Year-End Tax Strategies and more for 2020

Presented by CTM Managing Partner Scott P. Weingart, JD, CPA

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- **CTM** is a public accounting firm providing strategic tax, accounting and consulting services to generations of clients for nearly 50 years.
- We serve both individuals as well as businesses in a variety of industries, including quick service restaurants, manufacturing, professional services, real estate and not-for-profits.
- **REACHING YOUR GOALS IS ONE OF OURS!**

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Today's Topics

I. New $900 Billion Stimulus Package

II. Top Tax Myths Debunked

III. The CARES Act

IV. The Biden Tax Plan

V. Year-End Tax Tips

   A. Businesses

   B. Individuals

   C. Estate & Gift

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New $900 Billion Stimulus Package

New $900 Billion Stimulus Package

- 5,000 pages long!
- Second round of stimulus checks for individuals who qualify:
  - $600 for individuals earning up to $75k ($1,200 for married couples earning up to $150k).
  - Households with children would receive $600 per child.
- Extra $300 per week for unemployment insurance benefits thru March 14, 2021.
- Additional $284 Billion for new PPP loans for small businesses:
  - Limited to businesses with less than 300 employees and which have sustained at least a 25% revenue loss for any quarter in 2020.
  - $12 Billion earmarked for minority businesses.
- Business expenses paid for with PPP loan proceeds are fully deductible.

New $900 Billion Stimulus Package

- WOTC is extended for 5 years.
- Employee retention tax credit is extended thru July 1, 2021, the rate increases from 50% to 70% and the employee limit goes from $10,000/yr to $10,000/qtr.
- Paid leave credits for sick pay and family leave pay are extended thru March 31, 2021.
- Business meals are 100% deductible (instead of 50%) from 1/1/21-12/31/22.

Top Tax Myths Debunked

Top Tax Myths Debunked

Myth #1

"If I take a distribution from my business before the end of the year, I will have to pay more taxes."

Reality

If you have a flow thru entity (S corp., partnership, LLC), you are going to pay tax on your share of the entity's net income – revenues minus expenses. In general, the amount of cash you take out of the business will not increase your taxable income and cause you to pay more income taxes.

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Top Tax Myths Debunked

Myth #2

"It doesn't make sense for me to keep working, because any additional income will cause me to pay more taxes."

Reality

Somewhat true, but the tax brackets are "graduated" and everyone, no matter how much you earn, works their way up from the bottom 10% rate to the top 37% tax rate.

Bottom line: It always pays to earn an extra dollar!

Tax Brackets and Rates, 2020

Rate	For Single Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	$0	$0	$0
12%	$9,875	$19,750	$14,100
22%	$40,125	$80,250	$53,700
24%	$85,525	$171,050	$85,500
32%	$163,300	$326,600	$163,300
35%	$207,350	$414,700	$207,350
37%	$518,400	$622,050	$518,400

Source: Internal Revenue Service

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Top Tax Myths Debunked

Myth #3

"If I file a tax return extension, I am more likely to be audited by the IRS."

Reality

An extension extends the time for filing your tax returns, not for paying the taxes you might owe to the IRS (or states) by the filing date. Federal extensions are automatic and will give you an extra six months to file your tax return. The IRS audited only 0.4% of all individual tax returns in 2019. There is no increased audit risk by going on extension.

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The CARES Act – Highlights for 2020

TAXED NOW | TAXED LATER | TAXED NEVER

The CARES Act – Highlights for 2020

Individual Recovery Rebate/Credit

The government sent “stimulus” checks to individuals over the last year:

- $1,200 per taxpayer, $2,400 if married filing jointly.
- $500 per qualifying child.
- Potential rebate is reduced by 5% of taxpayer’s AGI in **excess of $75,000 single, $112,500 Head of Household or $150,000 Joint**.
- Rebate is completely phased out if AGI **exceeds $99,000 Single, $146,500 Head of Household or $198,000 Joint**.
- You qualified for the rebate based on your 2018 or 2019 tax returns.
- However, if you did not qualify for a rebate based on your 2018 or 2019 tax returns, it may be possible to receive a tax credit based on your 2020 tax return.
- The rebate/credit will be recomputed when you file your 2020 tax return.

