AAFCPAs

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2020 Year-End Tax Planning

For Individuals, Families, and Trusts

1 CPE Credit Available

AAFCPAs issues CPE in accordance with NASBA regulations

To be eligible for CPE you must:

- Submit answers to all polling questions when they pop up
- Complete and submit evaluation
- Remain logged in to the webinar for the entirety of the program

We will email CPE certificates by mid-November to the email address you provided

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MEET THE SPEAKERS

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Individual Income Tax Planning Opportunities

Standard Deduction

- Single - $12,400
- Married Filing Jointly - $24,800
- Head of Household - $18,650
- Married Filing Separately - $12,400
- Qualifying Widow(er) - $24,800

State Taxes

- Prior to the TCJA, a taxpayer was allowed to deduct state and local taxes (or sales tax if it was higher) with no caps.
- Now there is a cap on state and local taxes (or sales tax if higher) of $10,000.
- This poses a problem for those in states with high income/real estate taxes.

Home Mortgage Interest

- Home Equity Debt –
  - Generally not deductible
    - However, if it would qualify for the mortgage interest deduction and this amount plus the original mortgage is not above 750K, then it is deductible.
    - You are no longer able to deduct 100K of home equity debt used for other purposes.

Home Mortgage Interest

- Mortgage Debt
  - Limit decreased from $1 million to $750K.
  - This is for any mortgages in service after December 15, 2017.
  - Any mortgages prior to this are grandfathered in (Home Equity Loan is not grandfathered in).

Itemized Deductions Removed

REMINDER: Miscellaneous itemized deductions have been removed. These consisted of the following:

- Unreimbursed employee expenses
- Tax prep fees
- Hobby expenses
- Investment fees/expenses
- Legal fees related to producing income
- Safe deposit box fees
- Home office deduction (employees)

Charitable Contributions

- Given the substantial increase in standard deductions, people that may have itemized in the past may not do so anymore
- This could lead to those people receiving no benefit for charitable contributions
- One way around this would be to “stack” donations.
- Use of Donor Advised Funds
- In addition, AGI limitations are now 60% (from 50%). Donations subject to 30% and 20% AGI limitations remain the same. Note: Major changes to this due to the CARES Act

CARES ACT Charitable Contributions

- Above the Line Deduction
  - The CARES Act adds a new above-the-line deduction, available in 2020 and future years, for up to $300 of cash contributions
  - This deduction is an additional deduction and does not take away from the standard deduction
  - Contributions to supporting organizations under IRC 509(a)(3) and to donor advised funds do not qualify

