2020 YEAR-END PLANNING TIPS

1. FAMILY TAX PLANNING

Determine whether you can shift income to family members who are in lower tax brackets in order to minimize overall taxes. For instance, if you plan to sell an appreciated investment, it could be advantageous to gift it to a family member in a lower tax bracket than you. Be mindful of kiddie tax rules which effectively cap unearned income over $2,200 to be taxed at the parents' rates, and not the children's rates.

(https://www.irs.gov/taxtopics/tc553)

2. FAMILY GIFTING

Consider making gifts of up to $15,000 (in 2020 and 2021) per person federal gift tax free under the annual gift tax exclusion. This gift amount is non-reportable, and since any one individual can gift any one individual up to $15,000 in cash or securities, it usually makes sense to gift positions (as opposed to passing them via inheritance). When choosing what assets to gift, provided you are gifting to someone with a lower effective capital gains tax rate than you, you would want to choose assets with large unrealized gains, as the recipient will pay less in taxes upon liquidation than you would. To that same end, you would also want to gift assets that are likely to appreciate significantly for optimum income tax savings.

For Current and Prospective Clients.

3. EDUCATION TAX CREDITS

Take advantage of tax credits for higher education costs if you're eligible to do so. These may include the American Opportunity (Hope) credit, which is a $2,500 credit typically applying to those pursuing undergraduate education, and the Lifetime Learning credit, which equates to a maximum $2,000 credit; however, both are limited to income phaseouts. (https://www.irs.gov/credits-deductions/individuals/aotc)

4. ROTH CONVERSIONS

Year-end is a good time to evaluate whether it makes sense to convert a tax-deferred savings vehicle like a traditional IRA or a 401(k) account to a Roth account. Roth IRAs have become more desirable with the SECURE Act changes that eliminated the Stretch IRA. The numbers usually only work out to your advantage if you are paying the taxes owed as a result of the conversion from after tax monies. Also, recent legislation has eliminated the option to recharacterize a Roth IRA conversion, so be sure that you will not need to undo this move. Here are a couple of related suggestions:

- Individuals who are ineligible to contribute to a Roth IRA due to the size of their income can contribute to a non-deductible traditional IRA, and quickly convert that contribution to a Roth IRA. This is sometimes referred to as a "Backdoor Roth Conversion." While a clever tool to use to maximize tax free pools of money, the IRS's IRA aggregation rule can diminish the overall benefit, typically for individuals with existing large Traditional IRA balances, who seek to execute a Backdoor Roth Conversion. (See the following for more detail: https://www.irs.gov/publications/p590b)
- Consider setting up a Roth or Traditional IRA for each of your children who have earned income. Children who have earned income for the year can contribute the lesser of $6,000 or their taxable earnings for the year. Since children typically have lower income, and a long runway of time before retirement to take advantage of tax-free growth, a Roth IRA is often the best vehicle to use to jumpstart your child's retirement portfolio.

5. INDIVIDUAL 401(K) PLANS

If you are self-employed, consider establishing a solo 401(k). These have to be established before the end of the year. An individual 401(k) plan is a combined profit-sharing and 401(k) plan, which incorporates standard 401(k) compensation deferral limits, as well as a Profit Sharing portion, similar to plans utilized by larger corporations. However, since it is being applied to only one individual, it does not carry the large setup and administration costs prevalent in larger company 401(k) plans. It is available to self-employed persons or small business owners with no full-time employees. Compensation deferral is available up to $19,500 ($26,000 for age 50+). Profit-sharing contribution portion is available up to 25% of total compensation (up to $285,000 of compensation), to a maximum contribution of $57,000 per year, for individuals under the age of 50. (https://www.irs.gov/retirement-plans/one-participant-401k-plans)

6. CHARITABLE DONATIONS

Holiday time is traditionally a time of giving. You should consider using appreciated stock rather than cash when contributing to charities, as this will avoid a future capital gains tax upon liquidation. Also, you may want to use a credit card to make contributions in order to ensure that they can be deducted in the current year. For more information, here are a couple of helpful IRS resources: (https://www.irs.gov/newsroom/how-the-cares-act-changes-deducting-charitable-contributions)

