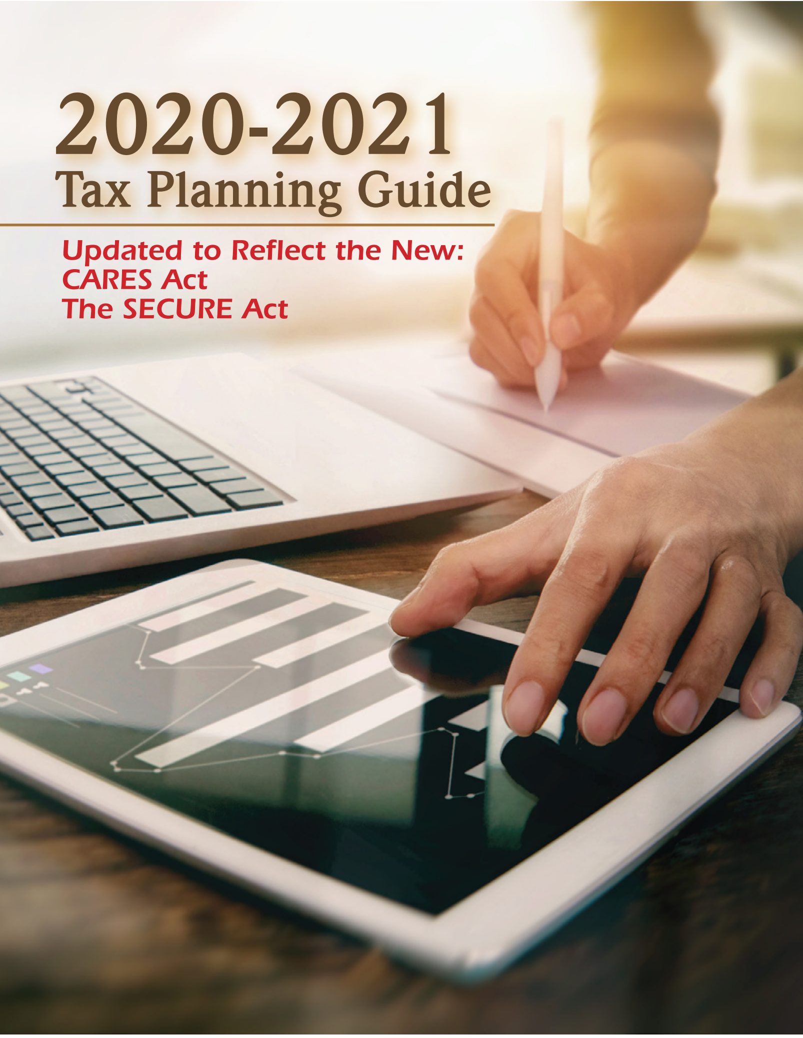

2020-2021
Tax Planning Guide

Updated to Reflect the New:
CARES Act
The SECURE Act

Your Year-End
Tax Planning Guide

Almost every American and business has been affected by the Coronavirus pandemic. In addition, every working individual will be affected, long-term, by the new SECURE Act (Setting Every Community up for Retirement Enhancement).

The SECURE Act, among its many changes; expands access to annuities in retirement plans, increases the age for Required Minimum Distributions (RMDs), and eliminates the age cap to contribute to a traditional Individual Retirement Account (IRA).

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. It is a significant federal bill that provides major economic stimulus to small businesses deemed hardest-hit by the Coronavirus epidemic.

Many small businesses have been fortunate enough to receive PPP (Paycheck Protection Program) Loans. The almost immediate legislative changes in the PPP legislation will have varying effects on businesses. There is no one size fits all tax strategy. As a follow-up to the PPP legislation, Congress passed the Payroll Protection Flexibility Act (PPFA). The PPFA mitigates the restrictions originally imposed by the PPP.

This year's Tax Planning Guide has been updated to reflect the most significant changes in the law and how those rule changes will effect individuals and businesses. Be sure to consult us for more information.

CPA PARTNERS
Certified Public Accountants & Business Consultants

8200 - 113th Street, Suite 103
Seminole, Florida 33772
727.398.2080 Fax.727.398.5560
www.cpapartnersllc.com
info@cpapartnersllc.com

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www.taxguideonline.com/cpapartnersllc

TAX GUIDE ONLINE

Tax Climate - Recap

Going back 3 years the Tax Cuts and Jobs Act (TCJA), was the most significant set of changes to the U.S. tax code in 30 years, 2019 was a relatively *stable* year for tax changes. The large majority of the TCJA changes went into effect for the 2018 tax year (for returns filed in the spring of 2019). Remember that the TCJA legislation cut the top corporate tax rate to 21%, lowered the top marginal rate for individual tax payers to 37%, eliminated or scaled back several deductions, reduced taxes on business income earned by pass-through businesses, doubled the estate tax exemption, and enhanced immediate expensing of capital investments. Apart from these changes introduced in 2018, here are some 2020 highlights:

There continue to be seven tax brackets in 2020, (a change from five was made in 2018). For individuals the top tax rate of 37% applies to those with taxable income of $518,400 in 2020, up from $510,301 in 2019, and $622,050 in 2020, up from $612,351 in 2019. Standard deduction for heads of household will increase $300 to $18,650 in 2020. Estates will have an exemption of $11,580,000 in 2020, up $180,000 from 2019.

Starting in 2019, the Affordable Care Act (ACA) individual mandate was repealed. Many Americans are happy that there will no longer be a penalty payment on individual taxpayers who do not have health insurance.

In 2020, the maximum amount workers can contribute to their 401(k) rose $500 from 2019. The amount is $19,500 ($26,000 for workers over age 50 in 2020). IRA amounts rose $500 to $6,500 ($7,500 for those over age 50).

Given the changing nature of tax law and the complexity of our tax rules, planning is essential. We can help keep you informed of legislative action that may affect your tax situation and develop tax-efficient strategies for you.

Individuals and Families

Here are the tax rates and income brackets for 2020:

2020 INDIVIDUAL INCOME TAX RATES*

Regular Tax — Married, Filing Jointly or Surviving Spouse

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 19,750	.... 10%	$ 0
$ 19,751 – $ 80,250	$ 1,975 + 12%	$ 19,750
$ 80,251 – $ 171,050	$ 9,235 + 22%	$ 80,250
$ 171,051 – $ 326,600	$ 29,211 + 24%	$ 171,050
$ 326,601 – $ 414,700	$ 66,543 + 32%	$ 326,600
$ 414,701 – $ 622,050	$ 94,735 + 35%	$ 414,700
$ 622,051 and above	$ 167,308 + 37%	$ 622,050

Married, Filing Separately

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 9,875	.... 10%	$ 0
$ 9,876 – $ 40,125	$ 988 + 12%	$ 9,875
$ 40,126 – $ 85,525	$ 4,618 + 22%	$ 40,125
$ 85,526 – $ 163,300	$ 14,606 + 24%	$ 85,525
$ 163,301 – $ 207,350	$ 33,272 + 32%	$ 163,300
$ 207,351 – $ 311,025	$ 47,368 + 35%	$ 207,350
$ 311,026 and above	$ 83,654 + 37%	$ 311,025

Single

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 9,875	.... 10%	$ 0
$ 9,876 – $ 40,125	$ 988 + 12%	$ 9,875
$ 40,126 – $ 85,525	$ 4,618 + 22%	$ 40,125
$ 85,526 – $ 163,300	$ 14,606 + 24%	$ 85,525
$ 163,301 – $ 207,350	$ 33,272 + 32%	$ 163,300
$ 207,351 – $ 518,400	$ 47,368 + 35%	$ 207,350
$ 518,401 and above	$ 156,235 + 37%	$ 518,400

