SENDER CPA & CONSULTING, LTD
ACCOUNTING TAX PLANNING & COMPLIANCE BUSINESS ADVISORY

December 2020

To Our Clients and Friends:

We have listed below some tax-saving ideas that you may want to put into action before the end of 2020. Please note that some of these ideas reflect legislation from three recent tax acts: The Consolidated Appropriations Act of 2020, the Secure Act, and the CARES Act.

- Postpone income and bonuses until 2021 and accelerate deductions into 2020 to lower your 2020 tax bill, unless you expect to be in a higher tax bracket for 2021.
- For 2020, the standard deduction is $25,100 for married taxpayers filing joint returns. For married taxpayers filing separate and for single taxpayers, the amount is $12,550. As a result of the standard deduction, many people continue to no longer itemize. You can try to “bunch” some of your deductions, such as paying charitable donations in January and December of the same year, but you still might not itemize.
- The CARES Act added an above-the-line deduction for charitable contributions up to $300, starting with 2020.
- If you do itemize your deductions, consider using a credit card to pay certain deductible expenses before the end of the year. You can take the deduction even if the credit card bill is not paid until 2021.
- If you itemize your deductions, consider prepaying state and local taxes/increase your withholding before the end of the year, unless you tend to be subject to alternative minimum tax (AMT). This could lower your Federal income taxes. BUT keep in mind that your total state and local tax deduction, including real estate taxes is limited to $10K for married joint and for single taxpayers, $5K for married filing separately. Also note, a prepayment of real estate tax that has not yet been assessed is not deductible until the year it is assessed.
- If you have appreciated stock (or mutual fund shares) that you’ve held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock instead. You’ll avoid paying tax on the appreciation, but will still be able to deduct the donated property’s full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock’s current depressed value, and no capital loss will be available.
- Solve an underpayment of estimated tax problem. Because of the additional .9% Medicare tax and/or the 3.8% surtax on unearned income, some individuals have faced penalties for underpayment of estimated tax. An employed individual who is facing a penalty for underpayment of estimated tax as a result of either of these taxes or for any other reason should consider asking his employer—if it's not too late to do so—to increase income tax withholding before year-end. Generally, income tax withheld by an employer from an employee's wages or salary is treated as paid in equal amounts on each of the four estimated tax installment due dates. Thus, if an employee asks his employer to withhold additional amounts for the rest of the year, the penalty can be retroactively eliminated. This is because the heavy year-end withholding will be treated as if paid equally over the four installment due dates.

5294 MAYFIELD ROAD, SUITE 201 | LYNDHURST, OH 44124 | 216.536.8138 | steve@sendercpa.com

- Between now and year-end, review your securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the $3,000 ($1,500 married filing separate) net capital loss that's deductible each year.

- Make HSA contributions. Under Code Sec. 223(b)(8)(A), a calendar year taxpayer who is an eligible individual under the health savings account (HSA) rules for December 2020, is treated as having been an eligible individual for the entire year. Thus, an individual who first became eligible on, for example, Dec. 1, 2020, may then make a full year's deductible-above-the-line contribution for 2020. If he/she makes that maximum contribution, he/she gets a deduction of $3,550 for individual coverage and $7,100 for family coverage (those age 55 or older also get an additional $1,000 catch-up amount).

- Make year-end gifts. A person can give any other person up to $15,000 for 2020 without incurring any gift tax. The annual exclusion amount increases to $30,000 per donee if the donor's spouse consents to gift-splitting. Annual exclusion gifts take the amount of the gift and future appreciation in the value of the gift out of the donor's estate, and shift the income tax obligation on the property's earnings to the donee who may be in a lower tax bracket (if not subject to the kiddie tax). Direct payments related to education and medical expenses on behalf of someone else do not count towards the annual exclusion. Gifts are never taxable to the recipient.

- Fund Section 529 college savings plans by 12/31. If you use an Ohio plan with CollegeAdvantage, an individual can invest $15K per beneficiary (married couples can invest $30K) without incurring any Federal gift tax consequences. You can also contribute five years' worth of tax-free gifts at one time, $75K/$150K.

- If you have a retirement plan through your employment, check the status of your contribution for the year. For 2020, employees can defer up to $19,500 of income into a 401(k) or 403(b) plan, plus catch-up contributions of $6,500 if they are 50 or older. If you are self-employed, there are a variety of retirement plan options for you to consider. Some do require action before 12/31.

- Effective with the tax year 2020, the maximum age for making a traditional IRA contribution has been repealed. Roth IRA contributions were never subject to an age limitation. IRA contribution limits for 2020 are unchanged at $6,000 per person, ($7,000 if age 50 or older by year-end). Earned income limits still apply. You have until April 15th of 2021 to make an IRA contribution for 2020.

