2020 Year-End **Tax Planning Guide for Individuals**

Laura H. Yalanis, CPA, MST
Director, KLR Tax Services Group

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year in review

In 2020, we have endured unprecedented uncertainty and stress. The COVID-19 pandemic has affected people in different ways, so there's no universal tax planning solution that's right for everyone. In today's volatile climate, timely professional tax expertise is more important than ever before.

If we could rewind the clock to last year, no one could have predicted that 2020 would have turned out like it has. There have been two major developments that are likely to affect your current tax situation: the COVID-19 pandemic and the 2020 elections.

COVID-19 Crisis

Some households have shifted seamlessly to work-from-home arrangements during the pandemic, and some investors have benefited from a robust stock market. But many people have been less fortunate. Hardships have been significant for small business owners who lost revenues during forced shutdowns, employees who were laid off or furloughed, and families who lost loved ones from COVID-19.

Throughout the year, Congress has enacted various economic relief measures to ease the financial distress caused by the pandemic.

Winter threatens to bring additional surges of COVID-19 and additional government restrictions. However, positive news of effective vaccines and the enactment of additional federal COVID-19 relief measures provide renewed hope for recovery in 2021.

2020 Elections

The 2020 federal elections bring ongoing uncertainty in terms of tax planning. President-Elect Joe Biden would like to roll back many of the tax breaks provided under the Tax Cuts and Jobs Act (TCJA).

Key Biden administration tax proposals that could potentially affect individuals include:

- Increasing the top marginal income tax rate for individuals from 37% to 39.6%,
- Raising the top capital gains tax rate from 20% to 39.6% for individuals with income exceeding $1 million,
- Eliminating the $10,000 limit on itemized SALT deductions,
- Introducing a new refundable tax credit of up to $15,000 for first-time homebuyers,
- Eliminating the basis step-up rules under the current federal gift and estate tax regime, and
- Repealing the TCJA's expanded unified federal gift and estate tax exemption before it is scheduled to expire in 2026.

Biden's ability to enact these proposals hinges on the balance of power in Congress. Though the Democrats have retained control of the House, their margin of control has been significantly reduced. Control of the Senate has now been determined by the run-off election in Georgia held on January 5th. The Democrats have won both seats in the run-off. The Senate will be split 50/50 with Vice-President-Elect Kamala Harris casting any tie-breaking votes.

With Democrat control of both the White House and Congress, tax law changes are expected in 2021 and 2022.

Time for Proactive Measures

In case certain provisions of the TCJA are reversed, it would be prudent to position yourself to take advantage of limited-time tax savings opportunities before they expire. Also consider timing income and deductions to maximize taxable income in 2020 while you can count on historically low effective tax rates on income and capital gains.

This strategy runs contrary to the tried-and-true strategy of deferring tax in the current tax year. But it could be beneficial to report higher taxable income in 2020 if you expect to be in a higher tax bracket next year or you expect higher tax rates and other unfavorable tax law changes in the future.

Each taxpayer's situation is unique. Talk to your tax advisor about what's right for you and your family in light of your current and expected income, future spending plans, relevant tax laws and political developments.

We Can Help

As we head into 2021, an underlying tone of uncertainty remains. Strategic planning is difficult under these conditions. We are reviewing recent tax law developments and encourage you to maintain an open line of communication with us. We can help you take advantage of tax-saving and financial-relief measures during these unprecedented conditions.

Here's a brief summary of tax planning opportunities for you to consider before year end, as well as links to relevant blogs we've posted in 2019 and 2020.

It is no secret that 2020 has introduced many unique challenges to individual taxes. What started as a normal filing season quickly turned into a tax season no one had ever encountered before. Ongoing planning for changes introduced by the CARES Act and potential changes brought on by the recent election will be crucial as you prepare for 2021 and beyond. I hope you find our Year-End Tax Planning Guide for Individuals helpful to navigate through all the changes that may affect you and your family.

Laura H. Yalanis. CPA, MST,
Director, KLR Tax Services Group

Section 1: Major Changes

Major Tax Law Developments in 2020

The Setting Every Community Up for Retirement Enhancement (SECURE) Act made changes to the tax law to encourage people to save more for retirement.