Head of Household

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 14,100	.... 10%	$ 0
$ 14,101 – $ 53,700	$ 1,410 + 12%	$ 14,100
$ 53,701 – $ 85,500	$ 6,162 + 22%	$ 53,700
$ 85,501 – $ 163,300	$ 13,158 + 24%	$ 85,500
$ 163,301 – $ 207,350	$ 31,830 + 32%	$ 163,300
$ 207,351 – $ 518,400	$ 45,926 + 35%	$ 207,350
$ 518,401 and above	$ 154,794 + 37%	$ 518,400

2020 Qualified Dividend Income 15%* (0% for lower tax brackets)

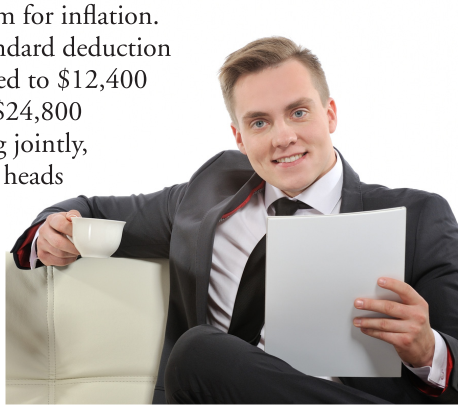
*Individuals in the top tax bracket will pay 23.8% (20% plus a 3.8% Medicare surtax).

Note: Tax amounts have been rounded up to nearest dollar.

GETTING STARTED

The trick to effective tax planning is taking advantage of the tax breaks that fit your particular situation. In order to maximize your savings and minimize your taxes, start by planning for both the short and long term. Here are some tips for making the most of your opportunities:

Changes to Exemptions — In 2018, the Tax Cuts and Jobs Act eliminated the deduction for personal and dependent exemptions. The new tax law almost doubled the previous standard deduction amounts and indexed them for inflation. In 2020, the standard deduction amounts increased to $12,400 for individuals, $24,800 for married filing jointly, and $18,650 for heads of households. These changes expire at the end of 2025 unless Congress takes further action.



Plan around the Kiddie Tax — The Kiddie Tax was introduced years ago as a disincentive to parents and grandparents in high tax brackets to avoid taxes by shifting investments to children in lower tax brackets. The Kiddie Tax went through changes as part of the Tax Cuts and Jobs Act of 2017 and has recently changed again as part of the SECURE Act passed in December 2019. Under the SECURE Act, some of the provisions were shifted back to pre-2017 law. Currently, unearned income over $2,200 for children under age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students) is taxed at the parents' marginal tax rate, not the rates that apply to trusts and estates as it did in 2018 unless you file an amended return for that year. For 2019 filings, taxpayers will choose which rate approach to use depending on their situation. The rates in 2020 are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

Original law applied the kiddie tax to children under age 14. This permitted children 14 and older to file their own returns, allowing their taxable investment income, such as dividends and interest, to be taxed at rates most likely lower than their parents' top rates.

There are steps you can take to plan around the kiddie tax. Consider shifting your children's investments to tax-free securities, low-dividend growth stocks, or low-turnover mutual funds. A trust may also be an option. Be sure to consult your legal professional for specific guidance.

Medical Expenses — In general medical expenses exceeding 10%-of-AGI are deductible.

Health Insurance — From 2014-2018, all uninsured U.S. citizens and legal residents were required to obtain health care coverage or pay a tax penalty. However, starting in 2019, with the passing of the Tax Cuts and Jobs Act in December 2017, the individual mandate that required all Americans under 65 to have health insurance or pay an annual penalty, is repealed. As previously noted, Americans without health coverage in 2019 and beyond will not be subject to a Federal tax penalty.

To help raise revenue, a Hospital Insurance tax rate or Additional Medicare Tax of 0.9% will be assessed on earned income in excess of $200,000 for individuals and $250,000 for married couples filing jointly, as well as a 3.8% Unearned Income Medicare Contributions Surtax on the lesser of net investment income or the excess of modified adjusted gross income (MAGI) over the same threshold amounts. Some trusts and estates will also be liable to pay this 3.8% tax. For tax years beginning after December 31, 2021, a 40% nondeductible excise tax will be imposed on high-cost, or "Cadillac," health insurance plans.

TAX CREDITS & DEDUCTIONS

Take advantage of every tax credit and deduction available to you. Credits, in particular, are valuable because they provide a dollar-for-dollar reduction of your tax bill.

Child Tax Credit — One of the most popular credits is the child tax credit, which is worth up to $2,000 for each qualifying child under the age of 17 and up to $1,400 can be refundable. However, income limits apply; phase-outs start at $200,000 for single filers and $400,000 for joint filers. Other family-related tax credits include the adoption credit, the dependent care credit, and education credits.

ITEMIZED DEDUCTIONS

Under the recent tax law, the Tax Cuts and Jobs Act of 2017, the standard deduction nearly doubled for taxpayers and many itemized deductions previously offered were cut, making itemizing less likely for large numbers of Americans. In 2020, the standard deduction amounts increased to $12,400 for individuals, $24,800 for married filing jointly, and $18,650 for heads of households. To lower current tax bills, many taxpayers may benefit from deferring income and accelerating deductions, when possible. Let's take a look at some tax-saving deduction ideas.

Bunch Deductions — Try "bunching" your expenses to ensure that you exceed the deduction "floor." Bunching two years' worth of expenses into one year enables you to increase your total deductions over the two-year period and avoid losing the tax benefit from your deductions. However, remember that the AMT may apply if you have numerous deductions.

Pay Estimated State Tax Early — You can gain a larger Federal deduction in 2020 if you pay your state 4th quarter estimated tax payment by December 31 and the AMT does not apply. If you are subject to the AMT, early payment will not be of benefit.

Donate Appreciated Property — If you donate appreciated capital gain property to charity, your deduction amount is generally equivalent to the value of the property, rather than its cost if the organization uses the property to further its exempt purpose. You are never taxed on the amount of appreciation. For most property donations, an annual deduction limit of 30% of AGI applies. (The deduction for charitable contributions is limited to 60% of your AGI.)

It is important to note that, for all charitable donations, you must obtain a bank record or *written* acknowledgment from the recipient charity that specifies the amount and date of contribution, as well as the name of the charity. For property, the acknowledgment must describe the gift and indicate an estimated valuation. Be aware that special rules may apply if you donate an automobile to charity. You'll need an appraisal if you claim a deduction of more than $500 for items not in good condition or $5,000 for items in good or better condition.

Casualty Losses — The floor for casualty losses on personal assets in regions not declared disaster areas is repealed under the Tax Cuts and Jobs Act of 2017 (prior law floor was $100 and the balance above $100 was deductible to the extent it exceeded 10% of AGI). For tax years 2018 through 2025, the personal casualty and theft loss deduction is only available for casualty losses incurred in a Federally declared disaster. If a taxpayer suffers a casualty loss under the new law, they will be able to claim an itemized deduction, subject to the $100 floor per casualty and 10% of AGI. Gain on insurance proceeds for personal property lost in a declared disaster is not taxed. You can take a 2020 declared-disaster loss on your 2020 or (amended) 2019 return. Your advisor can help you determine which year is better for you.

Insurance reimbursements for living expenses are taxable to the extent they exceed actual expenses in the year the owner receives the funds or moves back into the house, whichever is later.

