2020 TAX PLANNING IDEAS

I. CALCULATE AN ESTIMATE OF YOUR TAXABLE INCOME:

- The first step in tax planning is to calculate an estimate of your taxable income for 2020.
- You should then calculate an estimate of your taxable income for next year.
- Most tax planning involves the shifting of income and deductions. If you have an estimate of your current and future taxable income, you can then decide which year you should have more or less taxable income or tax deductions
- This outline of tax planning ideas assumes that you will have a lot of taxable income in 2020 and you will have a lot of taxable income in 2021. This outline also assumes that your marginal tax rate next year will be the same as this year or lower.

II. TAX PLANNING FOR BUSINESS OWNERS:

A. DEFER INCOME INTO NEXT YEAR:

- If your business is a cash basis taxpayer, then you can slow down your year-end collection efforts so some of your accounts receivable are collected next year.
- If your business is an accrual basis taxpayer, then you may consider not completing some of your work or not delivering some of your product by the end of this year. This will allow your business to recognize less income in this year.
- This strategy of deferring income into 2021 is based upon the goal of recognizing less taxable income in 2020 so that you will pay less tax for 2020.

B. ACCELERATE DEDUCTIONS INTO THIS YEAR:

- If your business is a cash basis taxpayer, then you may consider paying expenses, where possible by December 31, 2020. This will increase the amount of your tax deductions for 2020.
- If your business is an accrual basis taxpayer, then you may consider getting services completed or having expendable items delivered to you by year end. This will accelerate tax deductions into 2020.
- Some examples of expenses that can be accelerated include; supplies, repairs, maintenance, postage, advertising, employee bonuses, travel, seminars, professional fees, donations, etc.
- You should examine your expenses prior to year end and see what items could be accelerated into 2020 in order to decrease your taxable income.
- This strategy of accelerating expenses into 2020 is based upon the goal of recognizing less taxable income in 2020 so you will pay less tax for 2020.

C. MAXIMIZE THE BENEFITS OF A RETIREMENT PLAN:

The following is a brief overview of various types of retirement plans that may be considered in your tax planning.

- An IRA is a very simple plan to establish. Up to $6,000 can be contributed into an IRA for 2020. If you are age 50 or older you can contribute up to $7,000 to an IRA for 2020. These IRA limits will remain the same for 2021. You must have earned income in order to fund an IRA. You have until April 15, 2021 to fund your IRA for 2020.
- A SEP is very easy to set up and to maintain. There are minimal costs associated with a SEP. A SEP is often used by business owners with no employees. Up to 25% of your compensation (but no more than a $57,000 contribution) can be put in for you and for each of your eligible employees for 2020. This limitation increases to $58,000 for 2021. You have until the extended due date of your tax return to fund your SEP contribution for 2020.
- A SIMPLE Plan is also easy to set up and maintain and involves minimal costs. Employees can defer some of their income into this type of plan. There are lower limits on how much can be put into the plan. If you are very cost conscious, then a SIMPLE Plan may make sense for you. Up to $13,500 can be deferred by an employee into a SIMPLE for 2020. If the employee is age 50 or older in 2020 the deferral amount is $16,500 (regular contribution of $13,500 plus a $3,000 catch up contribution). These amounts remain the same for 2020.
- A 401(k) plan involves more complexity and costs, but allows the employees to defer more money into the plan. These plans work well if you want to defer more money into the plan and you believe that the employees will appreciate the plan. An employee can defer up to $19,500 into a 401(k) plan in 2020. The deferral amount increases to $26,000 if the employee is age 50 or older in 2020 (regular contribution of $19,500 plus a $6,500 catch up contribution). The 401(k) deferral amounts for 2021 will remain the same as 2020.
- There are other profit sharing plans that allow you to put more money into a retirement plan (up to $57,000 per employee in 2020). These plans are more complex, but may work out real well depending on the makeup of your employees and how much you want to put into your retirement plan. These plans may allow the owner to fund a larger contribution into the plan and have a large part of the contribution go to benefit the owner.
- Defined benefit pension plans and cash balance pension plans allow you to put significantly more money into your retirement plan each year. These types of plans tend to work well if you have few employees, if you are older and you want to put a lot of money into a retirement plan for a number of years.