The Taxpayer Certainty and Disaster Relief Act extended the following tax breaks through 2020:

- Exclusion from gross income of discharge of qualified principal residence indebtedness
- Treatment of mortgage insurance premiums as qualified residence interest for itemized deduction purposes
- Reduction in the medical expense itemized deduction floor to 7.5% of adjusted gross income
- Above-the-line deduction for qualified tuition and related expenses
- Credit for certain plug-in vehicles

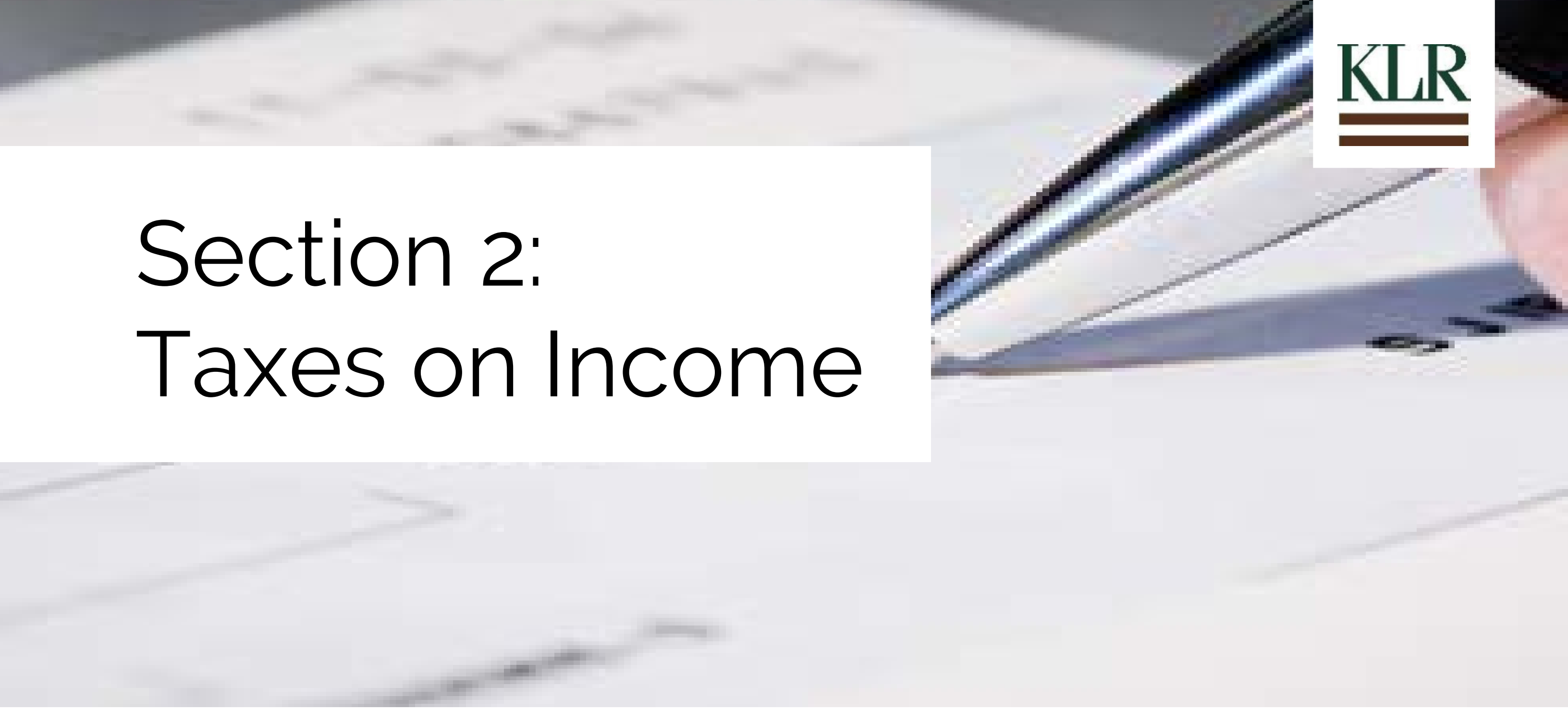
The Coronavirus Aid, Relief and Economic Security (CARES) Act provides the following short-term financial relief measures for Americans during the COVID-19 pandemic:

- Stimulus checks of up to $1,200 for singles and heads of households (or $2,400 for married couples filing jointly), plus $500 per qualifying child, subject to income-based phaseouts based on 2018 or 2019 tax returns

- Waiver of the 10% penalty on COVID-19-related early distributions from IRAs, 401(k)s and certain other retirement plans
- Waiver of 2020 required minimum distribution rules for IRAs, 401(k)s and certain other retirement plans
- Expansion of charitable contribution tax deductions
- Exclusion for certain employer payments of student loans
- Liberalized rules for HSA, health reimbursement arrangements (HRA) and health flexible spending account (FSA) payments

The Consolidated Appropriations Act (CAA), 2021, enacted December 27, 2020 (Phase 4) provides additional financial relief measures for Americans:

- Additional stimulus checks of up to $600 per individual taxpayer, plus $600 per qualifying child, subject to income-based phaseouts based on the 2019 tax return
- The medical expense itemized deduction floor that was temporarily reduced to 7.5% under The Taxpayer Certainty and Disaster Tax Relief Act of 2020 has been made permanent.
- Extension of the $300 charitable contribution deduction “above the line” through 2021 and expansion of the amount to $600 for married filers in 2021 only



Section 2: Taxes on Income

Should You Itemize or Take the Standard Deduction?