The CARES Act – Highlights for 2020

Charitable Contributions

- New “above-the-line” $300 deduction for 2020.
- For 2020, qualifying charitable contributions can be deducted up to 100% of AGI (limit was 60% for 2018 and 2019).
- In 2018, only 8% of taxpayers itemized their deductions (received the standard deduction), so very few received a “tax benefit” from their charitable contributions.

The CARES Act – Highlights for 2020

Qualified Retirement Plan Distributions

- Prior tax law stated that any distribution by a person under age 59 1/2 (except for qualifying circumstances) was subject to an 10% early withdrawal penalty.
- For 2020, this penalty is waived for distributions up to $100,000 if the funds are needed to combat the adverse effects of the health crisis.
- Coronavirus-related distributions can be contributed back to the plan at any time during the 3-year period beginning on the day after the distribution was received (as one or in aggregate). These are treated as “rollovers” and not subject to the annual contribution limits.
- Any distributions not “re-contributed” are includible in income over the 3-year period beginning with the tax year in which the distribution was taken.

The CARES Act – Highlights for 2020

Required Minimum Distribution (RMD) Requirement

- Must be taken annually once you reach age 72.
- For 2020, RMD requirements do not apply to a defined contribution plan or an IRA.
- If you have already taken your 2020 RMD, there may be a window of opportunity to do a rollover to another qualified plan if within 60 days.
- **Planning opportunity**: Not taking your 2020 RMD may drop AGI to levels qualifying for the *Individual Recovery Rebate Tax Credit* in 2020.

The CARES Act – Highlights for 2020

Net Operating Loss (NOL) Rules

- Recent changes under the TCJA only provided for NOL carryforwards.
- Under the CARES Act, losses from 2018, 2019 and 2020 can be carried back five years.
- Losses from 2019 and 2020 can be used to offset 100% of taxable income and not the former 80% limit.

The CARES Act – Highlights for 2020

Business Loss Limitation

- Another change under the TCJA was to limit the amount of business loss that can be used to offset non-business income (interest, dividends, capital gains) to $250,000 for single taxpayers and $500,000 for married filing jointly (adjusted for inflation).
- The CARES Act temporarily suspends this rule for 2018, 2019 and 2020.
- May be able to file amended tax returns to free formerly suspended business losses.

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The CARES Act – Highlights for 2020

Qualified Improvement Property (QIP)

- Due to drafting error in the TCJA, "Qualified Improvement Property" (generally, interior, non-structural, nonresidential) was given a 39-year recovery period, making these improvements ineligible for bonus depreciation (100% write off).
- The CARES Act provides a fix, making the depreciable life of QIP 15 years and eligible for bonus depreciation.
- The change is retroactive to improvements made on or after January 1, **2018**.
- **It may be possible to file amended tax returns or report a cumulative "catch-up" deduction in later years**.

The CARES Act – Highlights for 2020

Paycheck Protection Program Loans

- SBA loans were available for qualifying businesses to be used for eligible payroll, payments on business mortgage interest, rent and utilities.
- These loans are eligible for full forgiveness if the proceeds were spent within the "covered" period and other requirements relating to employee retention and wage reduction are met.
- The IRS has taken the position that while the forgiveness of the PPP loan is not a taxable event, the expenses that were paid for using the PPP proceeds are non-deductible.
- Several weeks ago, the IRS announced that *"if there is a reasonable likelihood of PPP loan forgiveness,"* then the expenses paid for using the loan proceeds are not deductible in the current year, even if the forgiveness of your PPP loan has not been approved by the SBA by yearend.
- *However,* Congress passed legislation overriding the IRS's position on the non-deductibility of expenses so that now qualified expenses paid from the PPP loan proceeds are deductible for 2020!