There is a tax credit available for setting up a retirement plan, if your business has not set up or maintained a retirement plan in the past three years. The tax credit is 50% of the start up costs, up to a maximum tax credit of $500 per year.

There have been some changes in recent years with retirement plans. You should meet with a retirement plan adviser to determine what type of retirement plan will provide the most benefit for you.

D. TAX PLANNING WITH OTHER BUSINESS DEDUCTIONS:

1. **The Section 199A deduction**:

- This is a deduction of up to 20% of the qualified business income from a sole proprietorship or a pass through entity.
- This is a very favorable tax deduction.
- You should review your tax situation to determine if you are able to claim this tax deduction.
- The rules and limitations related to this tax deduction are very complex. If you are eligible for this tax deduction, you should be sure that you are claiming the full benefits available from this tax deduction.

2. **The de minimus rule:**

- You are able to expense assets that cost up to $2,500 if an election is properly filed with your tax return each year.
- This rule allows you to expense the costs of small items for furniture, equipment, computers and other fixed assets, rather than capitalizing and depreciating these items over a number of years.

3. **The Section 179 deduction:**

- Up to $1,040,000 of eligible fixed assets purchased and placed in service in 2020 can be expensed in 2020 (the section 179 deduction).
- This expensing option is available for purchases of furniture, equipment, computers, "off the shelf" computer software and other depreciable tangible personal property that is used in your trade or business.
- This expensing option is also now available for the purchase of "qualified real property", which includes improvements to nonresidential real property that are not structural improvements or do not enlarge the building.
- This expensing option now applies to putting on a new roof, putting in a new A/C system, a new alarm and security systems to nonresidential real property.
- The section 179 expensing option for qualified real property is not available for residential property.
- This expensing option provides a huge tax incentive to buy items that are needed in a business.

4. **Bonus Depreciation:**

- New or used qualified fixed assets placed in service this year may qualify for a 100% additional first year bonus depreciation in 2020.
- Qualified assets include tangible property with a recovery period of 20 years or less. These assets include; furniture, equipment and other tangible personal property used in your trade or business.

5. **Automobile Depreciation:**
   - The first year depreciation limit for passenger autos placed in service in 2020 is $10,100without bonus depreciation and $18,100 with bonus depreciation.
   - Depending upon a number of factors, leasing may be a better option than buying an expensive automobile that is used in your trade or business.

6. **Purchase of Trucks, Vans and SUVs:**
   - The current tax law limits the tax depreciation on passenger automobiles to $18,100 for the first year, no matter how expensive the vehicle.
   - The definition of passenger automobiles excludes trucks, vans and SUV's that have a gross loaded vehicle weight above 6,000 pounds.
   - If you purchase a truck, van or SUV for business use that has a gross loaded vehicle weight above 6,000 pounds than you can use the bonus depreciation rules to obtain a larger tax deduction this year. This allows the entire cost of the vehicle to be deducted in the year of purchase.
   - There is also an exception to the depreciation limit rules for trucks and vans that are not likely to be used for personal purposes. This would include a truck or van that has been specially modified in such a way that it would not be used for personal purposes.

E. OTHER ISSUES TO CONSIDER IN TAX PLANNING FOR A BUSINESS OWNER:

1. **New Limitation on Business Losses:**
   - There are limits that apply to deductions for current year business losses incurred by non-corporate taxpayers.
   - These business losses can't offset more than $510,000 of income from other sources on a married filing joint tax return.
   - The excess business losses that are disallowed in the current year are carried forward as a net operating loss to your next year's tax return.
   - This limitation on excess business losses was amended by the CARES Act and no longer applies to tax years 2018, 2019 or 2020. It will now apply to tax years 2021 and subsequent tax years.

2. **Section 1202 Stock:**
   - A C Corporation that is involved in certain active trades or businesses may qualify as Section 1202 stock.
   - The gain on the sale of Section 1202 stock is 100% excluded from income.
   - The stock must be owned for at least 5 years.
   - The business cannot be a personal service corporation, a real estate company or a number of other activities.
   - This type of ownership structure is very popular in the technology sector.