Regular income tax rates apply to ordinary income. This includes wages, self-employment or business income, short-term capital gains, nonqualified dividends, interest and, generally, distributions from tax-deferred retirement accounts.

There are still seven tax brackets under the TCJA, but five of them are slightly lower than under prior law. The thresholds have also generally increased within the brackets under current law.

2020 Regular Individual Income Tax Rates

10%	12%	22%	24%	32%	35%	37%

When tax planning at year end, **focus on your "marginal" rate**. That's the rate you'll pay on your *next* dollar of income. Your marginal rate depends on your income and your filing status.

2020 Thresholds for the 37% Rate

Single	Head of Household	Married	Married Filing Separately
$518,401	$518,401	$622,051	$311,026

Warning: Unemployment compensation is taxable. If you received unemployment payments during the COVID-19 crisis, you must report it on your 2020 return. Taxable benefits include any of the special unemployment compensation authorized under the CARES Act. Check your withholding to ensure you won't have a shortfall when you file your return in 2021.

Many people who have itemized in the past will decide to take the standard deduction — or alternate between these options from year to year using so-called "bunching" strategies.

2020 Standard Deduction Allowances

Filing Status	**2020**
Single or married filing separately	$12,400
Married filing jointly	$24,800
Head of household	$18,650

When deciding what's right for you, compare the increased standard deduction amounts to how much you've spent on items that qualify as **itemized deductions** for

- **Home mortgage interest**
- State and local tax (SALT) expenses
- **Charitable contributions**
- Medical expenses

Itemized deductions for mortgage interest expense, home equity loan interest and SALT are subject to tighter limits through 2025. Plus, itemized deductions for miscellaneous expenses subject to the 2% of AGI floor have been repealed.

Under current law, the income threshold for deducting medical expenses is 7.5% of adjusted gross income for 2020. The threshold was scheduled to increase to 10% of adjusted gross income in 2021, however, the CAA made the 7.5% floor permanent. If you itemize, you can deduct qualified expenses in excess of the threshold. So, if you've got significant medical expenditures for 2020, it could make sense to itemize this year.

Through 2025, personal casualty and theft losses may be deducted only to the extent they're attributable to a federally declared disaster.

Will You Owe the Alternative Minimum Tax (AMT)?

The TCJA increased the thresholds at which the AMT kicks in, and it reduced or eliminated some itemized deductions that are normally added back to income in calculating the AMT. Therefore, fewer individuals will owe AMT through 2025.

If you're subject to the AMT, your tax rate may be lower . . .

26% or **28%**

. . . but more of your income will be taxed because **certain income items are treated differently,** such as:

- Incentive stock option exercises
- Accelerated depreciation adjustments and related gains
- Tax-exempt interest on certain private-activity municipal bonds

And **certain deductions aren't allowed,** such as:

- State and local income tax
- Property tax

You must **pay the AMT if your AMT liability** is higher than your regular income tax liability.

Section 3: Timing Issues

What Should You Accelerate (or Defer) This Year?

The timing of when you recognize income, or incur deductible expenses, can have a big impact on your tax bill. If you expect tax rates to remain stable or decrease from 2020 to 2021, it's generally beneficial, to the extent possible, to defer income to the next year and accelerate expenses to the current year. This reduces your current year's tax bill.

However, compared to historical levels, today's rates are relatively low. President-Elect Biden has promised not to increase income taxes for individuals with earnings below $400,000. However, he would like to increase the top marginal income tax rate from 37% to 39.6%. People who expect to be affected by this proposed increase in 2021 and beyond should consider taking the opposite approach: Accelerate income recognition this year and defer expenses to next year. This will maximize income recognition in 2020 when tax rates are historically low and minimize taxable income for 2021 when tax rates are expected to increase.

This income acceleration strategy could be beneficial for the millions of Americans who expect to report less income this year and, therefore, will be in a lower tax bracket for 2020 than for 2021. Examples include employees who were laid off or furloughed, small business owners who were unprofitable during the COVID-19 pandemic and retirees who were excused from taking required minimum distributions (RMDs) for 2020 under the CARES Act.

This approach also could help owners of pass-through entities who are eligible for the qualified business income (QBI) deduction to maximize their deductions. This deduction is scheduled to expire in 2026, or possibly sooner depending on political developments, so eligible business owners might as well enjoy it now.