Compensation — Severance pay is fully taxable and severance paid to employees laid off as part of a reduction in workforce is subject to payroll taxes. Outplacement services are no longer a tax-free benefit under the Tax Cuts and Jobs Act of 2017 because miscellaneous deductions which exceed 2% of your AGI are eliminated from 2018-2025, and this includes job search expenses. State unemployment benefits continue to be taxable. You can convert compensation to a tax-advantaged form, such as no-extra-cost-to-the-employer services, working condition fringe benefits, employee discounts, or de minimus fringe benefits. Some types of noncash compensation are taxable—e.g., employer provided automobile for personal use or employer aid for education not directly job-related or job-required. Also, stock options: the difference between the stock's fair market value and the option price is "income" when the option is exercised, but a special rule delays the tax on incentive stock options (ISOs) until the stock is sold or exchanged.

Investment Interest Expenses — If you have capital gains or dividend income, you may want to calculate the breakeven point to optimize both the lower capital gain and dividend tax rates. Under the tax law changes of 2017, you can no longer deduct ordinary and necessary investment expenses as miscellaneous itemized deductions subject to the 2% floor. However, if you borrowed money to purchase taxable investments, you may still be able to use the interest expense from the loans to reduce your investment income and up to $3,000 of capital losses can be used to offset ordinary income

Understand the Tax Aspects of Divorce —

- Under the tax law changes of 2017, many taxpayers lose the benefit of deducting legal fees for divorce as itemized deductions due to new limitations.
- The Tax Cuts and Jobs Act of 2017 eliminated deductions for alimony payments required by divorce agreements executed after December 31, 2018. Recipients of affected alimony payments will no longer have to include them in taxable income.
- During property settlement negotiations, consider the potential tax liability associated with an asset. Two assets may have the same current value but very different tax costs. If you sell property with a low tax basis, tax on the gain may reduce the available proceeds. Remember that assets are not necessarily equal" for tax purposes, even if they have the same value.

Claim All Available Home-Related Deductions —

- Under the Tax Cuts and Jobs Act of 2017, from 2018 through 2025, miscellaneous "itemized" deductions subject to the 2% floor for employees of companies who work from home are suspended. Taxpayers will not be able to deduct home office expenses during this period. If you are self-employed, you can still make the deductions against your income if you meet certain requirements.

- You may be able to deduct interest on a loan for a second home, provided your primary and secondary mortgages total less than $750,000. The Tax Cuts and Jobs Act of 2017 suspends from 2018 through 2025 the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan.

- If you rent out a second home, you must use it personally for more than 14 days, or more than 10% of the rental days (whichever is greater), for it to qualify as a personal residence. In addition to mortgage interest, you may be able to deduct property taxes and prorated monthly portions of your points paid over the life of the loan. If your second home qualifies as a personal residence and you rent the home out for more than 14 days a year, you can also deduct the appropriate portion of upkeep, insurance, utility, and similar costs against rental income.

BEWARE OF THE AMT

The alternative minimum tax (AMT) was originally created to prevent people with high incomes from paying little or no tax. Think of it as a separate tax system with its own set of rates and rules for deductions that tend to be less generous than the regular tax rules. If you have numerous exemptions and deductions, you may be subject to the AMT.

Under the Tax Cuts and Jobs Act of 2017, the AMT was retained with some modifications through 2025. Some itemized deductions are still allowed under the AMT, including mortgage interest deductions, medical expense deductions, and charitable contribution deductions.

Under the AMT, individuals are taxed at rates of 26% and 28% on the amount of taxable income above the exemption amounts. In 2020, the exemption amounts are $72,900 for single filers, $113,400 for married couples filing jointly, and $56,700 for married couples filing separately. The phase-out thresholds are raised to $1,036,800 million for joint filers and $518,400 for other filers. The exemption and threshold amounts are indexed to inflation. If you think you may be subject to the AMT, it is important to take steps now to reduce expenses and plan ahead for next year's tax return.

Tax Saving Strategies

FOR FAMILIES AND INDIVIDUALS

- Lower your taxable income by shifting income to other family members.
- Consider your plans for the near future. How could marriage, divorce, a new child, retirement, or other events affect your year-end tax planning?
- Take maximum advantage of your employer's Section 125 cafeteria plan, 401(k) plan, health savings account (HSA), and health reimbursement arrangement (HRA).
- Determine which type of IRA is best for you. Make your contribution before the due date of your tax return to obtain a current year deduction.
- Be mindful of distributions from your IRAs. Before age 59½, withdrawals are generally penalized. At age 72 in 2020, you are required to withdraw certain minimum amounts. Your withdrawal amount is generally based on your projected life expectancy and your IRA balance.

Education Strategies

Favorable tax breaks can help you optimize your education savings. However, some benefits cannot be combined. Let's explore your options.

Coverdell Education Savings Accounts (ESAs) — ESAs continue to provide a helping hand to those saving for education. Each year, you can contribute up to $2,000 to an ESA. Earnings grow tax deferred, and the funds can be used tax free for elementary and secondary education expenses, as well as for higher education costs. Contributions phase out for joint filers with AGIs between $190,000 and $220,000, and for single filers with AGIs between $95,000 and $110,000. Age restrictions apply. Contributions can be made for a beneficiary age 18 or younger, and distributions must be taken by age 30. These limits may be waived for students with special needs. Furthermore, ESA contributions for the current tax year can be made as late as the April filing deadline in the following year.

Education Credits — If you are currently paying higher education expenses, two Federal tax credits may help lessen your tax bill: the American Opportunity Tax Credit (formerly known as the Hope Scholarship Credit) and the Lifetime Learning Credit. For the American Opportunity Tax Credit, the maximum credit amount is $2,500 for 2020. The credit is available for all four years of college and can be used to cover the cost of course materials. Income phase-out levels for the credit begin at $160,000 of modified AGI for joint filers and $80,000 of modified AGI for single filers in 2020. In addition, 40% of the credit is refundable up to $1,000. The Lifetime Learning Credit, which applies to undergraduate study, as well as graduate and professional education, could be worth up to $2,000. For 2020, eligibility begins phasing out for joint filers with modified AGI of $118,000 ($59,000 for single filers). If a student qualifies for both credits in the same year, you may claim either credit, but not both.

Other Education Related Tax Benefits —

- Student Loan Interest Deduction–up to $2,500. This is an "above-the-line" deduction. Phaseout begins: Single $70,000; Married Filing Jointly $140,000.
- Employer Tuition Assistance–up to $5,250 excluded from income.

529 Plans — These qualified tuition programs, offered as prepaid tuition plans or college savings plans, are valuable tools to help you finance your child's education. The Tax Cuts and Jobs Act of 2017 expanded the types of expenses a 529 plan can be used to pay. In 2020, up to $10,000 per year can be used for qualified K-12 elementary and secondary school tuition for public, private, and religious school can be paid for out of a 529. Taxpayers can also rollover amounts from 529 plans into ABLE accounts. Under the Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed into law December 2019, up to $10,000 can be used to pay the account beneficiary's student loans and another $10,000 can be used to repay student loans held by their siblings. The law also allows 529 funds to be used for apprenticeships that are registered with the Federal Labor Department. Prepaid tuition programs allow you to lock in today's tuition rates at participating private and public colleges and universities. College savings plans, on the other hand, offer a variety of investment options, and funds can be used to pay for tuition and other qualified higher education expenses at most colleges and universities.

2020 Saving for Higher Education

	Coverdell Education Savings Accounts	Prepaid Tuition Plans	College Savings Plans
What is the annual contribution limit?	$2,000	Varies by plan	Varies by plan
Are there income limits?	Yes	No	No
Are K-12 expenses qualified?	Yes	Yes	Yes
Are qualified distributions tax free?	Yes	Yes	Yes
Eligible for use with tax credits?	Yes	Yes	Yes
Are there age restrictions?	Yes	No	No

While state tax benefits for 529 plans vary by state, all 529 plans offer Federal tax benefits: Earnings grow on a tax-deferred basis, and withdrawals to pay for qualified education expenses are tax free.