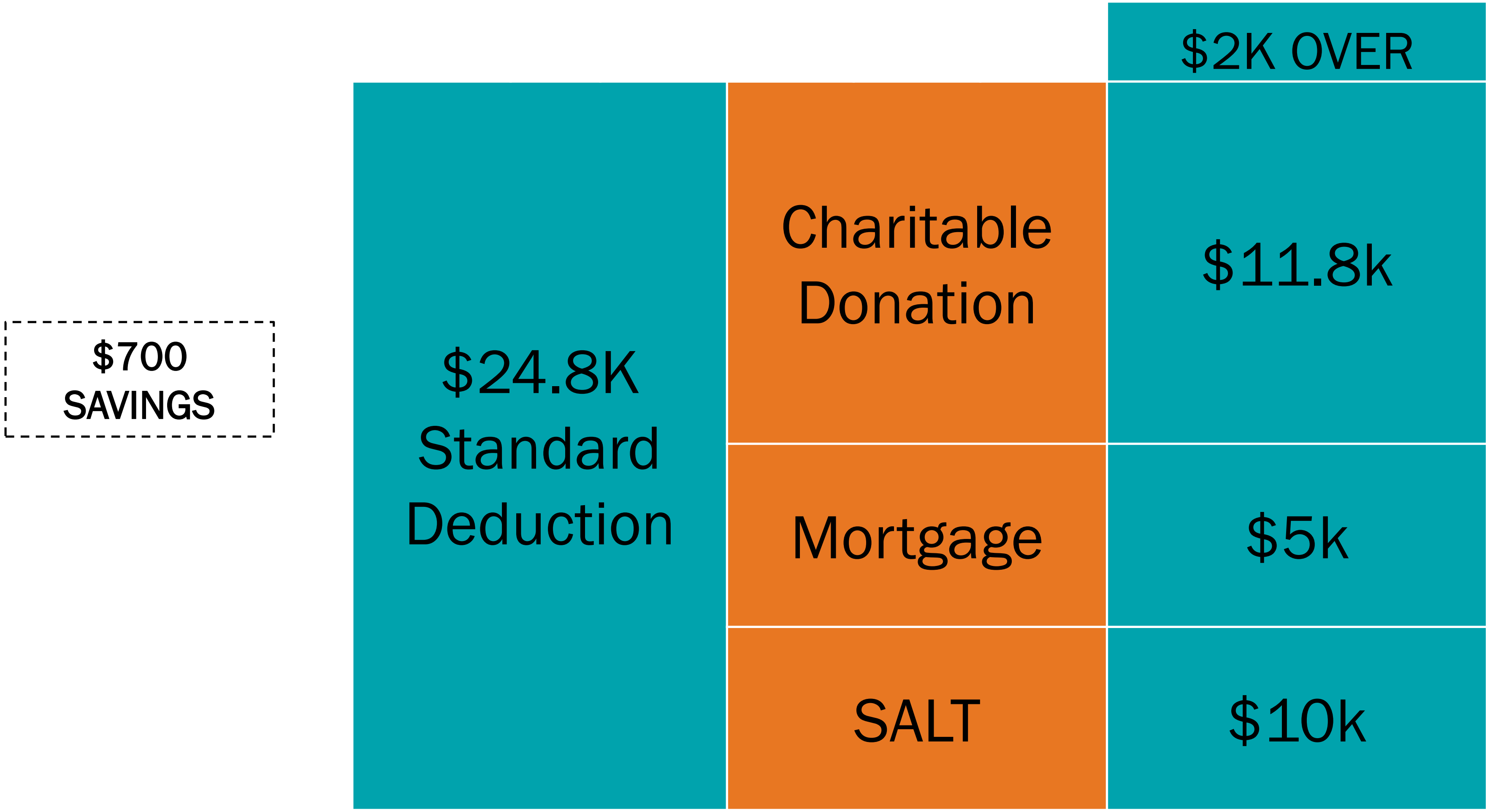
CARES ACT Charitable Contributions

- Cash contributions to public charities are limited to 60% of the individual’s annual adjusted gross income
- For 2020 the cash contribution limit is increased to 100% of the individual's adjusted gross income (AGI)
- Any excess is carried over for five (5) years
- Cash contributions to supporting organizations under IRC 509(a)(3), private foundations and to donor advised funds do not qualify for the 100% AGI limit

Donor Advised Funds

- Contribute appreciated stock, cash, privately held business interest and other non-publicly traded assets.
- Immediate tax deduction for the fair market value of what is donated
- Ability to then spread that donation out over a number of charities over a number of years

How a Higher Standard Deduction Affects the Deductibility of Charitable Donations



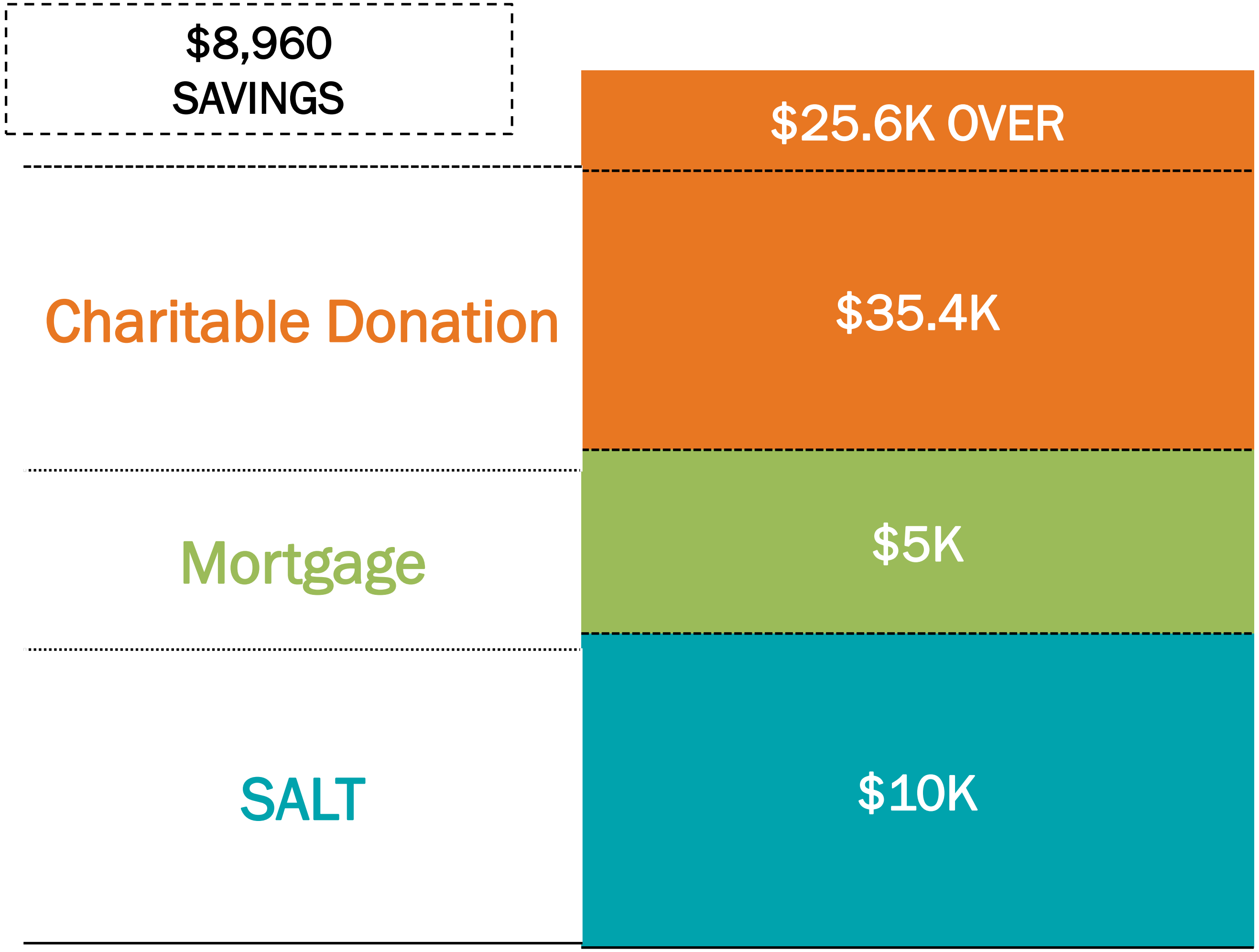
Bunching Strategies Using a Donor Advised Fund