The Biden Tax Plan – Highlights

The Biden Tax Plan – Highlights

Tax Rates

- Revert the top individual tax rate of 37% for taxable incomes above $400,000 back to the pre-TCJA level of 39.6%.
- For long-term capital gains and qualified dividends, eliminate the favorable 20% rate for taxpayers making more than $1 million annually. This change would effectively tax this type of income at the 39.6% rate.
- Raise the corporate tax rate from 21% to 28%.
- For payroll taxes, keep the social security tax cap at $137,700 (wages or earned income at this level are taxed at 6.2%), but then resume the social security tax on annual earnings over $400,000.

The Biden Tax Plan – Highlights

Itemized Deductions

- Repeal the State and Local Tax (SALT) cap (currently, limited to $10,000 total).
- Restore the Pease Limitation (phase-out of itemized deductions by 3% over a certain threshold) on itemized deductions for taxable incomes over $400,000.
- Limit the value of itemized deductions for individuals earning more than $400,000, at 28%.

The Biden Tax Plan – Highlights

Retirement Plan Contributions

- Currently, there is a deduction for contributions to IRA's, 401(K)s, 406(b)s and other pre-tax accounts against ordinary income.
- Replace the deduction with a new tax credit that would be equal to a percentage of the amount contributed to the pre-tax account.
- Estimates currently are that the percentage will be about 26%, which means that no matter your income level, you will get a 26% credit.
- This lowers the tax burden for anyone with an income tax rate under 26% and increases the tax rate for anyone with a rate over 26%.

The Biden Tax Plan – Highlights

Estate and Gift Tax

- For 2020, the estate and gift tax exemption is $11.58 million per person and transfers over the exempted amounts that are taxed at a rate of 40%.
- President Biden’s tax plan would reduce the estate and gift tax exemption to $3.5 million.
- His plan would also increase the 40% tax rate to 45%.
- Finally, his plan would eliminate the step-up in basis that allows the tax-free transfer at death of capital gains.
- Fortunately, 99.8% of estates pay zero estate tax.

The Biden Tax Plan – Highlights

Miscellaneous Items

- Phase-out the 20% deduction for qualified business income (QBI) for upper-income taxpayers earning above $400,000.
- Increase the maximum child tax credit from $2,000 to $3,000 for children ages 6 to 17 years old, while providing a $600 bonus credit for children under the age of six. The tax credit would be fully refundable.
- Create a $5,000 tax credit allowing family caregivers to defray some of what they spend to assist family members.
- Cancel student loans and not require them to be picked up as income if the loans were enrolled in an income-based repayment plan for 20 years.
- Create an advanceable tax credit of up to $15,000 (upon purchase) for first time home buyers.

Year-End Tax Tips for Businesses

TAXED NOW

TAXED LATER

TAXED NEVER

Defer Income or Accelerate Deductions

More businesses can now use the **Cash Method** of accounting as opposed to the **Accrual Method** of accounting.

Cash Method – Income is recognized when cash is received, expenses are incurred when invoices are paid.

Exceptions:

1. Credit card charges - deemed incurred when the charge is made, even though the payment of the credit card invoice may take place in next period.
2. Prepaid expenses – cannot expense items such as prepaid rent, if the expense is for the next period.

Accrual Method – Income is recognized when earned or expenses can be deducted when incurred, regardless as to when cash is received or paid.

Defer Income or Accelerate Deductions

The definition of a “small business” eligible to use the cash method of accounting has been expanded.

Gross Receipts Test

- **Prior law** – During the 3-year testing period, “average annual gross receipts” cannot exceed $5 million.
- **New law** – During the 3-year testing period, “average annual gross receipts” cannot exceed $25 million.

Planning Opportunity

Cash method businesses may be able to defer income (e.g. by holding off billings until next year), or by accelerating expense (e.g. by paying bills early).

Maximize the 20% QBI Deduction

Qualified Business Income (QBI)

- 20% Deduction on income from pass-through entities **(S Corporations, LLC's, Partnership, Sole Proprietorships)**, subject to many limitations.
- Not C Corporations.
- Deduction only applies to "Qualified Business Income" (QBI).
- For <u>non</u>-service businesses in 2020, if taxable income is under $163,300/$326,600, deduction equals 20% of QBI. If over this threshold, deduction may be reduced (look to other factors).
- For service businesses in 2020, if taxable income is under $163,300/$326,600, deduction equals 20% of QBI. If over this threshold, deduction is reduced until taxable income reaches $213,300/$426,600. At this point, deduction equals zero.
- **Service Business** is defined as being in the field of health, law, accounting, actuarial science, performing arts, consulting, athletics, investment management or any trade or business where the principal asset is the reputation or skill of the employee-owner.