The standard deduction has been nearly doubled and certain itemized deductions have been limited or suspended through 2025. As a result, more people will take the standard deduction or "bunch" itemizable expenses into alternating tax years. Timing strategies may be limited in years that you take the standard deduction.

Timing strategies can also help you avoid the AMT in 2020 — or they could trigger it if you're not careful.

Common Timing Strategies

Income Items

- Bonuses
- Self-employment income
- Retirement plan distributions
- U.S. Treasury bill income

Expenses

- Charitable contributions
- State and local income taxes
- Property taxes
- Mortgage interest

Section 4: Tax Breaks for Homeowners

Are You Turning Big Expenses into Big Tax Savings?

Historically, the biggest itemized deductions for many taxpayers have been for home-related expenses. Although fewer people will itemize deductions under current law, some homeowners will continue to receive tax breaks for homeownership. But some tax benefits will be limited through 2025.

Mortgage Interest and Property Tax Deductions

$1 million was generally the limit on home acquisition indebtedness under prior law. (For married people who file separately, the limit was $500,000.) Acquisition debt incurred or refinanced *before* December 16, 2017, is still subject to these limits, with certain exceptions. In addition, you could generally deduct interest expense on up to $100,000 of home equity debt under prior law.

$750,000 is generally the **limit on home acquisition indebtedness** through 2025. (For married people who file separately, the limit is $375,000.) These limits apply to home acquisition debt incurred *after* December 15, 2017.

Beware: Under current law, the deduction for interest on home equity debt is available *only* if the loan was used for home improvements. As under prior law, home equity interest isn't deductible for AMT purposes unless it was used for home improvements.

$10,000 is the limit on SALT deductions. This limitation applies to property and income (or sales) taxes *combined*.

These limits do not apply to deductions for rental properties.

Important: Presumptive President-Elect Biden has proposed eliminating the $10,000 limit on SALT deductions. If Congress enacts this change, people who own homes in high tax states could benefit.

Home Office Deduction

Business owners who use a home office *exclusively* for business can deduct actual expenses allocable to the space, including some that otherwise wouldn't be deductible, such as utilities and depreciation.

Or you can use **a simplified calculation** of **$5** per square foot up to a **$1,500** maximum.

The home office deduction has been suspended (except for the self-employed) under current law, along with other miscellaneous itemized deductions subject to the 2% of AGI floor.

Moving Expense Deduction

If you move for job-related reasons through 2025, the deduction for moving expenses has been suspended, and you must include any employer-reimbursed moving expenses in income. There's an exception for active-duty military, however.

Extender Legislation

The following tax breaks for homeowners have been extended through 2020:

- Exclusion from gross income of discharge of qualified principal residence indebtedness, and
- Treatment of mortgage insurance premiums as qualified residence interest for itemized deduction purposes.

Gain Exclusion on Home Sales

If you sold your principal residence in 2020, you may be able to exclude from your taxable income all (or part) of the gain.

Maximum Gain Exclusion

Single	Head of Household	Married	Married Filing Separately
$250,000	$250,000	$500,000	$250,000

Various tests must be met to qualify for this break, and gain that's attributable to a period of "nonqualified" use of the home may be subject to capital gains tax. **Any gain that isn't covered by the exclusion might be subject to the net investment income tax (NIIT) in addition to capital gains tax.**

If you're planning to sell a *second* home, consider making it your principal residence for a period long enough to qualify for the exclusion. Or, if it's a rental property and the sale is likely to generate a significant gain, consider a **like-kind exchange.**

Warning: Like-kind exchanges of personal property, such as machinery, artwork and patents, have been eliminated through 2025 under current law.

Section 5: Tax Breaks for Medical Expenses

Are You Using Tax Breaks to Combat Rising Healthcare Costs?

Healthcare costs are on the rise, causing many employers to cut back on healthcare benefits. Today, many taxpayers are paying more out-of-pocket for medical expenses than in previous years, often because premiums have increased and/or their plans have higher deductibles and co-payments. Fortunately, various tax breaks can help take the bite out of these increases.