- The CARES Act provides that the required minimum distribution (RMD) requirements do not apply for calendar year 2020. The general rule was that taxpayers who have reached age 72 (70-1/2 if before 2020) were required to take a 2020 RMD from their IRAs or 401(k) plans (or other employer-sponsored retired plans). Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Those who turned age 72 in 2020 can delay the first required distribution to 2021. However, taxpayers who take the deferral route will have to take a double distribution in 2021 — the amount required for 2020 plus the amount required for 2021. An RMD is based on the total value of all retirement accounts and remaining expected life expectancy. Life expectancy tables have recently been updated. While this requirement has been waived for 2020, it still might make sense to take the RMD though.

- Consider making a Qualified Charitable Distribution (QCD) up to $100K from an IRA withdrawal or RMD to charity. Not only is the income not taxable, but it reduces AGI and can lower your state tax liability in some states. Under the Secure Act, the QCD amount gets reduced by any deductible traditional IRA contribution made for the year.

- If you own an interest in a partnership or S corporation that you expect to generate a loss this year, you may want to make a capital contribution (or in the case of an S corporation, a shareholder loan) before year end to ensure you have sufficient basis to claim a full deduction.

- One of the biggest changes and challenges to come out of the Tax Cuts and Jobs Act (passed in Dec 2017) was the Qualified Business Income (QBI) deduction. It is available to sole-proprietors, partners in partnerships, shareholders of S-Corporations and some trusts and estates. C-corporations and employees are not eligible. The amount of the deduction is generally up to 20% of QBI received from a qualified trade or business. The calculation is complex and involves income, wages and certain property elements. There are thresholds based on taxable income of the taxpayer, which may reduce the deduction. The deduction is also limited for certain "Specified Service Trades or Businesses," mainly personal service types of businesses, as well as those in the fields of health, law and accounting. It is possible to plan for this deduction in order not to exceed some of the limitations and receive the full deduction.

- Taxpayers with rental real estate activities may also be eligible for the QBI deduction mentioned in the previous bullet, as long as certain conditions are met in accordance with a safe harbor ruling. The conditions are 1) separate books and records are maintained that reflect the income and expenses of the activity, 2) 250 or more hours of rental services are performed per year (which can include the hours of subcontractors and service people), and 3) the taxpayer maintains contemporaneous records and logs that document hours of service performed, description of services performed, dates the services were performed, and who performed the service. Triple net leases do not qualify for the safe harbor.

- As a result of the Tax Cuts & Jobs Act of 2017, a child's net unearned income over $2,200 was taxed at the trust and estate tax rates, which are generally higher than individual rates. This was repealed by the Consolidated Appropriations Act of 2020. The excess is taxed at the parent's rates (the prior law) after 2019. If the child is under age 19 or a full-time student under age 24, the parents can elect to report the income on their own return if certain qualifications are met, which could reduce overall taxes. The taxpayer can elect to amend 2018 and 2019 tax returns.

- Watch out for the Alternative Minimum Tax (AMT) in your planning because what may be a great move for regular tax purposes may create or increase an AMT problem. In most cases, AMT may no longer apply given the higher thresholds.

- Some Life Cycle Changes Important to Year-End Planning:

  - Change in filing status due to marriage, divorce, death, or HOH
  - Death of a spouse, or birth of a child
  - Child no longer eligible for the child tax credit
  - Changes in medical expenses
  - Move or relocation
  - College and tuition expenses
  - Employment changes
  - Retirement
  - Bankruptcy
  - Inheritance

- New business, or close a business

There are several popular deductions and credits that expired after 2017 that were retroactively renewed for 2018 through 2020 by the Consolidated Appropriations Act of 2020. Some of them include returning to the 7.5% of AGI floor for itemized medical expenses, the above-the-line deduction for tuition and fees, deducting private mortgage insurance (PMI) as mortgage interest, certain energy credits, and more. 2018 and 2019 Tax returns can be amended if it makes good sense.

If you were eligible for and did not receive your "stimulus" check under the CARES Act, you can receive it when you file your 2020 individual income tax return. This will get settled on the 2020 Form 1040 for those who did not receive the payment and those who did not receive the proper amount. It is a credit in tax dollars.

Again, these are just a few suggestions to get you thinking about your own tax situation. If you'd like to know more about any of them or want to discuss other planning ideas, please feel free to contact us. Please also contact us if you feel we should prepare a tax projection for you, as you may be unsure or something has changed since the previous year.

Very truly,

SENDER CPA & CONSULTING, LTD

Disclaimer: This document represents general information based on current tax laws and should not be relied upon without an independent, professional analysis of how any of these items may apply to your specific situation. Any tax information contained in the body of this narrative was not intended or written to be used, and cannot be used, by the recipient for the purposes of avoiding penalties that may be imposed under the Internal Revenue Code or provisions of applicable state or local law.

Copyright (C) December 2020, Steven E. Sender CPA, Ltd.
May not be reproduced without permission. All Rights Reserved.