should keep these potential changes in mind and perhaps accelerate more of those deductions into 2017 before the tax benefit is lost.

- In 2017, couples with AGI over $313,800 (singles over $261,500) will see their itemized deductions reduced by 3% of their income over that level. This phaseout results in an increase in the marginal tax of 1.0-1.2% for those affected. This phaseout would be eliminated in 2018 under the House proposal.
  - The natural reaction is to cut back on expenses that can be deducted because it appears the full value of the expense isn't being realized. However, this approach is usually incorrect – the phaseout is driven almost entirely by income, not the amount of deductions claimed. For example, a taxpayer considering a large charitable contribution will still realize the full value of the deduction. However, recognizing a capital gain or taking an additional IRA withdrawal will drive up AGI, and thereby increase the amount of deductions lost to the phaseout, effectively increasing the tax cost of that additional income.
- Like with itemized deductions, personal exemptions – the $4,050 deduction allowed for a taxpayer, their spouse and any dependents – are also subject to a phaseout. This phaseout is tied to the same income thresholds as the deduction phaseout, so the only way to avoid it is to keep income below those amounts. This phaseout is in effect another form of tax increase once income crosses the applicable threshold – something for taxpayers to consider as income approaches or exceeds the threshold.
  - Parents may be tempted to allow their children to "claim themselves" if the parent receives a reduced benefit for the exemption. However, the exemption must be claimed by whoever is providing more

than 50% of the support for that person, even if they don't actually receive a tax benefit for the deduction.

- These personal exemptions would be eliminated in 2018 under the House proposal, although they'd be replaced by an expanded standard deduction and child credit, plus a new personal credit of $300.

- Taxpayers should weigh the likelihood of tax reform in 2018 along with their own personal situation to determine if it is better to pay deductible expenses (such as property taxes, charitable contributions, state estimated tax payments, etc.) before the end of 2017 or after.
    - For taxpayers whose income will increase in 2018, their deductions could be worth more next year, so deferring deductible expenses into next year could be appropriate in that scenario.
    - On the other hand, for taxpayers whose income will fall in 2018, it may make sense to accelerate deductions into 2017. Also, many of those deductions could be eliminated in 2018, so it would be better to get some benefit this year rather than no benefit next year.
- The issue of when to pay state income taxes is especially complicated this year. Normally we would advise paying those taxes this year rather than waiting in order to accelerate the tax benefit to now. That becomes doubly appropriate if the deduction for those taxes is lost in 2018. However, many expect that proposal to change or even be eliminated as part of a final bill.
    - On the other hand, accelerating those taxes into 2017 could trigger an Alternative Minimum Tax issue, as those taxes aren't deductible under the AMT. The House proposal would eliminate the AMT in 2018, so if the deduction does survive it might be better to defer those payments in 2018 where there could be a tax benefit.
    - Regardless of the future of the deduction or AMT in 2018, if there is no benefit to paying those taxes in 2017, then it makes sense to defer the payment into 2018 and maintain the use of the cash for a bit longer.
- Be sure to complete any charitable obligations prior to year-end in order to take a tax deduction for 2017. As always, utilizing appreciated property for contributions rather than cash can be a great tax savings tool. Those gifts will generate a deduction for the full value of the property without triggering a taxable gain.
    - When making charitable gifts, be sure not to gift securities that have a loss. By giving a position with a loss, the deduction is limited to the market value at the time of the gift, and neither the taxpayer nor the charity will receive any tax benefit for the built-in loss. Rather than donating something that has a loss, taxpayers are better off selling it first to realize the loss, which can then be deducted, and then donating the sales proceeds to the charity.
    - Also be sure to donate only those items that would be considered "long-term" assets. Donating an asset that is considered a "short-term" holding will limit the donor's tax deduction to their cost basis.
- Charitably-inclined taxpayers whose income is unusually large in 2017 (due to a sale of a business, stock option exercise, deferred compensation payment, etc.) may want to consider a donor advised fund. These funds allow taxpayers to make a gift in the current year, but then defer the distributions to charities until sometime in the future. With this type of gift, the tax benefit is realized immediately without having to commit to a specific charity until later. The gift to the fund is irrevocable, but these vehicles can be a great way to maximize the tax benefit of a donation.
- Taxpayers who are subject to the Required Minimum Distribution rules on retirement plans may consider making charitable gifts directly from their IRA. Using this technique (known as a Qualified Charitable Distribution, or QCD) means the withdrawal is not reported as income. Among the rules to keep in mind for these distributions are:

- Taxpayers must be at least age 70½ at the time of the payment to the charity. Just reaching that age later in the calendar year is not sufficient.
- The payment to the charity will count towards the taxpayer's Required Minimum Distribution for the year.
- Direct transfers to charity can only come from an IRA. A QCD is not allowed from a SEP or Simple IRA, or from an employer plan.
- Distributions are capped at $100,000 per IRA owner.
- Transfers must be made to a public charity – private foundations, donor advised funds and other recipients are not eligible.
- Lastly, donating appreciated property will often lead to a better overall tax result than the QCD technique. The deduction for gifting the stock will still offset the IRA withdrawal, but the capital gain on the stock is also avoided, providing a double tax benefit.

- Consider bunching certain itemized deductions such as medical expenses and miscellaneous deductions in order to exceed the minimum AGI limitations. However, beware of AMT considerations for 2017 that can reduce or eliminate any benefit from this planning. Remember, too, that the medical deduction would be eliminated for 2018 under the House proposal, which is an added incentive to accelerate those expenses into 2017.
- All taxpayers are now subject to the 10% of AGI floor for deducting medical expenses. Some taxpayers had been grandfathered under the prior floor of 7.5%, but that expired after 2016.
- Consider restructuring nondeductible interest expense (such as auto loans or credit card debt) to deductible interest (such as a home equity loan). The House proposal does include a provision that would eliminate the deduction for interest on home equity loans, so it may be that simply using the loan source with the lowest interest rate is the best option, ignoring tax considerations.
- A 2016 court decision allows unmarried taxpayers who co-own a home to each deduct the interest paid on a qualified mortgage of up to $1.1 million. This is essentially twice the benefit that is allowed for married couples, and may present a planning opportunity for couples looking to purchase a home.

### RETIREMENT PLANNING

- The 2017 contribution limits to most forms of retirement plans are the same as 2016:
  - 401(k), 403(b) and 457 plans - $18,000
  - Traditional and Roth IRAs - $5,500
  - SIMPLE IRAs - $12,500
  - SEP IRAs - $54,000 (up from $53,000)
- Taxpayers should be sure to maximize contributions to their employer-sponsored retirement plan as well as to an IRA, either Traditional or Roth (if eligible). Contributing to an employer plan does not prevent someone from also contributing to an IRA, although it may limit (or even eliminate) any tax deduction for a Traditional IRA contribution, as explained below.
  - Those covered by an employer-sponsored retirement plan are subject to income limits that affect the ability to deduct contributions to a Traditional IRA. For 2017, married couples with income over $99,000 and singles over $62,000 will begin to lose the benefit of the IRA deduction. The deduction is fully phased out once income reaches $119,000 for couples, $72,000 for singles. However, being

over that threshold does not prevent someone from making a non-deductible contribution (as long as they have earned income equal to or greater than the contribution amount).

- For 2017, full contributions to a Roth IRA are only allowed for joint taxpayers with AGI below $186,000 (single taxpayers below $118,000), with contributions phased out at $196,000 ($133,000 for singles).

- Taxpayers age 50 or older are usually eligible for a “catch up” contribution – an additional contribution amount over the base limitation. Those who turned 50 in 2017 should be aware of this increased IRA or employer plan contribution amount. The catch up amounts for 2017 are $1,000 for IRAs, $6,000 for 401(k), 403(b) and 457 plans, and $3,000 for SIMPLE IRAs, all of which are the same as 2016.
- Many had forecasted a change to the rules on retirement plan contributions and their deductibility as part of the House proposal, but it turned out these areas were left untouched. That may change in the Senate version, however, so it’s best to maximize these contributions while they’re still available.
- Taxpayers should consider the potential benefit of converting a Traditional IRA to a Roth IRA prior to year-end. There is no longer an AGI limit for Roth conversions, so all taxpayers are now eligible to do a conversion. The conversion amount will be fully taxable in the year of conversion (other than any previous non-deductible contributions to the account).
- Those who did convert a Traditional IRA to a Roth IRA may have seen the value of the account decrease since the time of the conversion. If that’s the case, those Roth IRA owners may want to consider recharacterizing that Roth back to a Traditional IRA, thereby negating the tax due on that formerly larger account balance. For conversions done during 2017, the current deadline to recharacterize that conversion is October 15, 2018. However:
    - Roth recharacterizations would be eliminated under the House proposal, meaning that taxpayers can no longer do large conversions and then wait to see how things work out before adjusting the amount later. Conversions done in 2018 would now be required to stay in the Roth. Those who did a Roth conversion in 2017 and plan to undo at least some of it later should consider doing that recharacterization before the end of 2017.
    - Those who do recharacterize back to a Traditional IRA can then re-convert it back to a Roth IRA, subject to waiting periods. They must wait until the next taxable year after the original conversion to the Roth, or 30 days, whichever is later. This means that if a 2016 Roth conversion was recharacterized during 2017, it can then be reconverted back to a Roth after just waiting 30 days. If the original conversion was in 2017 but was also recharacterized this year, then the reconversion back to the Roth must wait until at least January 1, 2018.
- Once an IRA owner reaches age 70½, they become subject to the Required Minimum Distribution (RMD) rules. Those IRA owners must take a distribution from their IRA by December 31, 2017, with the amount based on the January 1, 2017 value of the account. IRA owners who turned 70½ during 2017 are able to defer their first RMD until April 1, 2018, but then must take a second RMD for 2018 by the end of next year. Missing the deadline for taking any RMD will result in a penalty equal to 50% of the undistributed amount.
    - The RMD rules apply to Traditional IRAs and, in most cases, to employer retirement plans. Roth IRAs, however, are exempt from these rules. Upon death of the owner, any non-spouse beneficiary must also take RMDs, including from a Roth IRA.