Medical Expense Deductions for 2020

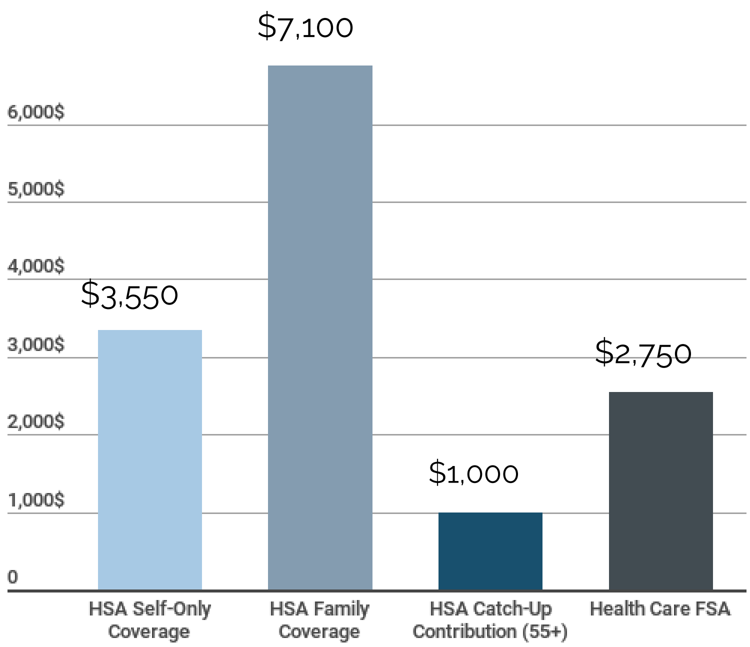
Medical expenses are deductible if you itemize, but only to the extent that they exceed the applicable AGI threshold.

For 2020, the threshold for deducting medical expenses is 7.5% of AGI. Starting in 2021, that threshold was scheduled to increase to 10% of AGI, however Congress, under CAA, made the 7.5% threshold permanent.

Health Savings Accounts (HSAs) and Healthcare Flexible Spending Accounts (FSAs)

Exceeding the AGI threshold for the medical expense deduction can be challenging for many taxpayers. Fortunately, HSAs and FSAs allow you to make **pretax** contributions and are used for **tax-free funding** of qualified medical expenses.

*** 2020 Contribution Limits**



* Additional rules and limits apply to these accounts.

Self Employed?

Instead of making contributions to employer-provided HSAs and FSAs, self-employed taxpayers who pay their own medical and dental insurance premiums can generally deduct those costs "above the line." This can lower AGI, making it easier for the self-employed to exceed the AGI threshold for the medical expense deduction for 2020.

Uninsured? Under current law, the individual mandate penalty has been reduced to zero for months beginning after December 31, 2018.

New for 2020: Under the CARES Act, account holders can now use HSAs, health reimbursement arrangements (HRAs) or healthcare FSAs to pay for over-the-counter medications without a prescription, as well as certain menstrual care products. These changes are permanent and apply retroactively to purchases on or after January 1, 2020.

The CARES Act also allows high deductible healthcare plans (HDHPs) to cover telemedicine free of cost sharing through 2021. A safe harbor permits HDHPs to cover telehealth and other remote care services before participants have met their deductible without affecting their eligibility to make HSA contributions. These provisions are scheduled to expire in 2022, unless Congress extends them or makes them permanent.

Section 6: Charitable Deductions

Is Charitable Giving an Important Part of Your Tax Planning?

If you're charitably inclined and you itemize deductions, charitable giving can be one of the most powerful tools in your **tax planning** toolbox.

You have complete control over when and how much you give. You can generally deduct 100% of a donation to a qualified charity if you itemize deductions.

Current law lifts two major barriers to deducting charitable donations through 2025. First, it **eliminates AGI-based phaseouts** for itemized deductions. Second, it increases the limit on your annual deduction for qualified charitable donations of cash from 50% of AGI to **100%** of AGI for tax years 2020 and 2021. Lower limits may apply to certain donations. Beware of these limits and donation deadlines as you consider year-end charitable giving.

If you decide to take the **standard deduction** (rather than itemize deductions), you could lose out on this tax break in 2020.

New for 2020 and now 2021: Under the **CARES Act** and CAA 2021 you can claim an above-the-line universal charitable contribution deduction of $300 ($600 for married filers for 2021 only), if you elect to not itemize your deduction.

Three Donation-Related Breaks to Consider for 2020

1. Donate Appreciated Securities Rather Than Cash

Giving away publicly traded appreciated stock you've held more than one year offers a **double tax benefit:**

1. You can deduct the full fair market value of the stock.
2. You avoid the capital gains tax you'd owe if you sold the stock

But **don't donate stock that has lost value.** You'll enjoy a bigger tax benefit by selling the stock, recognizing the loss and donating the proceeds.

2. Make Qualified Charitable Contributions from IRAs

$100,000 is the maximum amount you can transfer from your IRAs directly to qualified charities tax-free **if you're age 70½ or older.**

New for 2020: The CARES Act suspends the required minimum distribution (RMD) rules for 2020. This dampens the incentive for a donor to make a qualified charitable distribution in 2020. However, when you make a qualified charitable distribution from your IRA, the income is excludable from AGI. The donation is not deductible on Schedule A. This can yield better tax results, such as avoiding or reducing the net investment income tax (NIIT), for some taxpayers.