Contributions to a 529 plan on behalf of a beneficiary are considered gifts for gift tax purposes, and you may give up to $15,000 tax free in 2020 ($30,000 for joint filers). Furthermore, a special gift tax rule allows you to make a tax-free, lump-sum contribution to a 529 plan of up to $75,000 in 2020 ($150,000 for joint filers); however, you will be unable to make tax-free gifts on behalf of the same beneficiary for five years.

Financial Aid — Most colleges use Federal guidelines to determine the need-based aid for which your child may be eligible. (Criteria for colleges that use their own formulas may vary from what is discussed here.) Several factors determine the amount of the aid: the "cost of attendance" for the college in question; the money provided from outside sources (such as scholarships or tuition paid directly by a relative); and the "expected family contribution" (EFC). The information you provide each year on the Free Application for Federal Student Aid (FAFSA) is used to calculate your EFC. The college then uses that figure to calculate the amount of Federal student aid you are eligible to receive through loans, grants, and/or work-study programs. If you have a child going to college in 2020-2021, the aid assessment will be based on your 2019 return.

Investment Planning

Proper planning can help you time your transactions and make tax-efficient investing decisions. In December 2017, the Tax Cuts and Jobs Act changed the brackets for long-term capital gains and dividends. From 2018-2025, the rates have their own brackets which are no longer tied to the ordinary income brackets. Below are the 2020 brackets for long-term capital gains and dividends:

2020 Long-Term Capital Gains and Income Brackets

Tax Bracket	Single	Joint	Head of Household
0%	$0–$40,000	$0–$80,000	$0–$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

CAPITAL GAINS & LOSSES

Gains on assets held longer than a year are treated as long-term capital gains, subject to a 20% maximum rate.

Higher-income taxpayers will pay a 3.8% Medicare surcharge on net investment income if income threshold amounts exceed $200,000 for single filers or $250,000 for joint filers. Thus, the top tax rate for these higher-income taxpayers is 23.8% for long-term capital gains and 40.8% for short-term capital gains.

It is important to keep in mind that capital gains attributable to depreciation from real estate held longer than 12 months are taxed at 25%, and the gain on collectibles and certain small business stock is taxed at 28%. In addition, short-term gains on assets held one year or less are subject to tax at regular income tax rates.

Capital losses you incur this year offset your gains and up to $3,000 of other income. Net losses greater than $3,000 can be carried over to defray capital gains or other income in later years. To limit the tax on your capital gains, plan and correctly "net" (i.e., offset) your long- and short-term gains and losses. First net your short-term losses and gains then apply any excess loss against your net long-term capital gain. If you have a net long-term capital loss, you can apply it (and losses carried forward from earlier years) against any net short-term capital gain.

Try to plan your sales to take full advantage of these offsets, without letting tax considerations dominate your investment moves.

Gain on Home Sales — Married couples filing jointly can exclude up to $500,000 ($250,000 for single filers) of gain when they sell their home. The home must have been the principal residence for at least two of the last five years.

Homeowners who do not meet this requirement can still receive a portion of the exclusion based on how long they lived in the home, as long as the sale is due to a change in place of employment or in health, or because of unforeseen circumstances.

For example, if a couple lives in a home for only one year and then sells it due to unforeseen circumstances for an $80,000 profit, they may claim an exclusion of up to 50% of the $500,000 (because they lived in the home for 50% of the two years required). Thus, they can exclude every penny of their $80,000 gain.

If you have used part of your home for business, such as a home office and are self-employed, gain on the business portion is also eligible for the exclusion. However, depreciation taken since May 6, 1997 is still considered ordinary income. The exclusion can be used once every two years and at any age.

INVESTMENT PLANNING

Timing Is Everything — When it comes to investing, timing is everything. Not only do you need to be concerned about an investment's price when you sell, but you also need to assess selling from a tax perspective.

- Unless you are holding a volatile stock and risk substantial loss, consider holding your investments for at least a year and one day. Even if a stock price drops slightly, you may cut your taxes on the profit by more than half if you wait.
- If you cashed in significant gains during the year, review your portfolio for unrealized losses. Sell off any stock not likely to rebound and use the losses to offset your gains. If you end up with more losses than gains, you may use $3,000 against ordinary income and carry remaining losses over to next year.
- Reviewing gains and losses before the end of the year helps you determine if you have paid enough estimated taxes to cover any gains. A year-end review can also help you plan for the AMT, as large capital gains can trigger AMT liability.
- When selling off shares of stock purchased at different prices and at different times, inform your broker beforehand that you wish to sell the shares with the highest basis. This can minimize taxable gain or maximize deductible loss.

- An investment that increases in value while paying no income to you is not taxed until sold. By timing that sale carefully, you can enhance your tax and financial position. For instance, you can wait to sell until a year in which your tax rate is low. Or, you can give the investment to a child who is older than 19 (or 24 for full-time students) and will be taxed at a lower rate. (Be sure to consider any potential gift tax implications.)
- Mutual funds often make capital gain distributions in November or December. If you buy into a fund before the distribution date, you can be taxed on distributed gains even though they have already been reflected in your purchase price for the shares. Consider waiting until January to buy into the fund.
- Although you cannot control the timing of sales in a mutual fund, look for mutual funds that consider certain tax-saving strategies. Some funds trade actively, while others employ tax-efficient buy-and-hold strategies.
- If you may be subject to the AMT this year, avoid investing in tax-exempt bonds that generate interest income subject to the AMT.

Tax Saving Strategies

FOR INVESTMENT PLANNING

- The Tax Cuts and Jobs Act of 2017 retains section 1031 for real estate exchanges, but may no longer be used to defer taxes for transactions involving personal property. Consider a like-kind exchange to defer gain on the sale of business or investment property. However, do not exchange loss property. Instead, sell the old property outright, deduct the loss, and then purchase the replacement property. Also, before doing a like-kind exchange, analyze whether the benefits of deferral are outweighed by the currently low capital gains rate.
- Plan around the expanded “kiddie tax.” Children’s unearned income over $2,200 may be taxed at the parents’ generally higher marginal rate until the children reach age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students). Under the original law, the kiddie tax only applied to children under age 14.
- To avoid being taxed twice, count reinvested dividends as part of your tax basis when you sell stock.
- AMT planning is critical if you have incentive stock options (ISOs). Exercising an ISO creates an AMT adjustment, often with no corresponding cash with which to pay any resulting AMT. Selling stock to generate cash may not solve the problem if the stock has dropped in value or is sold prior to having met ISO time requirements.
- Consider your investment mix in light of the tax rates for qualifying dividends.

Business Tax Planning

As your business grows or your personal situation changes, the business structure in which you operate may need to change, as well. Keep in mind that this decision can impact your personal liability, as well as the amount of tax you and your company will pay. Let's compare the different business structures.

Choosing a Business Structure — How Do They Compare?