$2,100 TOTAL SAVINGS		
$700 SAVINGS	$700 SAVINGS	$700 SAVINGS

Assumes a 35% Income Tax Bracket

		$2K OVER	$2K OVER	$2K OVER
$24.8K Standard Deduction	Charitable Donation	$11.8k	$11.8k	$11.8k
	Mortgage	$5k	$5k	$5k
	SALT	$10k	$10k	$10k
		2020	2021	2022

Bunching Strategies Using a Donor Advised Fund



Qualified Charitable Distribution

- Make a direct contribution from your IRA to a qualified charity
  - Amount contributed is excluded from income
  - Contribution can satisfy your IRA required minimum distribution (Note: For 2020 RMDs have been suspended due to the CARES ACT)
  - Income is excluded for state purposes (beneficial for states that don't allow a charitable deduction)
- Helpful if you are not able to itemize based on the increased standard deduction or have AGI limitations on deductions

Qualified Charitable Distribution

- Rules and Limits
  - You must be 70 ½ or older
  - $100,000 annual limit
  - You can’t claim a charitable deduction for the contribution
  - Recipient can’t be a Donor-Advised Fund or Supporting Organization

Charitable Contribution Planning: Contribution Limits

	Private Foundations	Donor Advised Fund	Supporting Organizations	Public Charities
Cash	30% of AGI	60% of AGI	60% of AGI	100% of AGI
LTCG Publicly Traded Stock	20% of AGI	30% of AGI	30% of AGI	30% of AGI
LTCG Other Property	20% of AGI and only basis in property	30% of AGI	30% of AGI	30% of AGI
STCG Property	20% of AGI and only basis in property	30% of AGI and only basis in property	30% of AGI and only basis in property	30% of AGI and only basis in property

Charitable Contribution Planning (cont.)

Impact on Itemized Deductions

Taxpayers who use the 100% AGI cash contribution limit lose the impact of other itemized deductions

Example: Jon has AGI of $100,000; makes cash contributions of $100,000; has real estate tax deduction of $10,000; and mortgage interest of $15,000

Uses the full $100,000 charitable deduction and loses the $25,000 of other deductions

Charitable Contribution Planning (cont.)

Impact on Itemized Deductions

Taxpayers can prevent the loss of the tax benefit of charitable contributions by making multiple cash contributions in 2020

CARES Act permits taxpayers to elect whether to apply the 100% of AGI limit to each qualifying contribution

Example: Jon has AGI of $100,000; makes four cash contributions of $25,000 each; has real estate tax deduction of $10,000; and mortgage interest of $15,000

Ted can elect to apply the 100% AGI limit to three of the charitable contributions carrying the final $25,000 gift into future years

Charitable Contribution Planning (cont.)