Maximize the 20% QBI Deduction

Qualified Business Income (QBI)

- For non-service businesses only, if taxable income is over $213,300 (single) or $426,600 (married), you need to look at the wage and property factors to determine if there will be a QBI Deduction.
- The QBI Deduction equals the LESSER of:
  - QBI x 20% or,
  - The GREATER of:
    - W-2 Wages x 50%
    - W-2 Wages x 25% + 2.5% of unadjusted basis (UBIA).
- Real estate trades or businesses benefit too.

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Maximize the 20% QBI Deduction

CTM Takeaways:

- If you have a corporation, owners are required to draw “reasonable compensation.”
- The more compensation taken:
  - Payroll taxes increase
  - The potential QBI deduction decreases
- On the other hand, depending on your income level, wages may be needed to facilitate the deduction.
- For tax returns filed in 2018, the Treasury Inspector General identified 900,000 tax returns that didn’t take the QBI Deduction even though it appeared they could.
- Bottom line: **TALK TO YOUR ACCOUNTANT**!

Maximize Depreciation

Section 179 Expensing

- Deduction limit = **$1,040,000** / Investment ceiling = $2,590,000.
- Allowed on new and used property.
- "Qualified Restaurant Property" category is eliminated. Meaning, now only improvements to a restaurant building that meet the definition of "qualified improvement property" qualify for expensing, such as interior improvements on existing buildings.
- Can be used to expense HVACs, roofs, fire protection, alarm & security systems.
- $25,000 limit on heavy SUVs.
- Limited to net income of the business (cannot further increase a loss).
- Excess carried forward indefinitely.

Maximize Depreciation

"Bonus Depreciation"

- Bonus depreciation is a first-year depreciation deduction in most cases now equal to 100% of the asset's purchase price.
- The property can be new or used and must have recovery period of 20 years or less.
- CARES Act: Qualified Improvement Property (QIP) now has a 15-year recovery period instead of 39 years. Amended tax returns for 2018 and 2019 can be filed.
- CAN increase a net loss for an entity - this is a significant difference between Section 179 and bonus depreciation.
- 100% Bonus is allowed through December 31, 2022. Then phases down to:
    - 80% for property placed in service on January 1, 2023 – December 31, 2023
    - 60% for property placed in service on January 1, 2024 – December 31, 2024
    - 40% for property placed in service on January 1, 2025 – December 31, 2025
    - 20% for property placed in service on January 1, 2026 – December 31, 2026

Year-End Tax Tips for Individuals

Harvest Investment Losses to Offset Capital Gains

A **<u>must do</u>** for anybody with an investment portfolio:

- Ascertain whether you have net capital gains or losses for the year.
- Only if it makes investment sense, consider whether you should sell securities or funds with loss positions.
- Keep capital gain distributions in mind. If you have investments in mutual funds – many of these funds generate capital gains in December.

Harvest Investment Losses to Offset Capital Gains

Tax Considerations:

- Must hold a security or fund for at least one year to obtain favorable long-term capital gain treatment.
- Net capital losses can only be deducted up to $3,000 per year. Any excess will be carried forward indefinitely to future years to first fully offset capital gains with another $3,000 deduction available to offset other income.
- Beware of “wash sale” rules. You cannot sell a security or fund at a loss and recognize the loss for tax purposes if you buy that same (or similar) security or fund back within 31 days.

Harvest Investment Losses to Offset Capital Gains

The chart below summarizes the tax rates for long-term capital gains for 2020:

Long-Term Capital Gains Rate	Single Taxpayers	Married Filing Jointly	Head of Household
0%	Up to $40,000	Up to $80,000	Up to $53,600
15%	$40,001-$441,450	$80,001 - $496,600	$53,601-$469,050
20%	Over $441,450	Over $496,600	Over $469,050

Invest in a Qualified Opportunity Fund (QOF)

An **Opportunity Fund** invests in **Opportunity Zones**, which are census tracts (economically-distressed communities) designated by state and federal governments targeted for economic development.