	C Corporations	S Corporations	LLCs* and LLPs	General Partnerships	Sole Proprietorships
Liability of owners	Limited, even if shareholders participate in management	Limited, even if shareholders participate in management	Limited, even if members/partners participate in management	Unlimited for general partners; limited for limited partners who do not participate in management	Unlimited
Number of owners	No maximum	100 maximum	No maximum, usually a minimum of two**	No maximum, requires a minimum of two	One
Profit/loss and distributions	Special allocations permitted for separate classes of stock	No special allocations permitted	Special allocations permitted	Special allocations permitted	N/A
Transferability of interests	No restriction	No restriction, but must be to eligible shareholder or "S" status terminates	Restricted, typically requires approval of majority of members	Generally restricted unless authorized by agreement	N/A
Federal income taxes	Taxed at corporate level, a flat 21%, plus tax on dividends to shareholders	No corporate level tax (unless previously a C corporation)***	None at LLC or LLP level***	None at partnership level***	Taxed on individual return ***
Continuity of life	Unlimited	Unlimited	Limited	Limited	N/A
Avoidance of double taxation	No	Usually	Yes	Yes	Yes
Tax forms to file	Form 1120	Form 1120S	Form 1065	Form 1065	Form 1040 Schedule C

** LLCs are treated as a partnership for tax purposes. ** Single-member LLCs that do not elect to be corporations will be classified as a "disregarded entity" for tax purposes.*

***Owners of business entities, which are not taxed as "C" corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual, as well as such factors as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business. For income above $326,600, the legislation phases in limits on what otherwise would be an effective marginal rate of not more than 29.6%.

THE CARES ACT: $2 TRILLION STIMULUS PACKAGE INCLUDES SMALL BUSINESS LOAN RELIEF

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. It is a significant federal bill that provides major economic stimulus to groups deemed hardest-hit by the Coronavirus epidemic – including small businesses, unemployed workers, and students.

The CARES Act allocates $349 billion for struggling businesses, which is funneled into two main programs managed by the Small Business Administration (SBA): the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) program.

The Paycheck Protection Program

The Paycheck Protection Program (PPP) is designed to provide loan relief to small businesses that are struggling businesses to stay afloat amid the COVID-19 crisis. PPP loans are intended to help businesses maintain their workforce and keep their staff on payroll.

This loan relief program is available through June 30, 2020. A PPP loan does not require any personal guarantees or collateral, and there are no fees to obtain the loan. It has a 1.0% interest rate and a maturity of two years.

The Economic Injury Disaster Loan Program

The CARES Act also included a provision for the SBA's Economic Injury Disaster Loans (EIDLs), which are designed to assist small businesses that experienced financial difficulties and temporary loss of revenue due to the Coronavirus crisis. The CARES Act removed some of the red tape that's usually involved with obtaining an EIDL and make it easier for businesses to get assistance.

EMPLOYER-PROVIDED BENEFITS

It is important for businesses to offer generous benefit packages to attract and retain the best employees. But, that does not mean a company has to suffer. In fact, businesses can generally avoid payroll taxes on the portion of compensation shifted from salary to benefits. Employees who receive certain benefits in lieu of salary also win because their taxable income is lowered.

Attractive benefits include retirement plans, group term life insurance (up to $50,000), health insurance, parking, employee discounts, and noncash gifts. Consider the following options:

- Set up a flexible spending arrangement (FSA) to help employees pay for medical expenses that insurance does not reimburse, such as eye surgery, prescription drugs, orthodontia, chiropractic, and co-pays. FSAs let employees pay some health-care expenses with pre-tax compensation dollars. Contributions to medical FSAs are now capped at $2,750 annually in 2020.

- Provide a health reimbursement arrangement (HRA) for employees. Medical expenses reimbursed through an HRA are not taxed to the employee and are deductible by the employer. Unused funds carry forward to later years.

- Establish a 401(k) or other qualified retirement plan, such as a Savings Incentive Match Plan for Employees (SIMPLE), Simplified Employee Pension (SEP), or profit-sharing plan. In general, employee contributions are made with pre-tax dollars, and earnings grow on a tax-deferred basis. Matching contributions, when possible, may encourage participation and enhance your employee recruitment and retention efforts. When choosing a plan, or combination of plans, consider both your business needs and your personal financial goals. In December 2019, Congress passed The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) which incentivizes employers to offer defined contribution (DC) plans, promotes lifetime income options, and improves retirement plan accessibility, design and administration. Included in the legislation is the ability for companies to combine resources to provide Tax Qualified Retirement Plans (QPs) such as "open" multiple employer plans (MEPs), also known as "pooled employer plans" (PEPs). The legislation includes policy changes that will impact IRAs, DC plans, DB plans, and 529 plans. While some of the provisions of the SECURE Act will not go into effect until later years, most changes are effective for taxable years beginning after December 31, 2019.

Which is Best for Your Business?

SIMPLE vs. TRADITIONAL 401(k)

	SIMPLE IRA	SIMPLE 401(k)	Standard 401(k)
Maximum Business Size	100 or fewer employees	100 or fewer employees	No limit
Individual Contribution Limit	$13,500	$13,500	$19,500
For people 50 or older, additional	$3,000	$3,000	$6,500
Discrimination Testing	No	Limited	Yes
Mandatory Employer Match	Yes, 1%–3% of salary	Yes, 3% of salary	No
Vesting	Immediate	Immediate	Up to 7 years
Administration	Least	Medium	Most

HEALTH INSURANCE

Small businesses with fewer than 25 employees that pay at least 50% of the health care premiums for their employees qualify for a tax credit of up to 50% of their premiums (up to 35% for nonprofits), if insurance is purchased through an exchange. In 2020, a business with 50 or more full-time employees (defined as working 30 or more hours per week) will be required to provide health insurance to at least 95% of their full-time equivalent employees (FTE) and dependents to age 26 or pay a penalty. The business must provide health insurance plans that meet "minimum value" standards, or ones that cover at least 60% of the total cost of medical services. If the employer's plan fails to meet the minimum value requirement or costs more than 9.78% of an employee's annual income, then the company will have to pay penalties. Companies that don't offer affordable coverage will owe $3,860 for every FTE employee who gains coverage through the marketplace. If an employer fails to offer any type of health insurance, then they will have to pay $2,570 per FTE employee in 2020.

The employer will only pay the penalty if an FTE employee enrolls in a subsidized health insurance plan on the marketplace. Companies are allowed to deduct the first 30 FTE employees from their calculations.

HEALTH SAVINGS ACCOUNTS

Health savings accounts (HSAs) offer qualified individuals covered by high-deductible health plans (HDHPs) tax-favored opportunities to save for medical expenses. Employers of any size may establish HSAs, and pre-tax contributions can be made through a cafeteria plan. An employee's contributions may be tax deductible within certain limits. Distributions from an HSA for qualified medical expenses are tax free, and unused funds may be carried forward from year to year. Nonqualified distributions may be subject to income tax and a 10% penalty. If a participant changes jobs or health insurance coverage, the HSA is portable. For 2020, the maximum contribution is $3,550 for individual coverage and $7,100 for family coverage.

BUSINESS DEDUCTIONS

To keep your business' tax bill as low as possible, take advantage of every deduction available. You may be able to save by timing purchases to take advantage of temporary opportunities.

Business expenses must be "ordinary" (common) and "necessary" (helpful and appropriate) in your type of business to qualify as deductions. You can increase your deductions by paying attention to what you do near year-end. For example, buy non-inventoriable supplies before year-end and accelerate repairs into this year; reduce or defer year-end income; delay shipping until next year; make sales on consignment or approval. For cash basis businesses, defer billing for services until the next month or quarter and advance into 2020 payments you expect to make in 2021 for expenses such as maintenance, office supplies, and advertising.

