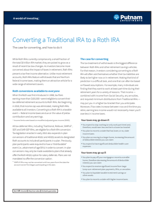
2020 year-end planning ideas

As the year-end approaches, consider contacting clients with these timely planning ideas.

1. Utilize a Roth conversion to take advantage of lower tax rates

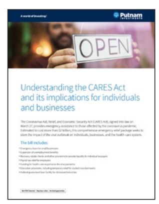
The Tax Cuts and Jobs Act (TCJA) made sweeping changes to the tax code, including the lowest income tax rates in decades. Clients should consult with a tax professional as year-end approaches to determine their marginal income tax rate for 2020 and identify potential strategies. Given rising federal budget deficits and the expiration of these tax rates in 2026 (or sooner if Congress takes action), taxpayers may want to consider utilizing Roth strategies now as a hedge against the risk of higher tax rates in the future. For example, determine how much income can be realized within the current tax bracket before "creeping" to the next tax bracket as a basis for how much in traditional retirement funds to convert to a Roth.


Converting a Traditional IRA to a Roth IRA

Converting a Traditional IRA to a Roth IRA — IR757

2. Remind clients required minimum distributions (RMDs) are suspended for 2020

Since many investors typically request distributions from retirement accounts annually in December to satisfy minimum distribution requirements, it is a good idea to remind clients the rules have temporarily changed this year. The CARES Act suspends RMDs in 2020 for account owners, those who have inherited retirement accounts, and people who reached their required beginning date (RBD) in 2019 but planned on waiting until 2020 to take their first required distribution.



Understanding the CARES Act and its implications for individuals and businesses

Understanding the CARES ACT — II991

3. **Consider tax-smart strategies for charitable giving**

When the TCJA was signed into law in 2017, it created a new landscape for tax deductions. By reducing popular deductions and doubling the standard deduction, most taxpayers now opt to claim the standard deduction. This has profound implications for making charitable gifts. For taxpayers who are planning on claiming the standard deduction, there are several strategies to consider. For those age 70½ or older, distributing funds from an IRA tax free directly to a qualified charity (up to $100,000 per IRA owner and can include RMDs) may be a good option. Another strategy is the concept of "lumping" multiple years of charitable gifts into one year in order to itemize deductions on that year's tax return. For example, instead of a couple gifting $10,000 annually to a charity, consider gifting $30,000 in one year, representing three years' worth of gifts. The couple could benefit from itemizing deductions that tax year and claim the higher standard deduction the next two years. Lastly, the CARES Act makes two changes for 2020. Taxpayers, including those utilizing the standard deduction in 2020, can claim an above-the-line deduction of up to $300 of cash contributions to qualified charities. And, the limit on cash contributions to qualified, public charities increases from 60% of AGI to 100%.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Donating IRA assets to charity

Donating IRA assets to charity — II828

4. **Identify opportunities to harvest tax losses**

In the process of reviewing portfolios, are there opportunities to strategically generate losses to offset other gains? For example, using a tax-swap strategy for mutual fund holdings allows you to realize a tax loss while retaining essentially equivalent market exposure.


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Using investment losses to your advantage

Using investment losses to your advantage — II867

5. **Review beneficiary designations**

Late last year, Congress passed the SECURE Act, which eliminates the "stretch" option on distributions from inherited retirement accounts. Under the new rules, most non-spouse beneficiaries are required to fully distribute inherited account balances by the end of the 10th year following the year the account owner dies. Conducting annual beneficiary reviews is a great way to identify clients whose estate plans have been impacted by this change, and it may prompt discussions with clients and their heirs around efficient wealth transfer strategies.