Roth Conversion

Donors can increase their AGI by converting an IRA (or other qualified retirement plan) to a Roth IRA.

Increases the income available for the 100% of AGI limitation. Resulting in:

- A larger charitable contribution deduction in 2020;
- Pay less federal income tax on the Roth IRA conversion.

Alternative Minimum Tax

- Unlike Corporate Alternative Minimum Tax (AMT), Individual AMT has not been repealed
- Less people may be subject to it going forward
  - Increased AMT Exemption
  - Cap on Real Estate Taxes
  - Removal of Miscellaneous Itemized Deduction

AMT Triggers

- Large amount of capital gains and dividend income
- Exercise and Hold of ISOs – Timing here is **key**!
- Tax Exempt interest on certain private-activity municipal interest

Excess Business Loss Limitations

- Under TCJA – Business losses in excess of the total income from a passthrough/non corporate business was limited to 500K for Married filing joint (250K for single).
- Under the CARES Act this limitation was repealed for tax years 2018-2020

Net Operating Losses

- Under TCJA all Net Operating losses had to be carried forward.
- The CARES act added a provision that losses arising in 2018-2020 are allowed a five-year carryback, but you can elect to just carry the loss forward.

Economic Impact Payment

- Eligible individuals received up to $2,400 (jointly), $1,200 individual and $500 per qualifying child (under age 17)
- Phase out starts at 150K joint (75K single). Phase out complete at 198K
- Based on your 2019 filing (2018 if your 2019 return was not filed yet)
- Reconciliation will be done on your 2020 Tax Return

Key Take-aways

- Given the increased standard deduction consider bunching donations – DONOR ADVISED FUND
- In 2020, due to the CARES act, a $300 charitable deduction is available to all taxpayers regardless of if you itemize
- Net Operating Losses can be carried back for losses arising in 2018-2020
- No RMDs for 2020. If you have lower income, consider accelerating income in 2020. One strategy would be a Roth conversion.

Polling Question #1

Did you itemize or take the standard deduction in 2019?

*CPE Requirement

What is the SECURE Act, and how does it affect your retirement?

What is the SECURE ACT

- The SECURE Act is located in the massive budget bill enacted by Congress and Signed into law by President Trump on December 20, 2019; and
  - *See § 401, in TITLE IV—REVENUE PROVISIONS of "DIVISION O" ("SETTING EVERY COMMUNITY UP FOR RETIREMENT ENHANCEMENT") ["SECURE"] of the "Further Consolidated Appropriations Act, 2020;"*
- The SECURE Act included dramatic changes to the estate planning world surrounding retirement benefits.

SECURE Act: 10 Year Payout Rule

- Prior to the SECURE Act, a beneficiary of an inherited IRA or Roth could withdraw the account over their lifetime; but
  - Under the SECURE ACT, the retirement accounts must be drawn down over 10 years for anyone passing away after 2019 (this does not apply to a surviving spouse);
    - There are no annual distribution requirements so long as the account is emptied within 10 years.

SECURE Act: 10 Year Payout Rule Cont.

- If your chosen beneficiary is your surviving spouse, a disabled or chronically ill individual, or a minor, distributions won't be subject to the 10-year payout requirement
- However, if you leave your retirement to a trust with the intent of it being paid out over a beneficiary’s lifetime, you will now be faced with the 10-year payout rule

SECURE Act: 10 Year Payout Rule Cont.

- Accumulation trusts are still effective; however, the Trustee will still need to pay the tax bill on the distributions from the plan within 10 years; and
- Charitable remainder trusts may be an option where you have a charitable intent and a desire to leave a lifetime income stream to the beneficiary rather than a 10-year payout.

SECURE Act: Contributions After 70 ½

- The SECURE Act removes the age restriction on contributing to IRAs if an individual or spouse has earned income
  - Prior to this, an individual could only contribute to an IRA until they reached 70 1/2 .

SECURE Act: Required Minimum Distributions

- The SECURE Act moves the age at which individuals must start taking a required minimum distribution (RMD) from 70 ½ to 72
  - Anyone who turned 70 ½ in 2019 is unaffected by this change.

SECURE Act: Qualified Charitable Distributions

- After reaching 70 ½ you can continue to make charitable contributions of up to $100,000, tax free, per year directly from your IRAs
  - The SECURE Act kept the ability to make a Qualified Charitable Distribution (“QCD”) at age 70 ½ even though an RMD is not required until age 72.

SECURE ACT: 529 Plans

- The SECURE Act expanded the definition of qualified higher education expenses to include student loan payment, payments to trade schools, and for apprenticeships; and
- Student loans can be paid out of a 529 plan up to $10,000 over the beneficiary's lifetime.