Tax benefits include:

- Allowing investors to defer federal taxes on any recent capital gains until 12/31/26, if certain conditions are met.
- Reduce the tax payment on prior gains by 10% if the QOF investment is held at least 5 years.
- Pay as little as zero taxes on “post-acquisition appreciation” from the Opportunity Fund if the investment is held for 10 years. The investor is eligible for an increase in basis of the QOF investment equal to its FMV on the date that the QOF investment is sold or exchanged.

Shift Income

If your child can work in your business, paying them a fair and reasonable salary can shift income from your tax return (at a higher marginal tax rate) to your child's tax return (at a lower marginal tax rate).

Example – Assume you are in the highest tax bracket in 2020 (37%) and your child works in your business during the summer or after school. Suppose you pay him or her $12,400. What is the tax savings?

- Tax on $12,400 if it remains on your tax return is $4,588.
- Tax on $12,400 on your child's tax return would be zero – the standard deduction for a taxpayer filing as "single" is $12,400.
- Potential tax savings could be as much as $4,588.

Shift Income

Other Considerations

Retirement Plans - If salary is coupled with either an IRA or Roth IRA contribution by your child, tax benefits could be even greater.

Payroll Taxes - If your child is paid out of an unincorporated business (sole-proprietorship, single member LLC or partnership where the only partners are the child's parents), FICA does not have to be withheld.

Intrinsic Value – Having your kids work in your business teaches them entrepreneurship and helps develop a strong work ethic.

Investment Income – Note that interest, dividend and capital gains cannot effectively be shifted to your children. The "Kiddie Tax" may apply if your child (age 17 or younger*) has unearned income greater than $2,200. In this case, the unearned income is taxed at the parents' marginal tax rate.

**Beware of the situation for an 18-year-old or 19 to 23-year-old student that has unearned income that exceeds ½ of his or her support – the "Kidde Tax" may apply in these circumstances.*

Fund Your Health Savings Accounts (HSA)

What is a **Health Savings Account**?

- Custodial account used to pay the cost of health care expenses for the account owner, owner's spouse and dependents.
- Triple Tax Advantage!
  - Contributions *you* make are deductible; regardless of income / don't have to itemize.
  - Income earned within the HSA is tax-free (interest or investment gains).
  - Amounts withdrawn from the HSA are tax free if used to pay for qualified medical expenses.

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Fund Your Health Savings Accounts (HSA)

HSA's and Employment

- "Use it or lose it?" Nope. You can contribute this year and wait to reimburse yourself for medical expenses in a future year.
- Contributions *your employer* makes are excluded from income (provided under annual limits).
- Change jobs and the balance goes with you; even amounts contributed by your employer.

Fund Your Health Savings Accounts (HSA)

Who can contribute and how much?

Eligible Individuals covered by High-Deductible Health Plans:

"Eligible Individuals"

- Covered by a "high-deductible health plan" (HDHP) – determined monthly.
- No other health coverage – minimal exceptions.
- Not enrolled in Medicare / Not claimed as another's dependent.

"High-Deductible Health Plan" - Defined by annual deductibles and maximum out-of-pocket medical expenses*.

- Plans typically feature high deductibles, lower monthly premiums.
- Out-of-pocket expenses include co-payments, other amounts but not premiums.

Fund Your Health Savings Accounts (HSA)

2020 Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans		
	2020	**2021**
HSA Contribution Limits: (employer + employee)	Self-only: $3,550 Family: $7,100	Self-only: $3,600 Family: $7,200
HSA Catch-up Contributions: (Age 55 to Medicare enrolled-typically 65)	$1,000	$1,000
Annual Minimum Deductible:		
Self-only	$1,400	$1,400
Family	$2,800	$2,800
Out-of-pocket expense (maximum):		
Self-only	$6,900	$7,000
Family	$13,800	$14,000
Tax Savings for maximum contribution (37% bracket taxpayer(s)):		
Self-only	$1,314	$1,332
Family	$2,627	$2,664

*HDHP Definition

Deductible contributions are generally determined monthly: for each month eligible, a contribution of 1/12th the annual maximum contribution is allowed.

