LAMFERS & MAAS, LLP
CPAs & Business Advisors

Greetings,

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) may benefit from some of them. Please review the following list and contact us if you have any questions on how these can apply to you.

Year-End Tax Planning Moves for ***Individuals***

... Long-term capital gain from sales of assets held for over one year is taxed at 0%, 15% or 20%, depending on the taxpayer's taxable income. If you hold long-term appreciated-in-value assets, consider selling enough of them to generate long-term capital gains that can be sheltered by the 0% rate. The 0% rate generally applies to the excess of long-term capital gain over any short-term capital loss to the extent that, when added to regular taxable income, it is not more than the maximum zero rate amount (e.g., $80,000 for a married couple).

... Postpone income until 2021 and accelerate deductions into 2020 if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2020 that are phased out over varying levels of adjusted gross income (AGI). These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2020. For example, that may be the case for a person who will have a more favorable filing status this year than next (e.g., head of household versus individual filing status), or who expects to be in a higher tax bracket next year.

... If you believe a Roth IRA is better than a traditional IRA, consider converting traditional-IRA money invested in any beaten-down stocks (or mutual funds) into a Roth IRA in 2020 if eligible to do so. Keep in mind, however, that such a conversion will increase your AGI for 2020, and possibly reduce tax breaks geared to AGI (or modified AGI).

... It may be advantageous to try to arrange with your employer to defer, until early 2021, a bonus that may be coming your way. This could cut as well as defer your tax.

... Many taxpayers won't be able to itemize because of the high basic standard deduction amounts that apply for 2020 ($24,800 for joint filers, $12,400 for singles and for marrieds filing separately, $18,650 for heads of household), and because many itemized deductions have been reduced or abolished. Like last year, no more than $10,000 of state and local taxes may be deducted; miscellaneous itemized deductions (e.g., tax preparation fees and unreimbursed employee expenses) are not deductible. You can still itemize medical expenses but only to the extent they exceed 7.5% of your adjusted gross income; state and local taxes up to $10,000; your charitable contributions plus interest deductions on a restricted amount of qualifying residence debt, but payments of those items won't save taxes if they don't cumulatively exceed the standard deduction for your filing status.

Two COVID-related changes **for 2020** may be relevant here:

(1) **Individuals may claim a $300 above-the-line deduction for cash charitable contributions on top of their standard deduction**; and

(2) **the percentage limit on charitable contributions has been raised from 60% of modified adjusted gross income (MAGI) to 100%.**

Some taxpayers may be able to work around these deduction restrictions by applying a bunching strategy to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, a taxpayer who will be able to itemize deductions this year but not next will benefit by making two years' worth of charitable contributions this year, instead of spreading out donations over 2020 and 2021.

... Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2020 deductions even if you don't pay your credit card bill until after the end of the year.

... Required minimum distributions (RMDs) that usually must be taken from an IRA or 401(k) plan (or other employer-sponsored retirement plan) have been waived for 2020. So if you don't have a financial need to take a distribution in 2020, you don't have to. Note that because of a recent law change, plan participants who turn 70½ in 2020 or later needn't take required distributions for any year before the year in which they reach age 72.

... If you are age 70½ or older by the end of 2020, have traditional IRAs, and especially if you are unable to itemize your deductions, consider making 2020 charitable donations via qualified charitable distributions from your IRAs. These distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040. However, you are still entitled to claim the entire standard deduction.

... If you are younger than age 70½ at the end of 2020, you anticipate that you will not itemize your deductions in later years when you are 70½ or older, and you don't now have any traditional IRAs, establish and contribute as much as you can to one or more traditional IRAs in 2020. If these circumstances apply to you, except that you already have one or more traditional IRAs, make maximum contributions to one or more traditional IRAs in 2020. Then, in the year you reach age 70½, make your charitable donations by way of qualified charitable distributions from your IRA. Doing this will allow you, in effect, to convert nondeductible charitable contributions that you make in the year you turn 70½ and later years, into deductible-in-2020 IRA contributions and reductions of gross income from later year distributions from the IRAs.

... Consider increasing the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year and anticipate similar medical costs next year.

... If you become eligible in December of 2020 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2020.

... Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2020 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next.

Year-End Tax-Planning Moves for Businesses & Business Owners

... Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2020, if taxable income exceeds $326,600 for a married couple filing jointly, $163,300 for singles, marrieds filing separately, and heads of household, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased in; for example, the phase-in applies to joint filers with taxable income between $326,600 and $426,600, and to all other filers with taxable income between $163,300 and $213,300.

Taxpayers may be able to achieve significant savings with respect to this deduction, by deferring income or accelerating deductions so as to come under the dollar thresholds (or be subject to a smaller phaseout of the deduction) for 2020. Depending on their business model, taxpayers also may be able increase the new deduction by increasing W-2 wages before year-end. The rules are quite complex, so don't make a move in this area without consulting us.

... Businesses should consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2020, the expensing limit is $1,040,000, and the investment ceiling limit is $2,590,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. The generous dollar ceilings mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full (if you are otherwise eligible to take it) regardless of how long the property is in service during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2020, rather than at the beginning of 2021, can result in a full expensing deduction for 2020.

... Businesses also can claim a 100% bonus first year depreciation deduction for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service this year, and for qualified improvement property, described above as related to the expensing deduction. The 100% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2020.

… As of the date of this letter, the IRS has confirmed that expenses used to generate forgiveness of a PPP loan are not deductible for tax purposes, which essentially has the same effect as if the PPP loan itself were taxable. If you received a PPP loan, prepare for the amount of the loan that will be forgiven to be taxable in 2020. There is a possibility that congress will address this, but that has not happened yet.

These are just some of the year-end steps that can be taken to save taxes. Again, please contact us if you have any questions on any of these strategies.

Very truly yours,

Lamfers & Maas, LLP