### OTHER FINANCIAL PLANNING CONSIDERATIONS

- The annual gift tax exclusion amount remained $14,000 for 2017 (but is increasing to $15,000 for 2018). Taxpayers trying to minimize a future estate tax liability can begin by making annual gifts to family members.

- The estate tax exemption amount rose to $5.49 million for 2017 and will increase with inflation each year going forward (the 2018 amount is $5.6 million). Making large gifts under this provision should be done only after a thorough review of the overall estate plan, but should be strongly considered by those who are likely to pay an estate tax.
    - The House proposal would double the current estate tax exemption in 2018, and then would permanently repeal the estate and generation skipping taxes after 2023. There would be no changes to the current gift tax system.
- Taxpayers may consider funding a 529 plan to help pay for future education expenses. One advantage of gifting to a 529 plan is that 5 years' worth of gifts can be made in one year. With the annual gift exclusion at $14,000 for 2017, a taxpayer can gift up to $70,000 at one time to a 529 plan – double that if the gift comes from a couple. Taxpayers considering making 5 years' worth of gifts at once should wait until early 2018 to do so. That will allow them to still contribute $14,000 to the 529 for 2017 before doing the 2018 through 2022 gifts next year.
    - The House proposal would allow an unborn, but in utero, child to be named the beneficiary of a 529 plan. Under current law, children can be named the beneficiary only after they are born.
- Funding a Coverdell Education Savings Account can also provide tax-free income for education expenses. Taxpayers can contribute up to $2,000 per year per beneficiary under 18 years old. Because Coverdell accounts are the only tax-advantaged vehicle that can be used for K-12 expenses, these accounts are still valuable to many taxpayers. Contributions are limited to married couples with Modified AGI below $220,000 ($110,000 for singles).
    - The House proposal would prohibit future contributions to Coverdell accounts, although existing accounts could continue to be used to fund education expenses. In addition, 529 plans would be expanded to allow them to be used for K-12 expenses, although with a limit of $10,000 per year.

## STAYING UP-TO-DATE

This may be a good time to address other financial concerns that don't necessarily relate to year-end.

- Identity theft and data security continue to be important issues. Use the end of the year to consider the following:
    - Change your online passwords, using something that isn't easily guessed.
    - Review your credit report, which be obtained for free at annualcreditreport.com.
    - Consider enrolling in a credit monitoring service. If you fear your credit may be at risk, consider establishing a credit freeze or fraud alert for you, your spouse and dependents.
- Investors should review their investment asset allocation with their Baird Financial Advisor to determine if it's still appropriate given their goals and time horizon. Market volatility can also trigger a need to rebalance a portfolio periodically back to a target allocation.
- Individuals should compile a list of where all pertinent financial documents can be found in the event they become incapacitated. Include account numbers, contact names and phone numbers, as well as important facts on all family members. This sheet should be kept in a safe location, but be accessible by the appropriate person if the need arises.
- Estate documents should be reviewed to ensure they're still appropriate, especially if there has been any change in marital status, any births or deaths in the family, a significant change in personal net worth, or relocation to a new state during the year.
- Review any beneficiary designations on insurance policies, retirement plans, etc. to ensure they are still appropriate.