Section 199A Deduction —The Section 199 deduction is eliminated for tax years after 2018 for non-corporate taxpayers and for tax years after 2019 for C corporation taxpayers. Under the Tax Cuts and Jobs Act of 2017, a new Section 199A was enacted into law allowing a non-corporate taxpayer a deduction for Qualified Business Income (QBI) for taxable years after December 31, 2017, for 10 years. Under the new law, owners of business entities, which are not taxed as "C" corporations, are eligible for a 20% QBI deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual as well as such facts as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business.

Claim Section 179 Expenses — Consider using the Section 179 expense deduction for new business equipment, furniture purchases, and off-the-shelf computer software. In 2020, small businesses can expense up to $1,040,000 of Section 179 property, with a phase-out threshold of $2,590,000. Businesses exceeding a total of $2.5 million of purchases have the deduction phase-out dollar-for-dollar. Additionally, the Section 179 cap is indexed to inflation.

Bonus Depreciation — Under the Tax Cuts and Jobs Act of 2017, a 100% first-year deduction is allowed for qualified property acquired and placed into service after September 27, 2017 and before 2023. The 100% allowance is phased down starting after 2023: 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026, with none allowed after 2026.

Lower Your Taxable Income — Buy business supplies at the end of a profitable year and accelerate other expenditures, like repairs and maintenance.

Avoid Mid-Quarter Convention — Maximize your depreciation deduction by planning qualifying purchases before the end of the year. However, be sure to avoid having depreciation deductions reduced as a result of the "mid-quarter convention," which occurs when more than 40% of the total cost of all personal property placed in service during the year goes in service in the last three months of that tax year. Purchases fully deducted as Section 179 expenses are removed from the mid-quarter convention computation.

Depreciation

36-Month Assets (Straight-Line)
Most software
3-Year Assets (200% DB)
Dies, molds, small tools, certain horses, tractor units
5-Year Assets (200% DB)
Autos, computers, office machinery, taxis, buses, trucks, cattle, private aircraft, appliances, carpeting, furniture, farm equipment
7-Year Assets (200% DB)
Most manufacturing equipment, office furniture, printing equipment, oil and gas production equipment
15-Year Assets (150% DB)
Land improvements other than buildings, retail fuel outlets
27.5-Year Assets (Straight-Line)
Rental houses, apartments, low-income housing
39-Year Assets (Straight-Line)
Nonresidential buildings

Maximize Depreciation — Consider a cost segregation study to maximize your depreciation deduction. You can accelerate depreciation by properly identifying and pricing nonstructural items and land improvements separately from your building. These items have much shorter depreciable lives than the assigned 39-year life for nonresidential real property.

The Tax Cuts and Jobs Act of 2017 expanded the ability to expense qualifying property immediately. Qualifying assets placed in service between September 27, 2017 and December 31, 2022, are eligible for immediate expensing. After 2022, the deduction phases out by 20% each year.

Deductions for Meals, Entertainment, and Transportation Costs

The Tax Cuts and Jobs Act of 2017 changed the way businesses handle meals, entertainment and transportation expenses from a tax perspective.

Meals — Meal expenses associated with operating a business, including meals during employee travel, remain deductible subject to the 50 percent limitation. The cost of a client dinner, as long as it is not extravagant, is still allowed under the 50 percent deduction rule. Documentation of the business purpose of the meal is necessary for deductibility. The new tax law extends the 50 percent deduction limit to employer-operated eating facilities through 2025.

After 2025, employer-operated eating facilities become non-deductible.

Entertainment — The 2017 law eliminates deductions for entertainment even if it is directly related to the conduct of business.

Transportation — The tax law changes of 2017 also eliminate deductions for qualified transportation fringe benefits and certain expenses to provide commuting transportation to employees. The cost of providing employee's transit passes or parking is no longer allowed as a deduction to the employer. In addition, the costs associated with providing transportation for an employee's commute to work are not deductible unless they are necessary to ensure an employee's safety.

Business related travel expenses are still deductible under the law changes. This includes business travel between job sites, travel to a temporary assignment (generally one year or less) that is outside your general area of residence, travel between primary and secondary jobs, and all other cab, bus, train, airline, and automobile expenses. Any regular commuting expenses to your primary job cannot be deducted. In addition, business travel expenses that are not reimbursed by your employer, cannot be deducted on an individual income tax return.

Substantiation: To support business travel deductions, keep supporting documents for expenses. Document the following: Date, place, amount, and business purpose of expenditures; name and business affiliation or business purpose of trip; and in the case of meals, all of the above must directly precede or follow a substantial business discussion associated with your business. Be sure to keep personal expenses separate from business expenses.

2020 Standard Mileage Rates

Business	57.5¢	per mile	Medical	17¢	per mile
Moving*	17¢	per mile	Charitable	14¢	per mile

* For members of the U.S. Armed Forces (or their spouse or dependents).

- You may deduct expenses for an automobile you own in one of two ways: either record and deduct your actual expenses, including depreciation, or record your mileage and deduct a standard amount per mile of travel, plus parking and toll fees.

- Since annual depreciation limits apply to newly acquired automobiles, some business owners consider leasing.

Be Aware of Inventory Issues —

- Under the law changes of 2017, many businesses with $25 million or less in gross receipts can now use the cash method of accounting and not be required to account for inventory. Our qualified tax professionals, can help you determine if you qualify.

- In times of rising prices, using the LIFO (last-in, first-out) inventory identification method can lower income tax. It increases your cost of goods sold (thereby reducing your taxable income) by assuming that the higher priced inventory units you most recently purchased were the ones actually sold.

- In times of falling prices, the FIFO (first-in, first-out) inventory identification method may provide larger tax savings. It assumes the higher priced inventory units you purchased first are the ones you have sold.

- Inventory methods can be changed. We can help you decide what is most advantageous and advise you on the procedure for changing methods.

- Corporations with excess inventory may donate that property to charitable organizations and receive a tax deduction. You may deduct the cost of the goods and half of the lost profit (not to exceed twice the cost).

Put Your Kids to Work—Your child's wages are fully deductible as a business expense. If you are a sole proprietor, or you and your spouse are the only owners of an entity taxed as a partnership, you do not have to pay FICA on those wages if the child is underage 18, nor do you have to pay unemployment insurance if the child is under age 21. Your child's wages may be subject to a lower tax rate than if you were to retain the money as business earnings.

Go into Business with Your Kids —

Children may be partners in partnerships or shareholders in S corporations, which may reduce the overall family tax burden in certain situations.

Deduct Business Losses —

- Net operating losses (NOLs) are generated when a company's deductions for the tax year are more than its income. Under the Tax Cuts and Jobs Act of 2017, carrybacks of NOLs are no longer allowed, but an indefinite carryforward of NOLs is allowed. The 2017 law also sets a limit on the amount of NOLs that a company can deduct in a year equal to the lesser of the available NOL carryover or 80% of a taxpayer's pre-NOL deduction taxable income.
- Corporate capital losses are currently deductible, but only to the extent of capital gains. A three-year carryback and a five-year carryforward period apply.
- If your business is not incorporated or operates as an S corporation, partnership, or LLC, you may deduct business losses on your personal tax return. However, NOL deductions may be limited by at-risk or passive activity loss rules.
- Bad business debts are deductible in full or in part as ordinary losses when good faith collection efforts fail. Inventory losses, casualty and theft losses (to the extent they are not covered by insurance), and losses on the sale of business assets may also be deductible.

Tax Saving Strategies

FOR BUSINESS OWNERS

- To the extent possible, shift income into next year.
- Set up a nonqualified deferred compensation plan for your highest paid employees.
- Consider a compensation and benefit study to see what makes sense for your company from a tax perspective.