3. "Bunch" donations with a Donor Advised Fund

With a donor advised fund (DAF), you can bunch donations in one tax year and then the DAF distributes the funds to your favorite charities over multiple years. DAFs allow you to receive a tax benefit in tax years that you bunch donations, while maintaining a consistent cash flow stream for your charities.

Section 7: Tax Planning for Investments

Are Taxes Taking Too Big a Bite Out of Your Returns?

Tax planning for investments is a top priority for many individuals. Of course, there are many non-tax factors you should consider before making investment decisions. But timing gains and losses on sales can help minimize taxes for 2020.

15% is generally the long-term capital gains tax rate, which also applies to qualified dividends. But the rate is 20% at higher income levels.

2020 Thresholds for 20% Long-Term Capital Gains and Dividends Tax Rate

Single	Head of Household	Married	Married Filing Separately
$441,450	$469,050	$496,600	$248,300

Under current law, the tax rates for long-term capital gains and qualified dividends are no longer tied to the tax rates for ordinary income.

Short-term capital gains (gains on investments held for 12 months or less), nonqualified dividends and taxable interest income are taxed at ordinary-income tax rates as high as 37%. You also may owe the 3.8% NIIT.

Taxes on Capital Gains

	2020 Top Rate, Including NIIT
Short-term gain	40.8%
Long-term gain	23.8%
Long-term gain on collectibles, such as artwork and antiques	31.8%
Long-term gain attributable to certain recapture of prior depreciation on real property	28.8%

If your net capital losses exceed net capital gains, you're limited in how much loss you can deduct per year against ordinary income. The limits on deducting capital losses against ordinary income for 2020 are:

for most taxpayers **$3,000**

$1,500 for married taxpayers who file separately

Loss carryovers can be a valuable tax saving tool. But they disappear once a taxpayer dies.

Important: Presumptive President-Elect Biden would like to increase the long-term capital gains tax rate from 20% to 39.6% for individuals with income above $1 million. Under his proposal, the 3.8% NIIT would still apply. If Congress enacts this proposal, it could go into effect as early as 2021. Investors who are contemplating a sale might want to act sooner, rather than later, to minimize long-term capital gains tax.

Passive Activities

Do you materially participate in the businesses you're invested in? If not, beware of the **passive activity rules.** In general, losses from passive activities can only be taken against passive activity income. Unused passive losses can be carried forward until you earn other passive income or you sell an investment.

Income from these types of activities involves some different considerations and planning strategies.

Qualified Small Business Stock (QSBS)

100% of the gain from the sale or exchange of QSBS is tax free, as long as:

1. The QSBS was acquired on or after September 28, 2010, and

2. The QSBS was held for more than five years.

To qualify as QSBS, the stock generally must have been issued by a C corporation that doesn't own assets worth more than $50 million and that's in an active trade or business. Additional rules apply.

The corporate federal income tax rate is a flat 21% under current law. So, if you sell QSBS shares that are eligible for the gain exclusion, the 21% corporate rate will be the only federal income tax that the corporation or you will owe. However, this historically low rate may not last, depending on whether Congress enacts Presumptive President-Elect Biden's proposal to increase the corporate tax rate from 21% to 28%. Biden has identified this as a top priority of his administration

Qualified vs. Nonqualified Dividends

Dividends are an important part of your return on investment. But not all dividends are created equal for tax purposes. There are two types of ordinary dividends:

Nonqualified dividends are taxed at ordinary-income rates.

Qualified dividends are taxed at the more favorable long-term capital gains rates.

Stock-Based Executive Compensation

Many high-net-worth taxpayers earn stock-based executive compensation, including:

- Incentive stock options (ISOs)
- Nonqualified stock options (NQSOs)
- Restricted stock

Special rules apply to stock-based compensation. Year-end planning can help you decide whether to **exercise options and/or sell stock.**

Under current law, qualified employees of eligible private companies may elect to defer paying taxes on these awards for up to **five years.**

Beware: The IRS is cracking down on **unreported Bitcoin transactions**. Virtual currency is property for federal tax purposes, meaning that sales or exchanges of tokens for other goods are taxable events. Failure to report capital gains and losses from these transactions can result in steep penalties. To help the IRS identify these transactions, the first page of Form 1040 for 2020 includes a question about your use of virtual currency.

Qualified Opportunity Funds (QOFs)

QOFs are an investment vehicle designed to help direct resources to low income communities, known as Qualified Opportunity Zones. Qualifying investments may include real estate projects or business interests obtained after December 31, 2017.

To be eligible for this preferential treatment, a fund must hold 90% of its assets in QOZ property.

