

2020 Year-End Tax Tips

As 2020 comes to a close, it's a great time to consider year-end tax planning opportunities to put yourself in the best position possible for tax time. There is still a lot of uncertainty surrounding future tax law, but several year-end moves could be beneficial, regardless of the outcome of the November election and potential future tax legislation:

Bunch your itemized deductions

To maximize itemized deductions in certain years, consider the tactic of "bunching" expenses into this year or next year. This helps avoid restrictions imposed by the Tax Cuts & Jobs Act and applies to deductions such as charitable, state and local taxes (up to \$10,000), and mortgage interest.

Harvest gain/losses

Long-term capital gains are taxed at rates of 0%, 15%, or 20%. For high income taxpayers, the 3.8% surtax on net investment income may apply. If these preferential rates are eliminated for those with income over \$1,000,000 (or some other threshold), long-term capital gains could be subject to ordinary income tax rates up to 39.6%.

You may consider accelerating sales of capital assets into 2020. Whether the preferential rates stay the same or increase, we suggest you work with your tax advisor and portfolio strategist near year-end for strategies to match capital gains and capital losses.

Roth conversions

With the waiver of the Required Minimum Distribution (RMD) requirement as a result of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), many more individuals are considering a Roth IRA conversion. With the potential for future higher tax rates, paying the tax on the conversion now at the lower rates, may seem like a good idea.

If you had your RMD waived this year, consider converting the RMD amount to a Roth IRA. Converting an RMD this year is a one-time opportunity since RMDs in a normal year cannot be converted. Traditional IRA to Roth IRA conversions can reduce future required minimum distributions.

Charitable planning

2020 presents some great opportunities for maximizing the deductibility of charitable contributions. Donors can deduct cash donations to public charities (excluding donor-advised funds and supporting organization) up to 100% of adjusted gross income (AGI) for 2020, up from 60% in 2019.

For those considering large charitable contributions or a gift to a donor-advised fund, there is even more planning to consider regarding the various donor AGI limits. Although the RMD requirement for account owners is waived for 2020, there is still some benefit to considering the charitable IRA rollover. This allows an individual age 70½ or older to make a qualified charitable distribution (QCD) from their IRA directly to a charity (the age for QCDs is still 70½ despite that the beginning RMD age is now 72) and exclude the distribution from gross income (up to \$100,000 per year). QCDs may be good strategies for those that file their taxes using the standard deduction. Those who itemize may want to weigh other options for their 2020 charitable gifting using cash or appreciated stock.

Maximize tax advantaged savings vehicles

Reduce taxable income by increasing pretax salary deferrals to employer-sponsored retirement plans (401(k), 403(b), 457, & SEP-IRA plans). If your plan allows after-tax Roth contributions, these should be considered because of the lack of an income-level phase out for contributions and the potential for tax-free growth. You should consider contributions to IRAs for non-working spouses as well.

Also, maximize savings using tax-favored health plans such Health Savings Accounts (HSAs). Even if you just become eligible in December to make an HSA contribution, you can make a full year's worth of deductible HSA contributions for 2020.

For parents and grandparents, you could also consider funding 529 accounts for post-secondary (and now K-12) qualified education expenses.

Year-end gifting

Don't forget to make your annual exclusion gifts. The annual exclusion for 2020 is \$15,000 per individual, or \$30,000 if you and your spouse elect to split the gift.

Organize your tax documents

While 2020 is still fresh in your mind, gather your business receipts, charitable donation receipts, real estate tax payments, etc. to streamline information gathering for the April deadline. Many of your other tax documents, such as W-2's, 1099's, etc. won't be available until after year end, so keep an eye out for those after December 31st.

There is no "one-size-fits-all" approach when it comes to tax planning. As always, we suggest reaching out to your advisor to formulate a year-end plan that makes the most sense for your unique situation.

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