3. **Long Term Care Insurance Premiums:**
    - These insurance policies can provide an excellent source of funds to pay for long term care costs.
    - These policies can also generate a tax deduction for the premium payments.
    - A business owner can purchase these policies through his/her business on a tax favorable basis.

4. **Sales Tax on Commercial Leases in Florida:**
    - Florida assesses sales tax on commercial leases.
    - The Florida sales tax rate on the rental, lease or license to use real property is 5.5% effective 1/1/2020.
    - The local option discretionary sales surtax will continue to apply. This surtax rate increased in Hillsborough County to 2.5% effective 1/1/2019.
    - These two taxes make the sales tax rate on commercial leases in Hillsborough County 8.00% effective January 1, 2020 (5.5% + 2.5% = 8.00%).

III. TAX PLANNING FOR INDIVIDUALS:

A. TAX PLANNING WITH IRA'S:

1. **IRA Contributions for 2020:**
    - Up to $6,000 can be contributed to an IRA for 2020. If you are age 50 or older you can contribute up to $7,000 to an IRA for 2020.
    - A non-deductible IRA may make sense for some individuals to fund each year.
    - This non-deductible IRA can then be converted each year to a ROTH IRA tax free if you have no other traditional IRA funds already established.

2. **IRA Withdrawals in 2020:**
    - If you expect your taxable income to be very low in 2020, you may consider withdrawing some or all of your traditional IRA in 2020. A low income year may be an opportunity for you to transfer funds from your IRA to your personal accounts and pay a small amount of tax to make this transfer.
    - The CARES Act allows individuals who have been impacted by COVID-19 to take up to $100,000 from their IRA or workplace retirement plans by 12/31/20. These distributions may be included in taxable income over 3 years or in the year taken at the individual's option. The withdrawal may also be repaid to the IRA or plan within 3 years.

3. **IRA'S For Children:**
    - If your child has earned income, consider funding an IRA for your child.
    - A regular IRA will provide a tax deduction if your child has significant taxable income, however it is unusual for a child to have significant taxable income.
    - Instead of a regular IRA, you should consider having $6,000 contributed to a Roth IRA for your child.
    - A Roth IRA will not provide a tax deduction, but it will provide your child with a vehicle for tax free growth of income.

- $6,000 deposited into an IRA each year for 10 years beginning when your child is 15 years old will grow (at 7%) to approximately $1,500,000 by the time your child reaches age 65. This is a great way for your child to accumulate tax free savings.

4. **ROTH IRA Conversions:**
   - There is no longer an income limitation in order to convert a traditional IRA into a Roth IRA.
   - You should determine if converting some or all of your traditional IRA's to a Roth IRA makes sense for you.
   - The Roth IRA allows for tax-free growth and no required minimum distribution at age 72.
   - The conversion from a traditional IRA to a ROTH IRA makes sense if:
     a) You have a number of years to go before retirement or you don't expect that you will need to take money out of your IRA in the future to pay your living expenses.
     b) You are in a low tax bracket in 2020.
     c) You anticipate that you will be in a higher tax bracket in the future than in the current year.
     d) You can pay the tax on the conversion from non-IRA assets.
     e) 2020 may be a good year to do a ROTH conversion if the value of your IRA is down this year and/or you think that your marginal tax rates will increase in the future.

5. **Required Minimum Distributions from IRA's:**

- A required minimum distribution ("RMD") is required to be made from an IRA each year after a taxpayer reaches age 72.
- The age for RMD's was changed from 70 ½ to 72 by the SECURE Act.
- The SECURE Act also made significant changes to the timing of distributions from an inherited IRA. "Stretch IRA's" are no longer allowed. The general rule is that most inherited IRA's will be required to be distributed to the IRA beneficiaries within 10 years after the death of the original IRA owner.
- A significant penalty applies if the RMD is not made each year.
- There is a provision for the tax free transfer of your RMD to a charity in 2020. You may consider having your charitable contribution made directly from your IRA by the IRA trustee to the charity. This strategy will allow the IRA distribution to be excluded from your gross income in 2020 and may provide some tax savings for you.
- The CARES Act provided relief from RMD distributions in 2020. An IRA distribution is not required to be made in 2020. This may provide a planning opportunity for some individuals to do a ROTH conversion in 2020 since they do not have to make an RMD in 2020.

