DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

DAC Insights: 2020 Year-End Tax Considerations

DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

As we move into the end of 2020, clients should review their unique circumstances for deferring, reducing, or accelerating tax planning strategies.

Given unique tax opportunities of 2020 and the uncertainly around potential tax implications in 2021, tax planning is not as straight forward as in years past. Below are some ideas that might help to enhance outcomes this year while preparing for what could come next year.

Charitable Contributions:

In March of this year, the CARES Act increased the deductibility of cash contributions to public charities from 60% of AGI to 100% of AGI for individuals. If your contributions exceed your AGI, then any excess can be carried forward up to 5 years. Unfortunately, contributions to non-operating private foundations or donor advised funds will be ineligible for 100% deductibility. For the charitably inclined who prefer to donate cash, 2020 is the year to consider maximizing charitable contributions.

Income Acceleration:

There are strong indications that income tax brackets could move higher for those individuals and families already in high brackets. If your income is expected to be lower this year, due to earning less or implications from potential tax-law changes, then 2020 is the year to consider accelerating income.

Converting assets from a Traditional IRA to a Roth IRA will accelerate income. Distributions from an IRA are considered ordinary income and taxed at the appropriate income tax rate. Most clients determine a partial IRA conversion typically makes the most sense. Consider working with a CPA to determine the correct conversion amount to stay within your existing tax bracket.

Additionally, look to bonus additional income into 2020 from your employer or company. If awarded stock options before year-end, the income can be recognized early if exercised within 30 days of the award.

Deductions:

Maximizing deductions usually helps minimize income tax. Given the uncertainty around tax law changes going forward, now would be a great time to determine the appropriateness of this strategy.

Consider bunching several years of charitable gifts into 2020. This would greatly enhance the benefit of the CARES Act charitable deduction benefit mentioned earlier.

Furthermore, consider using any capital gain proceeds as a cash gift to help offset some of the capital gains tax owed. This strategy works best when the capital gains tax owed is reasonable for the individual or family's particular tax scenario.

IRA Required Minimum Distributions (RMDs):

The CARES Act eliminated RMD required from IRAs and retirement plans in 2020. Most clients took advantage of this generous tax saving opportunity—by either eliminating or reducing their RMDs for 2020. For the remainder of the year if there is no additional need for income, then consider eliminating or reducing any remaining distributions.

Realizing Gains and Harvesting Losses:

Year-end is always the time to realize capital gains and offset them with losses from within your portfolio. Given the uncertainty around the capital gains taxes going forward, especially for those earning more than $1,000,000 in annual income, increasing capital gains in 2020 while pushing losses into 2021 could make sense. This would allow capital gains to be paid at the current known rates, while providing losses for future years when they may be more beneficial.

Estate Planning:

With the continued conversation around reducing the current estate exemption from $11.58 million per couple and eliminating the step-up in basis at death, this could be an appropriate time to review estate plans and consider additional gifting and/or forming irrevocable trust(s). Although, there is a likelihood that significant changes will not occur in 2021. Using the uncertainty to take advantage of existing tax law to shore up an estate plan would be prudent.

As always, please consult with a CPA, tax advisor or estate attorney to determine the best path forward for your unique situation(s). If DAC can assist where needed, please do not hesitate to contact us.

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Clarity: A transparent and understandable approach to portfolio management.

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