2020

8 Year-End Tax Planning Reminders

INVESTMENTS • TAX PLANNING • RETIREMENT PLANNING • ESTATE PLANNING

Introduction

With year-end fast approaching, now is the time to review your tax situation and begin taking action on ways that may help you optimize tax-saving opportunities. Planning now may be more important than ever as we face the possibility of additional changes in the tax code in the future. For 2020, relief provided by Congress in response to the financial challenges brought on by COVID-19 may provide you with additional tax planning opportunities.

Here are some key tax law changes and year-end tax planning strategies to keep in mind:

Required Minimum Distribution (RMD) Age Increased from 70½ to 72

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) became law on December 20, 2019. The Act increases the age from 70½ to 72 for retirement account owners to start taking RMDs. If you reach age 70½ in 2020 or later you must take your first RMD by April 1 of the year after you reach 72. However, if you reached the age of 70½ in 2019, the old rule applies.

Age Restriction Eliminated on IRA Contributions

The SECURE Act eliminated the age restriction for traditional IRA contributions for tax years beginning in 2020, provided the individual has earned income. Previously, individuals could not make deductible contributions to their account in the tax year in which they reached age 70½ or in later years. However, post 70½ deductible contributions may limit the amount of Qualified Charitable Distributions (QCD) a traditional IRA account holder can make.

Contribute to Retirement Plans

For employees under age 50 who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan, the contribution limit for 2020 is $19,500. For employees age 50 and over the limit is increased by an additional $6,500 ($26,000 total). For individual contributions to an IRA or Roth IRA, the annual contribution limit for 2020 remains unchanged at $6,000 for those under age 50 with an additional catch-up contribution of $1,000 for individuals age 50 and over ($7,000 total).

No Required Minimum Distribution (RMD) from an IRA in 2020

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) signed into law on March 27, 2020 waived required minimum distributions during 2020 for IRAs, inherited IRAs, inherited Roth IRAs, company retirement plans, and plan beneficiaries. (Roth IRAs do not require withdrawals until after the death of the owner.) However, for some individuals, it may make sense to still take distributions by December 31, 2020, if they believe that their tax bracket may be lower this year than in future years.

$300 "Above-the-Line" Deduction for Charitable Cash Contributions

As a result of the increased standard deduction under the Tax Cuts and Jobs Act that took effect in 2018, many taxpayers no longer claim itemized deductions, which means that, typically, there is no tax benefit for giving to charities. However, the CARES Act created an above-the-line deduction of up to $300 for cash contributions from taxpayers who do not itemize for tax years beginning in 2020.

60% Limit on Charitable Cash Contributions Deduction Suspended for 2020

Prior to passage of the CARES Act, taxpayers who itemized deductions on Schedule A of Form 1040 were limited to 60% of adjusted gross income for charitable deductions. For 2020 only, cash contributions to qualified charities are fully tax deductible up to the donor's adjusted gross income. This may provide planning opportunities for donors who itemize deductions to consider bunching several years' worth of donations into a single year to take advantage of this higher deduction threshold.

Charitable Gifts from an IRA

After reaching age 70½, individuals may make a Qualified Charitable Distribution of up to $100,000 per year from their IRA directly to a public charity (other than a donor-advised fund). This is true even in 2020 when required minimum distributions have been waived. Since the QCD generally is not included in adjusted gross income, even taxpayers who do not itemize may benefit.

Tax-loss Harvesting

Tax-loss harvesting involves selling securities that will generate a loss to offset capital gains realized from selling securities at a profit, and to offset up to $3,000 ($1,500 if married filing separately) in non-investment income. Any excess losses can be carried forward into future years.

These are just some of the tax changes and year-end planning opportunities that could potentially benefit you. If you have questions or want to discuss which strategies may be right for your circumstances, contact us at (715) 514-4032.

Material discussed is meant to provide general information and it is not to be construed as specific investment, tax, or legal advice. Please seek such advice from your own tax and legal counsel.

2020

It's Time to Update Your Financial Perspective.

Initial meetings are always free.

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