B. TAX PLANNING WITH INVESTMENTS:

1. Capital Gains and Losses:

- The maximum capital gains tax rate on long term capital gains (assets held over one year) is 0% if you have taxable income below $80,250 and you file your tax return as married filing jointly for 2020.
- The maximum capital gains tax rate on long term capital gains (assets held over one year) is 15% if your taxable income is $496,600 or less and you file your tax return as married filing jointly for 2020.
- The maximum capital gains tax rate on long term capital gains (assets held over one year) is 20% if your taxable income is over $496,600 and you file your tax return as married filing jointly for 2020.
- There is an additional 3.8% surtax on capital gains if your income exceeds $250,000 (for joint tax returns) or $200,000 (for single tax returns).
- The 25% rate on real estate depreciation recapture and the 28% rate on gains from collectibles continue to apply when real estate or collectibles are sold.
- If you anticipate having capital gain income in 2020 you may consider evaluating your investments to determine if any losers should be sold by December 31, 2020 to generate capital losses to offset your capital gains.
- Beware of the wash sale rules when you are selling stocks at a loss. The wash sale rules prevent you from deducting a capital loss from the sale of a security if you buy a substantially identical position 30 days before the sale or 30 days after the sale. The wash sale rules do not apply to a gain.
- A capital loss can also be claimed in the year a stock becomes worthless. You may need to sell the stock before the end of the year for whatever value you can in order to prove the loss that you have incurred.
- If you have no capital gains in 2020, than up to $3,000 of capital losses can be used to offset your ordinary income in 2020.
- If you are involved in a real estate transaction which has a significant gain you may consider a like kind exchange in order to defer paying tax on the gain. This is called a section 1031 exchange.
- If the capital gains tax rate is increased in future years, it may make sense to recognize some capital gain income in 2020 by accelerating the sale of property into 2020.
- If you reinvest your capital gain into a Qualified Opportunity Zone Fund, than you can defer the tax on your capital gain until 2026. In addition, any additional capital gain that is earned on your Qualified Opportunity Zone investment will be tax free if it is held at least 10 years.

2. Preferential Rates on Dividend Income:

- The maximum tax rate on qualified dividend income is 0% if you have taxable income below $80,250 and you file your tax return as married filing jointly for 2020.
- The maximum tax rate on qualified dividend income is 15% if your taxable income is $496,600 or less and you file your tax return as married filing jointly for 2020.

- The maximum tax rate on qualified dividend income is 20% if your taxable income is over $496,600 and you file your tax return as married filing jointly for 2020.
- There is an additional 3.8% surtax on dividend income if your income exceeds $250,000 (for joint tax returns) or $200,000 (for single tax returns).
- This lower tax rate applies to dividends from domestic and qualified foreign corporations. The dividends from common or preferred stocks of most publicly held companies will qualify for these lower rates.

3. **Tax Advantage of the Lower Tax Rates:**

- The lower tax rates on long term capital gain income and on qualified dividend income provides an incentive to invest in assets that will generate long term capital gain income and qualified dividend income. The tax rates on the income from these assets are much lower than the tax rates on ordinary income.

C. TAX PLANNING WITH ITEMIZED DEDUCTIONS:

1) Sales Tax Deduction:

- A tax deduction is available for sales tax paid in 2020.
- You may find that calculating an estimate of the actual sales tax paid in 2020 will yield a larger tax deduction for you than the amount determined by the IRS tables.
- Your sales tax deduction may be limited due to the overall limitation of $10,000 that is allowed for all of your state and local taxes.

2) State Income Tax Deduction:

- A deduction for state income taxes is available for 2020.
- Your state income tax deduction may be limited due to the overall limitation of $10,000 that is allowed for all of your state and local taxes.