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Understanding the SECURE Act and its implications on planning

SECURE Act — II990

6. **Update affluent clients and prospects on the current estate and gift tax rules**

Are clients and prospects aware of current estate and gift tax laws? Year-end provides an opportunity to review existing estate plans and consider gifting strategies. The annual gift tax exclusion for individuals remains the same at $15,000, and the lifetime estate and gift tax exclusion increases to $11.58 million for 2020. The drastic increase in the lifetime exclusion since the passage of the new tax law means that clients should review existing trusts and other documents with their attorney to see if any modifications are necessary. Also, there may be opportunities for large lifetime gifts, considering the historically high level of the exclusion amount.


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A closer look at the current estate and gifting tax rules

A closer look at the current estate and gifting tax rules — II546

7. **Discuss year-end gifting strategies using 529s**

Remind key clients, such as grandparents, that the annual gifting limit for 2020 is $15,000, and that a special 529-plan exclusion allows five years' worth of gifts — up to $75,000 or $150,000 for married couples — to be contributed at once, provided that no other gifts are made within the next five-year period. And there's also an added benefit for grandparents who own 529s: These assets are not currently factored as assets for determining federal financial aid under the FAFSA process. However, distributions from these accounts may be counted as part of the *income* test portion of the financial aid calculation. Lastly, recent tax law changes allow 529 account owners to withdraw $10,000 for K–12 tuition expenses and $10,000 to repay student loans, and allow distributions for qualified apprenticeship programs.


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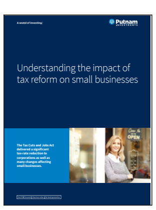
Strategies to make the most of college savings

Strategies to make the most of college savings — II940

8. **Help business owners maximize the new 20% deduction for qualified business income (QBI)**

The recent tax law introduced a provision (IRC Section 199A) that allows certain taxpayers to deduct 20% of qualified business income (QBI) on their tax returns. Business income from pass-through entities — sole proprietorships, partnerships, LLCs, and S Corps — may qualify for the new deduction. Business owners at higher income levels ($213,300 for individuals, $426,600 for couples) may be limited or restricted from utilizing the deduction, so strategies to reduce taxable income under these thresholds may be advantageous.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Understanding the impact of tax reform on small businesses

Understanding the impact of tax reform on small businesses — II966

9. **Talk to business owners about how to transform net operating losses (NOLs) into tax-free income with a Roth IRA conversion**

Business owners who will record a net operating loss (NOL) this year may be able to use it to their advantage. Unlike net capital losses, where taxpayers are limited to using only $3,000 annually to offset any ordinary income, taxpayers can generally apply NOLs against 80% of taxable income. In addition, the CARES Act temporarily suspends this 80% limit for 2020, allowing taxpayers to apply an NOL against 100% of taxable income. Clients carrying forward large NOLs can use those losses to offset the additional income from a Roth IRA conversion. The rules on calculating and utilizing NOLs are complicated, so it is critical for clients to consult with a qualified tax professional. Forming strategic relationships with local CPAs who can assist business owners with these types of transactions is a good idea. Such relationships can also potentially lead to referrals for retirement and other investment business opportunities. More information on NOLs can be found within IRS publication 536, "Net Operating Losses for Individuals, Estates, and Trusts."


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Apply a net operating loss to a Roth IRA conversion

Apply a net operating loss to a Roth IRA conversion — II967

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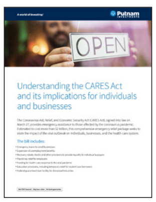
10. Connect with clients who may have taken a qualified coronavirus distribution

Under the CARES Act, the 10% early withdrawal penalty is waived for distributions up to $100,000 in 2020 for those diagnosed with COVID-19 — or whose spouses or dependents are diagnosed with it — or those who have experienced adverse financial consequences, such as being laid off or quarantined due to the pandemic. Income attributed to distributions is taxed equally over 2020, 2021, and 2022 or may be contributed back into a retirement account within three years. Additionally, taxpayers have the option of reporting all of the taxes due in the current tax year in lieu of spreading the income over three years. Make sure clients who have taken these distributions know their options.



Understanding the CARES ACT — II991

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