Investing in these funds offers the following tax incentives:

- Capital gain deferral
- Potential reduction of the amount of gain realized through a basis adjustment
- Potential permanent gain exclusion of the appreciation

There's no cap on how much money can be invested in opportunity zones. As **time goes by**, investors get preferable tax treatment on the profits from these new investments, and after 10 years, additional capital gains are tax free.

Properties in underdeveloped communities also may be eligible for other tax breaks, such as low income housing, historic and energy incentives.

Section 8: Education Planning

Are You Taking Full Advantage of [Tax-Advantaged Funding Options]?

Parents and grandparents worry about rising college costs. The College Board estimates that the annual cost for living on campus and attending a four-year college or university for **2019-2020** ranged from:

$21,950 for an in-state public college or university

$49,870 for a private college or university

Fortunately, you can contribute money to various college savings programs. Contributions aren't deductible for federal tax purposes, but earnings accumulate tax-free if you follow the rules.

College Savings Programs

	529 Plans	Coverdell Education Savings Accounts
Annual Contribution Limits?	No, but you might owe gift tax on contributions over the $15,000 annual exclusion.	Subject to annual income limits, and only $2,000 can be contributed per child per year.
Tax on Withdrawals?	No, if the money is used to pay for qualified higher education expenses or limited primary and secondary school expenses.	No, if the money is used to pay for qualified education expenses, including primary and secondary school expenses.

Under current law, **Section 529 plan rules** allow:

- Up to $10,000 of tax-free annual withdrawals for qualifying elementary and high school tuition per student per year
- Transfers to ABLE accounts

In addition, under current law, up to **$10,000 in lifetime withdrawals from Sec. 529 plans** can be used on qualified student loans.

Beware: Large contributions of more than **$75,000** (or **$150,000** if you're married and make a joint contribution with your spouse) will reduce your unified federal gift and estate tax exemption.

Education-Related Credits and Deductions

The tax code also offers several tax breaks for higher education spending for you and your immediate family members. These breaks may be reduced or eliminated based on your modified adjusted gross income (MAGI).

2020 Tax Credits and Phaseouts for Higher Education Costs

	American Opportunity	Lifetime Learning
Annual Credit	100% of the first $2,000 of education expenses; 25% of expenses between $2,000 and $4,000; maximum credit $2,500 per student	20% of the first $10,000 of qualified education expenses; maximum credit $2,000 per tax return
MAGI Phaseout Range for Joint Filers	$160,000-$180,000	$118,000-$138,000
MAGI Phaseout Range for Other Filers	$80,000-$90,000	$59,000-$69,000
Other Notable Rules	Only for the first 4 years of higher education costs	For higher education costs during or beyond the first 4 years

Deductions for Higher Education Costs

Under current law, the deduction for qualified higher education tuition and fees has been extended through 2020. Unfortunately, employees can no longer claim unreimbursed work-related education expenses as a miscellaneous itemized deduction through 2025.

Under the CARES Act, if your employer pays some of your student loan debt before year end, you may exclude up to $5,250 of those payments from income. However, you can't deduct the interest expense related to those exempted employer payments.

Section 9: Retirement Planning

Have You Maximized Your Contributions and Minimized Your Taxes?

Traditional Retirement Accounts

Employees may be eligible to make pretax contributions to various employer-sponsored retirement plans. Plus, these contributions can reduce your AGI and MAGI, which are the triggers for certain taxes and can cause the benefit of certain tax breaks to be reduced or eliminated. There are **limits to your annual contributions.**

2020 Limits for 401(k), 403(b) and 457 Plans	
Elective deferrals for people under age 50 at year end	$19,500
Elective deferrals for people age 50 or older at year end	$26,000
Defined contribution plan limit	$57,000

Employees without retirement benefits and the self-employed: Consider a **traditional IRA**.

2020 Contribution Limits for Traditional IRAs	
People under age 50 at year end	$6,000
People age 50 or over at year end	$7,000

The deduction for traditional IRA contributions is phased out if your MAGI exceeds certain levels and you or your spouse participates in an employer-sponsored retirement plan. Traditional retirement accounts grow tax-deferred until withdrawn. So making the **maximum contribution** allowed by law is typically a good idea.

Roth Accounts

Contribute after-tax dollars to a Roth account now…

…and take tax-free withdrawals **later** as long as your withdrawals are "qualified."

In 2020, the contribution limits are the same for traditional and Roth IRAs. (The limits apply on a combined basis, however.) Unfortunately, income-based limits may prevent higher-income taxpayers from contributing. If you're above the phaseout limit, consider a **"back door" Roth IRA.**

Given today's comparatively low tax rates and the financial distress caused by the COVID-19 crisis, it could be a good time to consider a Roth conversion. This may be a tax-smart move if you expect your tax rate in retirement to be **higher** than your current tax rate, especially if the value of your account and/or your taxable income has decreased 2020.