3) Real Estate Tax Deduction:

- A tax deduction is available for real estate taxes paid in 2020.
- Your real estate tax deduction may be limited due to the overall limitation of $10,000 that is allowed for all of your state and local taxes.
- You should consider paying the real estate taxes on your home and other properties as soon as possible to take advantage of the discount that is allowed by the tax collector's office for the early payment of your real estate taxes.

4) Charitable Contributions:

- Donations to a charitable organization may provide a tax benefit for you.
- Review the total amount of your itemized deductions to determine if they exceed the standard deduction amount. If your itemized deductions exceed your standard deduction amount, than you will obtain a tax benefit for making charitable donations.
- If your itemized deductions do not exceed your standard deduction amount, than you may consider bunching your charitable contributions into one year so that you will exceed your standard deduction amount. You may consider utilizing a donor advised fund to make your charitable contributions. A donor advised fund will allow you to make a significant charitable contribution to the fund in the current year and claim the charitable contribution in the current year. You can then donate these funds to various charities in future years. This strategy may provide some additional tax benefits for you, depending upon your specific tax situation.
- If you are planning to make additional contributions to a charitable organization, you should consider donating appreciated property that you have owned for over one year. You will obtain a tax deduction for the fair market value of the property donated and you do not have to pay capital gains tax on any of your gain.
- Don't forget to clean out your closets and donate used clothes, furniture and other items to charity by year end. You should get a receipt for your donation. You will be able to deduct the fair market value of these items on your 2020 tax return.
- There are specific record keeping requirements for charitable contributions. You must receive and maintain a receipt or acknowledgement from each charity for donations in excess of $250 showing the date, the amount of contribution and a statement that you received no benefit in exchange for the contribution.

5) Interest Expense:

- Interest on a mortgage on a home that is your principal residence or your 2nd home may generate a home mortgage interest expense deduction.
- If the mortgage exceeds $750,000, the interest deduction may be limited.
- There is a limit on home mortgage interest expense. Interest expense is fully deductible on up to $750,000 of home mortgages on your primary residence and your second home, if the funds were used to purchase or improve your homes. If you have an older mortgage (2017 or earlier), than the limitation on your mortgage interest expense may be higher for you.
- If you have money invested in money market accounts, CD's or other fixed income investments **and** you have a home mortgage, you may consider paying off your home mortgage. If you are earning less on your investments than you are paying in interest expense, than it may make sense to pay off your mortgage.

6) Medical Expenses:

- Medical expenses must exceed 7.50% of your adjusted gross income in 2020.
- You should be sure that your health insurance premiums are properly reported for 2020. Business owners that have their company pay their health insurance premiums can get a special tax deduction for these health insurance premiums if the premiums are correctly reported on their W-2 for 2020.

D. Health Savings Accounts:

- The Health Savings Account ("HSA") provides for a higher deductible insurance policy to reduce the cost of your health insurance premiums.
- The HSA can help provide a tax deduction for medical expenses.
- The HSA can also provide a tax free savings vehicle for future medical expenses.
- Workers with high-deductible health insurance coverage can deduct up to $3,550 (for individual coverage) or $7,100 (for family coverage) for 2020 contributions to their HSA.
- Individuals who are age 55 or older in 2020 can increase their annual HSA contribution by $1,000.
- You have up until April 15, 2021 to fund your HSA contribution for 2020.
- Contributions can not be made to an HSA after a participant attains age 65.

E. OTHER TAX ISSUES TO CONSIDER IN INDIVIDUAL TAX PLANNING:

1) 2020 Tax Payments:

- You should review your federal withholding and estimated income tax payments to make sure you will not be subject to underpayment penalties. To avoid a penalty for 2020, your total payments must equal the lesser of:
  - 90% of your current year tax liability or
  - 100% of last year's tax liability (110% if your adjusted gross income (AGI) was more than $150,000 in 2019)
- If you are short on tax payments for 2020, than you should have additional income tax withheld on your wages for the rest of 2020 or make an estimated tax payment.