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Fund Your Health Savings Accounts (HSA)

Important notes:

- Contributions can be made for a tax year until the due date of the return, excluding extensions. (So, 2020 contributions must be made by April 15, 2021.)
- Medical expenses incurred before the HSA is established do not qualify for tax-free reimbursement.
- No earned income requirement.

CTM Takeaway Tip: Make a 100% deductible contribution this year and use the money to pay for current year medical expenses or expenses in future years.   The deduction helps lower income levels for other important tax, retirement or education benefits (QBI, IRA deductibility or Roth funding, even financial aid).

The CARES Act expanded what medical expenses qualify for reimbursement. See *https://www.hsabank.com/~/media/files/eligible_medical_expenses* or *IRS Publication 502*.

Remember the April 15th deadline and know that you can reimburse yourself anytime - your balance stays with you. Use the funds now or in retirement.

Changes for Flexible Spending Accounts (FSA)

- An FSA is a pre-tax benefit account that an employer may offer which allows you to put money away that you can use to pay for certain out-of-pocket health care costs.
- You can contribute up to a maximum of $2,750 for 2020.
- Money not spent by the end of the year (subject to certain grace period rules), is forfeited (the most significant difference between an FSA and an HSA).
- The IRS recently issued Notices which allow “mid-year” election changes during calendar year 2020, only with respect to health insurance, FSAs and dependent care accounts. Increases or decreases to contributions can be made.
- These Notices are intended to provide relief to employees who have suffered a reduction in income or an increase in expenses related to the COVID pandemic.

Maximize Your Retirement Plan Contributions

Review your Retirement Plan Contributions and make sure you're contributing the max!

With fewer companies offering pension plans and the undependable future of Social Security, individuals have to rely their own retirement savings more so now than ever. Participating in an employer's retirement plan, or setting up your own, not only helps secure your financial needs after retirement, but often comes with current year tax savings.

Maximize Your Retirement Plan Contributions

Key facts to know before the options...

First thing's first: You must have taxable, earned income. What is it?

- Salaries (W-2 wages), tips, professional fees, bonuses, net self-employment income (less ½ of S/E tax) from sole-proprietorships and partnerships.

What is **NOT** earned income?

- Everything else.
- Interest income, dividends, capital gains, rents, pension or annuity income, “non-S/E” flow-through income (S Corporations and partnership income NOT subject to S/E tax).

Maximize Your Retirement Plan Contributions

What type of retirement plan is the best option?

- Employees:
  - Employer 401(k)
  - Tax-sheltered annuity plans 403(b) (teachers, ministers, tax exempt organizations)
  - Governmental plans 457(b) (police, fire fighters, etc.)
  - Individual Retirement Account (IRA)
- Self-Employed:
  - Simplified Employee Pension Plan (SEP IRA)
  - Savings Incentive Match Plan for Employees (SIMPLE IRA)
  - Self-Employed 401(k) plan (aka: Solo 401(k))
  - "Traditional" 401(k) plan (better for larger companies given setup costs, administration, fiduciary responsibilities, etc.)

Maximize Your Retirement Plan Contributions

Plan Options for Employees

- Employer-Sponsored Retirement Savings Plans: 401(k)s, 403(b)s, Gov't 457(b)s:
  - "Traditional" 401(k)/403(b)/457(b)s are the commonly offered "at-work" plans with the most important feature being the ability to make pre-tax contributions via payroll deductions.
  - Elective deferrals reduce federal and state taxable income.
- How much can be contributed?
  - Maximum thresholds on combined pre-tax and Roth 401(k) contributions.
  - In 2020, $19,500/$6,500 catch-up if 50 or older - $26,000 total.
  - Can make a Traditional/Roth 401(k) allocation in any form (e.g. $9,500 pre-tax 401(k) and $10,000 Roth 401(k)).
  - **Very common for employers to match up to a % of your salary. Employees should AT A MINIMUM contribute whatever is needed to receive the maximum employer match. Don't leave FREE MONEY on the table!!!**

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Maximize Your Retirement Plan Contributions

Think of it this way:

What’s the true cost of your contributions?