Retirement Strategies

The trend continues to shift toward providing for one's own retirement so saving for retirement should be an essential part of your financial plan. Contributions to retirement plans can offer two large tax benefits: 1) they potentially reduce your AGI and current income tax, and 2) they can grow faster than your other assets because they're sheltered from tax until withdrawn. Take advantage of your employer's plan especially if it features an employer match or you can make catch-up contributions. Don't contribute to a Roth or traditional IRA at the expense of an employer match.

There is a "saver's credit" on the first $2,000 contributed to retirement plans for low- and moderate-income taxpayers (see chart below). Taxpayers who are younger than 18 years, full-time students, or can be claimed as a dependent on another's return cannot take the credit. The credit is trimmed if the taxpayer took a payout from a plan or IRA the same year or the two previous years. Maximum credit: $2,000 for Married Filing Jointly; $1,000 for Single and all others.

2020 Saver's Credit

on first $2,000 contributed to retirement plans

Amount of Credit	MFJ (AGI)	HH (AGI)	Single & Others (AGI)
50%	$0–$39,000	$0–$29,250	$0–$19,500
20%	$39,001–$42,500	$29,251–$31,875	$19,501–$21,250
10%	$42,501–$65,000	$31,876–$48,750	$21,251–$32,500

When contributions to traditional IRAs and retirement plans reduce your AGI, they can potentially increase other tax benefits through the deductions and credits tied to AGI. Additionally, retirement accounts don't figure in tuition assistance formulas that colleges use to compute eligibility for aid.

Traditional IRAs and 401(k) plans provide potentially bigger long-term tax breaks and are good for those who will retire fairly soon, expect their tax rate to fall in retirement, or cannot make current contributions without plans.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

IRAs remain an attractive option for retirement savings. You can contribute up to $6,000 to an IRA or combination of IRAs in 2020. If you are age 50 or older, you can contribute an additional $1,000. Earnings grow tax deferred, and contributions to a traditional IRA may be deductible. In December 2019, President Trump signed the Setting Every Community Up for Retirement Enhancement Act (SECURE Act). For tax years beginning in 2020, working individuals are now allowed, regardless of their age, to continue to contribute to a traditional IRA. The age cut off used to be 70½.

If neither you nor your spouse is covered by a qualified employer-sponsored plan, you can contribute to an IRA and jointly exclude from current tax up to $12,000 (or $14,000 if both are age 50 or older) of current income, even if one spouse does not work. (Spouses cannot contribute more than their combined earned incomes.)

Is My IRA Contribution Deductible?

Plan at Work	Filing Status	2020 MAGI	IRA Deduction
You are covered	Single and Head of Household	$65,000 or less	Full
		$65,000–$75,000	Partial
		$75,000 or more	None
	Married, Filing Jointly	$104,000 or less	Full
		$104,000–$124,000	Partial
		$124,000 or more	None
Neither you nor your spouse is covered	Single and Head of Household	No Limits	Full
	Married, Filing Jointly	No Limits	Full
You are not covered but your spouse is	Married, Filing Jointly	$196,000 or less	Full
		$196,000–206,000	Partial
		$206,000 or more	None
	Married, Filing Single	Special rules apply	

If either spouse participates in a qualified employer-sponsored plan, contribution deductibility is subject to MAGI limits (see chart on previous page).

Traditional IRAs must be set up by April 15 to get a deduction for the previous year and contributions are due by then as well.

Certain rules apply to traditional IRA distributions. Distributions before the age of 59½ may be subject to a 10% Federal income tax penalty in addition to the income tax that will be due. There are exceptions. For example, if you tap your IRA early to pay for qualified higher education expenses or to fund up to $10,000 of your first home, the 10% penalty does not apply.

ROTH IRAs

Roth IRA contributions are made with after-tax money and, therefore, are not deductible, but qualified distributions are tax free, provided you have held the account for five years and are at least 59½ years old. Roth IRAs may be a good fit if you are fairly young, expect to be in a similar tax bracket when you retire, or are concerned about cash flow during retirement. Income limits may apply.

In 2010, the adjusted gross income (AGI) ceiling on converting traditional IRAs to Roth IRAs was eliminated, allowing more taxpayers to take advantage of the Roth IRA through direct contributions or conversions. When converting, the distribution from your traditional IRA is taxed, but you are generally not penalized for the early withdrawal.

The greatest benefits of Roth IRAs may be in transferring wealth to heirs. Assets in the account for five years can pass to heirs without current income tax. Non-spousal heirs who inherit a Roth IRA may have to take minimum distributions and now after the passing of the SECURE Act, fewer beneficiaries will be able to extend distributions from an inherited IRA over their lifetime. Many will instead need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder. No withdrawals have to be made during the 10-year period, but at the end of the 10-years from the date of the plan holder's death, the entire balance in the plan must be withdrawn. Exceptions to the 10-year distribution requirement include assets left to a surviving spouse, a minor child, a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent.

IRAs for Children — If your child has earned income from outside the household, consider contributing it to an IRA. Suppose your child saves $800 from lawn mowing as a 15-year-old and invests in a Roth IRA. If they make no additional contributions and the funds grow at 8% annually, they may have more than $37,000 at age 65.

Note: The previous hypothetical examples are for illustrative purposes only. They are not intended to reflect an actual security's performance. Investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.

401(k) PLANS

401(k) plans are qualified retirement plans offered by thousands of employers. As a participating employee, you can contribute the maximum dollar amount allowed by law ($19,500 in 2020) or a maximum percentage of salary, as defined by the plan. Those age 50 or older can contribute an additional $6,500. You do not pay taxes on your contributions until you receive money from the plan, which is usually when you retire and may be paying taxes at a lower rate.

401(k) and Roth 401(k) plans are excellent tax-saving vehicles, especially if your employer matches your contributions because the matches are not income to you. No unrealized losses, even on after-tax contributions, are deductible. Know the rules of your 401(k). Many who leave their jobs take a cash distribution from their 401(k)s rather than rolling the funds over. This can be a serious mistake. When leaving an employer it's usually best to roll the 401(k) into a new employer's plan or roll it into your own IRA.

If you roll over a lump-sum distribution to an IRA within 60 days, tax is deferred; if you do not, Federal, state and local taxes are due on the entire amount withdrawn, and possibly a 10% early-withdrawal penalty. There may be an exception to the 60-day rule in cases of hardship.

ROTH 401(k)s

The Roth 401(k) combines the features of traditional 401(k)s and Roth IRAs. It allows participants in a sponsoring employer's traditional 401(k) plan to designate all or part of their elective salary deferrals to a Roth account. Although contributions are made with after-tax dollars (unlike traditional 401(k) contributions), earnings are tax free, provided you have held the account for five tax years and are at least 59½ years old.

Participants in traditional 401(k), 403(b), and 457(b) plans are permitted to roll over funds into Roth accounts within their plans, if available. Because contributions to traditional 401(k)s are made on a pre-tax basis, any funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion.

SOCIAL SECURITY BENEFITS

Generally, Social Security benefits are not taxed if they are the only income source for the year. If you have earned income or large investment income, up to 85% of benefits may be taxable depending on the amount of income and your filing status. Tax-exempt income also figures into the calculation of the taxability of benefits.

There is an earnings test for Social Security benefits for those under full retirement age: a charge of $1 for every $2 that income exceeds $18,240 in 2020. The test applies to each person, not to couples. In the year you reach your full retirement age, the charge is $1 for every $3 that your income exceeds $48,600 (until the month you reach full retirement age).