2) Take Advantage of the Graduated Tax Rates:

- The current individual income tax rates are 0%, 12%, 22%, 24%, 32%, 35% and 37% for 2019 income tax returns.
- There is also a 3.8% additional tax on net investment income if your income exceeds $250,000 (if married) or $200,000 (if single).
- There can be significant tax advantages for shifting income to lower income family members over age 18 (23 if a student). There is a 40.8 percentage point difference between the top tax rates of 40.80% and the bottom tax rate of 0%.

3) The Kiddie Tax:

- The Kiddie tax applies to dependent children under the age of 19 (24 if a student).
- For children subject to the kiddie tax, their unearned income over $2,200 will be subject to tax based upon the tax bracket of their parents.
- A child can have earned income up to $12,400 in 2020 and pay no income tax on the earned income.
- The Kiddie tax applies to most dependent children under the age of 24. This rule eliminates most of the tax benefit of shifting unearned income to your children.

4) Beware of the Alternative Minimum Tax:

- You may be subject to the alternative minimum tax (AMT) if you have a large amount of capital gains or certain other "tax preference items".
- The tax laws related to the Alternative Minimum Tax have been changed so that the Alternative Minimum Tax will now apply to far fewer taxpayers..

5) Increase in the Social Security Wage Base:

- The Social Security wage base is $137,700 for 2020.
- The Social Security wage base increases to $142,800 for 2021.

6) The Net Investment Income Tax:

- There is a 3.8% surtax on unearned income of higher income taxpayers (individuals, estates and trusts).
- The surtax will apply if the taxpayer has net investment income and adjusted gross income in excess of $250,000 (joint tax returns), in excess of $200,000 (single tax returns) and in excess of $11,650 (estate and trust income tax returns).
- Net investment income includes income from; interest, dividends, annuities, royalties and rents (unless from a trade or business), net taxable gain from the sale of property (unless from an active trade or business), and gross income from a passive trade or business.
- Net investment income does not include income from; tax-exempt interest, excluded gain from the sale of a personal residence, retirement plan distributions, IRA distributions, or an active trade or business.

7) Education Funding Ideas:

- Section 529 plans allow for tax free growth of income if the funds are used for higher education expenses.
- The State of Florida also has a prepaid program that allows for college savings.
- These plans can be tax efficient ways to save for educational costs.

- You are now able to withdraw up to $10,000 per year per student from a 529 plan to pay the tuition to elementary and secondary schools.
- You could also put your child to work for your business. This gives your business a tax deduction and the income is income tax free if the child's income is less than the standard deduction amount of $12,400 in 2020.

IV. ESTATE PLANNING:

- If you have a sizable estate you should consider annual gifting and other estate planning techniques to reduce your taxable estate.
- There is a gift tax of 40% for cumulative gifts over your lifetime that exceeds $11,580,000.
- The annual gift tax exclusion for 2020 is $15,000 per person. This annual exclusion of $15,000 does not count towards your lifetime exclusion amount of $11,580,000.
- The direct payment of tuition or medical expenses does not count towards the annual gift tax exclusion. This is a good tax planning move for wealthy grandparents to help pay for their grandchildren's educational costs and/or medical care and reduce their taxable estates.
- There is an estate tax of 40% of the amount of assets transferred at your death in excess of $11,580,000 (including taxable gifts made during your lifetime).
- In some situations there may also be an opportunity to utilize a gift of a minority interest in hard to value assets like LLC's and family limited partnerships to obtain a discounted value on the amount gifted.
- You should review your estate plan to determine if any actions should be done prior to year end to take advantage of the annual $15,000 gift tax exclusion amount and/or the current $11,580,000 lifetime exclusion amount.
- There could be significant changes to the estate tax laws. The current estate tax laws will expire in 2025. The lifetime exclusion will then go back to the old amount of $5,000,000.
- You should review your estate plan to determine if you should make any changes now to take advantage of the current estate tax laws.
- You should also review your wills and trusts each year to be sure they are accomplishing your current goals. Our lives constantly change. You should be sure that your wills and trusts are updated to reflect these changes.