Year-End & Beyond Tax Planning:

How to Pay Less Tax in 2020-2021

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Presented by Olga Mavrody, CPA, EA, MST www.olmatax.com
650.353.7737
cpa@olmatax.com

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Today's Topics

- A. Annual Tax Planning Action Items
- **B.** Post-Election Last Minute Considerations
- c. Retirement Planning (under Care & Secure Acts)
- D. Charitable Contribution Strategies
- E. Business & Self-Employment Provisions (COVID-related)

Annual Tax Optimization

- Bracket Management
 - Bonuses, recognition events, AMT awareness
- Itemized Deductions Timing

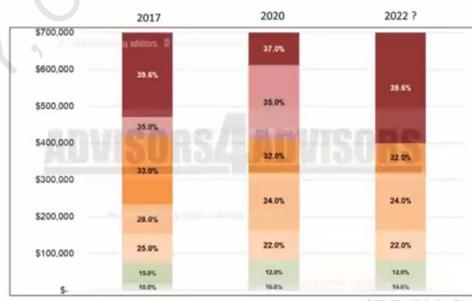
Disappear for long-time homeowners, renters. Severely limited for high wage earners, owners of pricey homes

- Alternate Years/Bunching:
- ✓ Medical (if no H.S.A.)
- Charitable contributions

Year-End Post-Election Considerations

- ▶ Incomes >\$1M: 39.6% on cap gains & qualified dividends vs. 20%
 - Selling storm => values down?
 - Longer holding periods
- Incomes >\$400K:
 - □ Social Security tax (+6.2%) | 12.4% | 0% | 12.4% | >
 - Qualified Business Income Deduction (Sec.199A) phase-out
 regardless of occupation
 - □ Top tax rate from 37% to 39.6%
- Reinstatement of AMT
- Itemized deduction tax benefit limited to 28%
- Restore 3% PEASE limitation
- No 401k deduction but credit at 28%.
 - Good for 24% rate taxpayers. Higher rate taxpayers might want Roth





Year-End Post-Election Considerations

- No basis step-up: details unclear
 - Double taxation if income tax deduction is not effected for estate tax (and vice versa)
 - Tendency to find better investments
 - Avoid 39.6% rate in the year of death instead of a 20% rate during life
 - Selling & gifting storm
- 2022: Estate/gift tax exemption is to fall from \$11M+ to "historic" \$2M-\$3.5M
 - Late stage gifting could be constrained

Year-End Post-Election Considerations: Practical Steps

Accelerate:

- ✓ Bonuses
- Roth conversion
- Cap gains
- ✓ Sec. 453 sales
- Property tax, Q4 ES payments, Charitable contributions to avoid itemized deduction limits

Exercise non-qual stock options
Harvest gains

Defer:

- ✓ Harvesting losses
- Business expenses or losses
- Property taxes in case of \$10K
 SALT limit repeal or higher rates,
- ✓ Charitable contributions

Retirement Accounts Planning

- Up to \$100,000 coronavirus-related distributions (CRDs) must be coronavirus-related but no definition
 - CRD from retirement plans & IRAs are included in income 1/3 each year 2020-2022. Can opt-out and include in 2022. But will have to amend 2020-2021
 - No 10% early withdrawal penalty regardless of age and no mandatory withholdings by employer plans
 - CRDs can be repaid in one or more payments within 3 years. Will not count toward max contribution limit in the year of recontribution
 - Distributions from employer plan, recontribution to IRA
- Roth IRA conversion: lowest tax rates, lower market values, lower incomes, artificially created low income or loss
 - Stretch income recognition over 3 years as with CRDs? Not prohibited, but could be disallowed?
- No RMD in 2020. Age raised to 72 years
- ▶ Traditional IRA contributions don't stop at 70.5. Spousal contributions can also continue.
- Loans from 401k up to \$100,000
- Existing 401k loans due by 12/31/2020 can be delayed by 1 year

Charitable Contributions

- "Bunching" make a large donation every other year (e.g. shift December contributions to January)
- Use Donor Advised Funds (e.g. Fidelity allows as little as \$5K)
- Give appreciated stock instead of cash, held over 1 year
- All of the above
- > \$300 can be deducted above the line for 2020 if you do not itemize
- Deduction can now be deducted up to 100% of AGI for 2020 (was 60%)

Self-Employment Sick & Family Leave Credits

Sick Leave

- Refundable tax credit = number of days unable to work (<u>maximum 10</u>) multiplied by either:
 - Lesser of \$511 or 100% of average daily SE income (if sick), or
 - Lesser of \$200 or 67% of average daily SE income (if caring for sick family or child out of school)

Family Leave

- Refundable tax credit = number of days unable to work (<u>maximum 50</u>) multiplied by either:
- Lesser of \$200 or 67% of average daily SE income (if caring for child out of school)

Average daily SE income = the total net earnings from self-employment divided by 260

Section 139, Qualified Disaster Relief Payments

- Payments to or for the benefit of an individual to reimburse or pay reasonable and necessary:
 - Personal, family, living or funeral expenses incurred as a result of a qualified disaster
 - No definition
- Nontaxable to employees and deductible to employers

Net Operating Losses (NOL) Liquidity

- For 2018, 2019 and 2020 tax years
- NOL carryback of 5 years (was no carryback)
- Option to waive the carryback if not needed for prior years
- NOL carryforward indefinitely (was 20 years)
- NOL offsets up to 100% of taxable income (was 80%)
- Refunds issued within 90 days for 2018-2019 NOLs injects liquidity

15-Year Qualified Leasehold Improvement Amendment

- Improvement to the nonresidential building interior, non-structural portion of a building (i.e. remodel of rented office, retail or restaurant space)
- Now can be depreciated over 15 years instead of 39 years. Bonus depreciation is available. Goes back to 2018 improvements
- Retroactive lump-sum deduction which could create a NOL that can generate additional cash refunds

Q&A