2020 Contribution Limits

	Regular	Additional Age 50	Maximum
401(k)s	$19,500	$6,500	$26,000
IRAs	$6,000	$1,000	$7,000

OTHER RETIREMENT CONSIDERATIONS

Federal taxation is uniform across the country but not so for state taxation which can vary widely and affect your retirement. If you're deciding where to live in retirement, consider the tax implications of a move, such as the state income tax rate, state taxation of retirement benefits and Social Security, state and local property taxes, state estate taxes, and state sales tax.

One other significant change made by the new tax law is the age at which individuals must begin taking RMDs. Prior to January 1, 2020, RMD's had to begin at age 70 ½. Individuals reaching age 70 ½ in 2019 will need to take RMD's based on the prior distribution rules.

Now, the new legislation states that IRA account owners who attain age 70 ½ on or after January 1, 2020 will be able to delay RMD's until age 72. This change acknowledges that Americans are living longer and thus, voluntarily in many cases, working longer. This extension is equal to 18 months. However, it is reasonable to hope that there may be a Congressional push towards age 73 and beyond at some point in the future. The IRS may also modify the life expectancy tables in the coming years.

Estate Planning

If it has been a while since you dusted off your estate plan, now is the time to do so. Failing to plan your estate may increase your potential tax liability; it also forces the state courts to split up your assets, assign guardians for your children, and dictate all other details in handling your estate. Several changes made in The SECURE Act, passed in December 2019 may materially affect estate planning and beneficiary decisions that were previously made in an effort to minimize RMDs to heirs and beneficiaries. This is essentially the end of the stretch IRA.

Benefits of Estate Planning

	With an Estate Plan	Without an Estate Plan
Your Assets	You decide who gets what	Inheritance is determined by state law
Your Children	You choose the guardian	The court appoints a guardian
Your Inheritance	You decide how and when beneficiaries receive their inheritance	Terms and timing are set by law
Your Business	You decide how the family business is to continue	Forced sale or liquidation may cause financial loss and family hardship
Your Executor	You decide who will manage your estate	The court appoints an executor
Your Final Expenses	You can reduce estate settlement costs	Costs may add up due to administrative expenses and unnecessary taxes

Watch for Changes in Estate Tax Laws —

The estate planning landscape has been marked by change and uncertainty in recent years. In 2020, there is a top tax rate of 40% and an exemption amount of $11.58 million, or $23.16 million for married couples.

It is easy to misjudge the size of your Federally taxable estate. It includes home equity, retirement accounts, foreign assets, and proceeds from life insurance. Many of your assets could pass outside your will through IRAs, qualified plans, and insurance proceeds, so a precise designation of beneficiaries is a crucial planning issue.

Early preparation is key to developing appropriate strategies to minimize potential estate taxes and ultimately maximize the amount transferred to your heirs. The estate tax exemption allows you to transfer $11.58 million to your children or other heirs tax free at death. (Bear in mind that an unlimited amount may be passed tax free to a spouse.) If you are married and your combined assets (including life insurance) surpasses $23.16 million, consider implementing advanced planning tools, such as trusts, to help minimize taxes.

Estate and Gift Tax Exemptions

Year	Estate Tax Exemption	Gift Tax Exemption
2019	$11,400,000	$11,400,000
2020	$11,580,000	$11,580,000

You may also want to consider a gifting strategy to gradually transfer assets to loved ones. However, it’s important to consider gift taxes. In 2020, there is a top tax rate of 40% and an exemption of $11.58 million. A gifting program can play a valuable role in your estate plan.

TRUSTS

Trusts have many features and variations: e.g., they can be established before or after you die. Trusts often used in estate planning include: living trusts, by-pass trusts, child trusts, QTIPS, and “wealth-replacement trusts.” Discuss with your advisor which option might be right for you.

BENEFICIARY DESIGNATIONS

Your provisions in a will do not necessarily supercede or trump the beneficiary designations you make in trust agreements, insurance policies, bonds, bank accounts and retirement and profit-sharing plans, which can represent most of an estate. These may trump a will, so keep them up to date. Better yet, make sure your will and such designations agree. Don't name your child as beneficiary if your spouse will need the money. These are critical issues to keep in mind.

Gifting Benefits

- Post-gift appreciation escapes the estate tax.
- To the extent of the $15,000/$30,000 per donee, per year annual exclusion, no transfer tax is ever imposed.
- Gift tax paid reduces your taxable estate. (Limited exceptions apply.)
- Income or appreciation is taxed to lower tax bracket donees.

ESTATE PLANNING STRATEGIES

- "Gifting" is a great way to gradually transfer your estate and ultimately minimize your estate tax burden. Each year, you may make gifts of $15,000 to as many recipients as you wish, tax free. If you and your spouse "split" gifts, then as much as $30,000 may be given to an unlimited number of recipients tax free.
- If you own stock temporarily depressed in value but with high appreciation potential, consider giving it to your children now. The gift tax impact (determined by the fair market value on the date of gift) may be reduced. When the stock price recovers, you can enjoy a second benefit—the increase in value does not increase your estate tax base.
- If you would like to make a gift to a grandchild (or anyone else) and not be limited by the annual exclusion amount, you can make a direct payment to the providers for education (tuition only) and medical expenses. Gifts of this nature do not count toward the annual limit. You can also exclude gifts of tuition or medical payments made now for future services.

- If you wish to make gifts of more than $1 million, consider transferring funds in exchange for an installment note. Proceeds from the note can be distributed to the obligors at death and be sheltered by the estate tax exemption.
- If you are married, be sure to understand the portability provision under the 2010 Tax Relief Act, which was made permanent for 2013 and beyond by the American Taxpayer Relief Act. It allows the estate tax exemption to be transferred between spouses. For estate planning purposes, this means that husbands and wives do not have to split assets between them, or be concerned about who holds the title on various assets.

  Yet, these changes to the estate tax do not eliminate the need for planning. Wealthy taxpayers who currently fall within the exemption limits may still want to consider setting up a bypass trust. In addition, couples with different sets of final beneficiaries, such as children from previous marriages, may wish to set up a bypass trust in order to clarify the beneficiaries of their separate assets.
- In light of ever-changing tax laws, it is important to review your estate conservation strategies. We can help you develop appropriate strategies for your situation.

Tax Saving Strategy

Set up a trust to own life insurance so that the value of the policy can be excluded from your taxable estate.

SUCCESSION PLANNING

If you have spent the greater part of your life building a profitable business, implement a business succession plan. At a minimum, a good plan can help you accomplish the following:

- Transfer control according to your wishes.
- Carry out the succession of your business in an orderly fashion.
- Minimize the tax liability for you and your heirs.
- Provide economic well-being for you and your family when you retire.

Here are some ideas for

Succession Planning:

- Gift stock to family members now so ownership can be transferred without incurring unnecessary transfer taxes.
- Employ a buy-sell agreement that values your business for estate tax purposes. An effective agreement provides estate tax liquidity and provides your successors with the means to acquire your stock.
- Create an employee stock ownership plan (ESOP) and sell your stock to the plan. You can "roll over" the sale proceeds into other investments tax free, ownership can be transferred to your employees over time, and your business can obtain income tax deductions for the plan contributions.
- Take advantage of the estate tax installment payment option. It allows you to pay the portion of your estate tax attributable to inclusion of your closely held business interest over a period of up to 14 years. Artificially low interest rates apply during the tax-deferral period. Other special rules may apply.

ACT NOW

Early planning is key to making the most of your opportunities, especially considering the changing tax laws. We are here to help you reduce your current tax bill and plan for the future. Contact us when planning transactions and before year-end. We will keep you up-to-date.

Be advised that this information was not intended or written to be used, and cannot be used, for the purposes of avoiding tax-related penalties or for promoting, marketing, or recommending to another party any tax-related matters addressed herein.