- A “maxed out” $19,500 pre-tax contribution can save a taxpayer in the top bracket (37%) $7,215 in tax!
- That means, the $19,500 contribution really only costs $12,285, and if your employer matches, you get an even better result.

CTM Takeaway Tip: Look at your most recent pay-stub. You probably only have one or two pay cycles left, and if you can put away $19,500 (or $26,000), ask your HR manager if increasing your deferrals is possible and max out!

Maximize Your Retirement Plan Contributions

Traditional IRAs

- For 2020, the maximum contribution for an individual under 50 is **$6,000; $1,000 catch-up** allowed for those over 50.
- Limited to earned income.
- Full deduction if you *and* your spouse are *not* covered by an employer plan at work regardless of income.

Maximize Your Retirement Plan Contributions

Roth IRAs

- Distributions in retirement are tax-free.
- Same contribution amounts as Traditional IRAs.
- No current year deduction.
- Contributions eligibility phased-out in the following way:

Roth IRA Contribution Phase-Out Limits		
Single	**Married/Joint**	**Contribution**
Up to $124,000	Up to $196,000	Full
$124,000-$139,000	$196,000-$206,000	Partial
Over $139,000	Over $206,000	**None**

Maximize Your Retirement Plan Contributions

Other IRA Notes:

- Contribution deadline is April 15, 2021. (The IRA can even be established and funded on this day to qualify as a 2020 contribution.)
- No longer any age limit on IRA contributions.
- Same rule as above with respect to eligibility for Roth IRA contributions.

Maximize Your Retirement Plan Contributions

Plan Options for Employers

Simplified Employee Pension Plan (SEPs)

- Designed for the self-employed and small-business owners with any number of employees.
- Contributions are made by the employer only and are tax deductible.
- 2020 Contribution Limit: $57,000 (catch-up contributions can be made to the IRA(s) that hold the SEP contributions if plan documents allow).
- $57,000 x 37% tax bracket = $21,090 in tax savings!

Caveats:

- Corporate shareholders can contribute 25% of compensation or $57,000, whichever is less. (Compensation of $228,000 will yield the maximum contribution.)
- Sole-proprietors (Schedule Cs), must have net self-employment income (less the deduction for self-employment tax) of $285,000.

Maximize Your Retirement Plan Contributions

Simplified Employee Pension Plan (SEPs)

- Deductible contributions can be made as late as the extended deadline of the return (i.e. 2020 contributions can be made as late as 9/15/2020 or 10/15/2020, depending on the type of business entity and its extended filing date).
- Potential disadvantage, employer must fund employee contributions at same % of salary as owner (non-discriminatory).

CTM Takeaway Tip: Plan establishment (and contributions) can be made up to the employer's tax return due date (including extensions). For 2020 calendar year, S-Corp shareholders & partners in partnerships, this is September 15, 2021. For calendar year 2020, C-Corp shareholders and sole proprietors, this is October 15, 2021.

Donate Highly Appreciated Securities to Charity

The benefits of gifting appreciated stock:

- Capital gains taxes are avoided since there is no sale. Beneficial to selling the stock and donating the after-tax proceeds.
- If stock is held for more than 1yr, charitable deduction is equal to the full fair-market-value of the stock at the date of gift. (Deduction for stock held less than one year is limited to cost basis.)
- Charitable deduction limited to 30% of Adjusted Gross Income (AGI) (*e.g.*, if AGI is $100,000, up to $30,000 of appreciated stock can generally be deducted.)
- Unused and limited deduction can be carried forward for five years.

Donate Highly Appreciated Securities to Charity

Other notes on appreciated stock donations:

- If the stock has lost value, it is better to sell it and give the cash. Deduction still available if you itemize, but so is the capital loss.
- It's a good idea to ask the charity and your brokerage firm about the procedure and time frame for giving stock.

