

# Year-End & Beyond Tax Planning:

## How to Pay Less Tax in 2020-2021

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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%)
- ❑ 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

Married Filing Jointly



# 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 (maximum 10) 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 (maximum 50) 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