Beware: You can no longer reverse regular-to-**Roth IRA conversions** under current law.

Retirement Plan Withdrawals

You could owe penalties for withdrawing too soon or too little, depending on your age. Withdrawals are taxed at ordinary-income tax — not long-term capital gains — rates. Plus, they could push you into a higher tax bracket and/or increase your MAGI enough to trigger the **NIIT** on some or all of your investment income. (Retirement plan withdrawals themselves aren't subject to the NIIT.)

New for 2020

The Secure Act made these four key changes to encourage people to save more for retirement:

1. People of any age can continue contributing to retirement accounts if they have earned income.
2. The age for beginning required minimum distributions (RMDs) increased from 70 ½ to 72. This change applies only to individuals who reach age 70½ after December 31, 2019.
3. Eligible part-time workers can participate in 401(k) plans.
4. "Stretch" IRAs have been eliminated. Now the balance of inherited IRAs with non-spouse beneficiaries (i.e., children or grandchildren) must be distributed within 10 years.

In addition, for 2020, the CARES Act waived:

- The required minimum distribution rules for IRAs, 401(k)s and certain other retirement plans, and
- The 10% penalty on COVID-19-related early distributions of up to $100,000 from IRAs, 401(k)s and certain other retirement plans.

Coronavirus related distributions are still taxable, but you can spread the tax hit evenly over three years. Or you eliminate the tax hit by repaying the withdrawals over the next three years.

Section 10: Planning Across Generations

Can You Save Taxes by Transferring Assets to Family Members?

"Shifting" income to children or grandchildren in a lower income tax bracket saves your family taxes as a whole. Specifically, consider transferring appreciated or income-producing assets to them before year end, so that tax on any gains (if an asset is sold) or income generated is subject to their rate — which might be as low as 0%.

Kiddie Tax

Income shifting across generations works only for gifts to adults. **"Kiddie tax" rules** generally apply to:

Children under age **18** + Full-time students under age **24**

New for 2020: Under the Tax Cuts and Jobs Act (TCJA), a child's unearned income beyond a certain limit ($2,200 for 2018 and 2019) was taxed at the federal income tax rates for trusts and estates. Fortunately, that's been changed retroactive to 2018.

Under the SECURE Act, the kiddie tax rules changed back to pre-TCJA law, which means that such income will once again generally be taxed at the parents' tax rate. If your family paid the kiddie tax for 2018 under the TCJA rules, you might be eligible for a refund for a portion of that tax.

Annual Gift Tax Exclusion

$15,000 is the gift tax annual exclusion per recipient and donor for 2020. Leverage your exclusions even further with gifts to a Section 529 education savings plan or Coverdell Education Savings Account.

Lifetime Exemption

Through 2025, the TCJA substantially increases the unified federal gift and estate tax exemption and the generation-skipping transfer (GST) tax exemption. It also maintains the step-up basis rules and the **portability provision** for married people.

> **$11.58 million** is the 2020 lifetime exemption.
>
> **$23.16 million** is the 2020 lifetime exemption for married couples if they implement proper planning.
>
> **40%** is the top tax rate that applies to taxable estates that exceed the exemption amount.

Important: Some states (including Connecticut, Maine, Massachusetts, New York, Rhode Island, and Vermont) impose tax on residents' estates. State exemptions are often much lower than the federal exemption.

Important: Presumptive President-Elect Biden would like to repeal the TJCA lifetime exemption level before it's scheduled to expire in 2026. He would also like to eliminate the step-up basis rules.

Depending on the balance of power in Congress, there's a real possibility that the gift and estate tax rules could become less favorable in 2021 and beyond. You could be missing out on a major tax-planning opportunity if your estate is between the pre-TCJA exemption level and the current exemption level and you don't address estate planning moves in 2020.

Even if your estate is below current exemption amounts, there are still important **estate planning moves** that you could make today to help your family in the future.

We're Here to Help

December 31 is an important tax deadline that you might not be aware of: With a few exceptions, it's the date by which most of your tax planning strategies must be implemented to reduce your 2020 tax bill.

Contact our tax team to set up a meeting to brainstorm financial planning strategies to help you succeed in the future — and minimize your tax obligations for 2020.

ABOUT THE AUTHOR: Laura H. Yalanis, CPA, MST

Laura is Director of KLR's Tax Services Group and chair of the Hospitality Services Group. She provides tax advisory services to closely held and medium sized businesses, including construction industry clients and has extensive knowledge in hotel, restaurants and many hospitality related industries.

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