  A letter of instruction or letter of authorization to transfer the shares to a charity is typically required, and mutual fund companies also have special forms.
- If the end of the year is approaching, start the process ASAP (preferably) a few weeks before December 31, so the transfer has plenty of time to be completed during the holidays.

“Bunch” Charitable Deductions

The *Tax Cuts and Jobs Act* changed itemized deductions in two major ways:

1. It installed a $10,000 limit on deductible state and local taxes (SALT); and
2. It raised the standard deduction significantly to $12,400 for Single Filers, $24,800 for those Married Filing Joint.

As a result, more taxpayers will find that their itemized deductions do not exceed these new thresholds.

Bunching charitable donations is a way to get over the new and higher hurdle of the standard deduction.

“Bunch” Charitable Deductions

How does bunching work?

Let’s take a look at an example:

Married taxpayers have $16,000 in combined state income tax and local real estate taxes, $3,000 of home mortgage interest, & would like to donate $18,000 to charity over the next two years ($9,000 in Year 1 and another $9,000 in Year 2).

They do, however, have the funds to donate all $18,000 now in Year 1.

Rather than making the donations in separate years (perhaps as little as only months apart), what happens when the taxpayers bunch the two donations in Year 1?

“Bunch” Charitable Deductions

	No Bunching, $9,000 Donation in Each Year		Bunching, $18,000 Donations in Year 1, $0 in Year 2	
	Year 1	Year 2	Year 1	Year 2
State and Local Income Taxes $16,000, limited to:	$ 10,000	$ 10,000	10,000	10,000
Mortgage Interest	3,000	3,000	3,000	3,000
Charity	9,000	9,000	18,000	-
Total Itemized Deductions	$ 22,000	$ 22,000	$ 31,000	$ 13,000
Deduction = GREATER of total itemized deductions or $24,800	**$ 24,800**	**$ 24,800**	**$ 31,000**	**$ 24,800**

Had the taxpayers not bunched, the standard deduction of $24,800 would have been greater than their total itemized deductions in both Years 1 & 2. Essentially making the charitable deduction irrelevant for tax purposes.

Combining the two donations to bring the total to $18,000 gets the taxpayers over the standard deduction threshold of $24,800, providing them with a larger itemized deduction total of $31,000 in Year 1. In Year 2, the standard deduction of $24,800 is available. They are not stuck with a deduction of $13,000 (the total of their itemized deductions).

Year-End Tax Tips for Estates & Gifts

Make an Annual Exclusion Gift

In 2020, anyone can gift up to **$15,000** to as many individuals (i.e., kids, grandkids, spouses) as they wish. Gifts at this level or below qualify for the annual gift tax exclusion.

- If gifts to the same person exceed $15,000, a gift tax return is required to be filed and tax could be due.
- The gift tax rates range from 18% up to 40%.
- The **donor** is responsible for paying gift tax, not the recipient.
- Most taxpayers won't ever pay gift tax because of the $11,580,000 Lifetime Gift Tax Exemption.
- The gift tax exemption is intertwined with the estate tax exemption. The estate tax exemption is also $11,580,000. You can only exempt your estate up to the amount of your remaining lifetime gift tax exemption.

Make an Annual Exclusion Gift

What payments are exempt from gift tax?

- Payments or transfers to a spouse who is a U.S. citizen qualify for the unlimited marital deduction.
- Payments made directly to educational institutions for the tuition of an individual.
- Payments made directly to an institution that provides medical care to an individual or to a company which provides medical insurance to an individual.

Make an Annual Exclusion Gift

Planning Opportunities – What are they?

- **Gift split**. If you are married, you and your spouse can make a total gift of $30,000 to a recipient by making an election on your gift tax return.
- Take advantage of the end of the year/beginning of the year planning opportunity. You and your spouse can gift split on 12/31/20 and on 1/1/21 and give away $60,000 to each recipient by using your annual gift tax exclusions.
- **Frontload a 529 plan**. You can put in up to 5 years of annual exclusion gifts ($75,000) into a college savings plan.

Thank You

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