(https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions)

TAX LAW CHANGES TO NOTE

(Generally 2018–2025)

- Personal exemptions were eliminated.
- Standard deductions have been substantially increased to $12,400 in 2020 ($24,800 if married filing jointly, $18,650 if head of household).
- The overall limitation on itemized deductions based on the amount of adjusted gross income (AGI) was eliminated.
- The AGI threshold for deducting unreimbursed medical expenses is 7.5% in 2020, it returns to 10% in 2021.
- SALT deduction limited to $10,000 ($5,000 if married filing separately).
- Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married filing separately) of qualifying mortgage debt.
- A deduction is no longer allowed for interest on home equity indebtedness; however, home equity used to substantially improve your home is not treated as home equity indebtedness and can still qualify for the interest deduction.
  Learn more here →
- Previously deductible miscellaneous expenses subject to the 2% floor, including tax preparation expenses and unreimbursed employee business expenses, are no longer deductible.

Another way to give is through a Donor Advised Fund (DAF). DAFs are inexpensive to establish, and they continue year over year. Ongoing contributions can be made, and the donor decides when contributions are then made to charities. Income and capital gains within DAF are not subject to income tax. There is no annual payout requirement. (See the following for more information: https://www.irs.gov/charities-non-profits/charitable-organizations/donor-advised-funds)

7. TAX LOSS HARVESTING

Given the performance in equity markets over the past few years, it might be challenging to find unrealized losses. However, when you do, make a conscious effort to sell positions, and replace them with securities with similar properties. This will enable you to book the loss to offset gains, while simultaneously keeping your exposure to that particular asset class or sector. After the 30-day holding period ends in January, you will want to evaluate whether it makes sense to sell your replacement position and repurchase your original holding.

8. REFINANCING

The interest rate on a 30-Year fixed rate mortgage, while being already low from a historical perspective, is down 85 basis points from January of 2020 to the time of this writing. The low interest rate environment provides an opportunity to refinance higher-interest rate loans, as well as use leverage to your advantage. Consider refinancing higher interest rate mortgages, and potentially "cashing out" larger amounts to fund home improvements, or pay down higher interest rate consumer and/or student loan debt. If a full refinance isn't necessary, consider utilizing a home equity line of credit or home equity loan to fund home repairs or improvements.

9. ESTATE PLANNING UPDATES

Review estate planning documents, especially beneficiary designations, for the impact of recent changes in law (SECURE Act, CARES Act executive order, and IRS Regulations). Also, the covid-19 pandemic is an impetus to re-evaluate health care directives, including DNR/DNI, living wills, etc.

10. QUALIFIED HSA FUNDING DISTRIBUTION

If you have both a high deductible health care plan and a health savings account, 2020 might be a good year to "roll-over" funds from your IRA to the tune of your maximum annual HSA contribution limit. This will enable you to have more resources available to fund health care costs, using tax free monies to do so. Note, this is a once per lifetime transaction, so make sure that if you proceed, you do so as to maximize your benefit.

SPECIAL CONCERNS FOR HIGHER-INCOME INDIVIDUALS

Top marginal tax rate: 37% for taxable income levels as follows:

- >$518,400 Single
- >$622,050 Married filing jointly
- >$311,025 Married filing separately

Long Term Capital Gains and Qualifying Dividends
Top tax rate: 20% for taxable income as follows:

- >$441,450 Single
- >$496,600 Married filing jointly
- >$248,300 Married filing separately

Net Investment Income tax of additional 3.8% (unearned Medicare contribution tax) if AGI:

- >$200,000 Single
- >$250,000 Married filing jointly
- >$125,000 Married filing separately

Note: High-income individuals are subject to an additional 0.9% Medicare (hospital insurance) payroll tax on wages exceeding $200,000 ($250,000 if married filing jointly or $125,000 if married filing separately).

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