SECURE ACT: Kiddie Tax

- Previously under the Tax Cuts and Jobs Act, a child’s unearned income was taxed at the estate and trust tax rates; however
- Under the SECURE Act, the child’s unearned income will now be taxed at the parent’s tax rate if higher than the tax rate of the child.

Estate Planning Under Joe Biden’s Proposed Tax Plan and Incorporating the Current Economic Situation into your Estate Plan

Estate Tax Exemption Under Joe Biden's Plan

- The expanded $11.58 million estate tax exemption is set to go back down to its pre-TCJA amount of $5 million (indexed for inflation) in 2025;
- However, under the proposed tax plan, the current estate tax exemption would be cut in half back to its pre-TCJA amount as early as January of 2021.

Removal of Step up in Basis Under Joe Biden's Plan

- Second, and more significant for estate planning purposes, would be the removal of the "step-up in basis" rule for inherited assets;
  - Currently, any assets inherited receive a "step up in basis" to their full fair market value upon the date of death of the decedent;
    - Currently, heirs avoid paying capital gains on the appreciation for the inherited assets.

Could the Proposed Tax Plan be Enacted Retroactively?

- While rare, there have been historical precedents for enacting tax legislation retroactively;
- Retroactive taxation has been upheld under the due process clause, as courts have ruled that taxation is not a penalty nor a liability upon the taxpayer, and that it is common to enact laws covering an annual period that includes the date of enactment so that the effective date precedes the date of enactment.

What can you do to prepare for these changes?

<u>Spousal Lifetime Access Trust (SLAT)</u>

- These are irrevocable trusts each spouse creates for the other;
- Each spouse makes gifts of assets to each of the trusts using their respective estate tax exemptions; and
  - This removes the assets from their estates, while allowing each spouse to keep control of one half of the assets;
- The fair market value of assets is essentially frozen for estate tax purposes as future appreciation is removed from each spouse's taxable estate.

What can you do to prepare for these changes?

- For married couples with assets over $5 million, but under the current $11.58 million exemption, one option is to make a gift of all the assets to a trust for the benefit of the second spouse;
- This will use up the first spouse's exemption but preserves the second spouse's exemption for future use, should the tax law change.

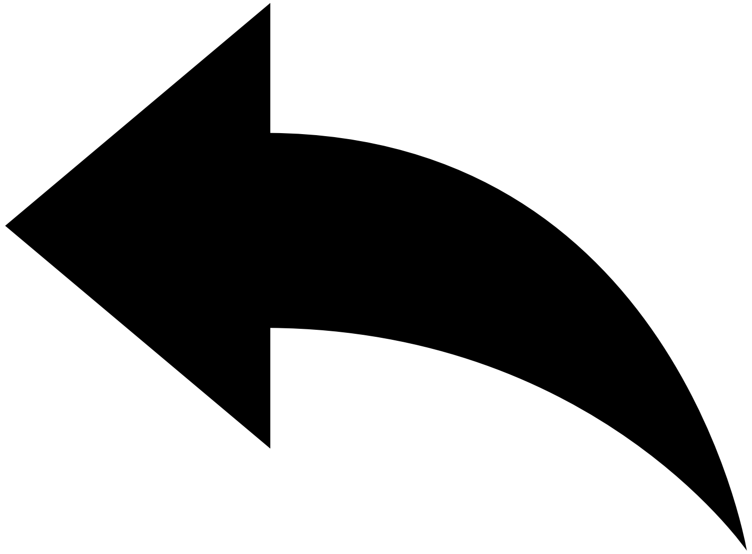
What can you do to prepare for these changes?

<u>Intentionally Defective Grantor Trust (IDGT)</u>

- With this strategy, the Client would sell their highly appreciated assets to the IDGT in exchange for a promissory note for the current fair market value of the asset;
- While the value of the promissory note would be subject to estate tax upon the Client's death, the value of the assets will not be.

What can you do to prepare for these changes?

- We can make a completed gift of assets today;
- However, we wait until next October to decide whether we want to use the estate tax exemption or even undue gift; and
- This will give us flexibility to interpret any changes in the tax law.



The Current Economy Presents Opportunities for Estate Planning

- Due to COVID-19 and the economic downturn, the current value of businesses and interest rates are depressed, making estate planning more advantageous now than ever;
  - Certain strategies are particularly powerful when the value of property and interest rates are low.

Estate Planning Strategies in Today's Economy

Gifts of closely held business interests and real estate

Transfer at reduced value;

Future appreciation not included in taxable estate;

Loans to Family Members

Historically low interest rates;

Opportunity to refinance existing intra-family loans;

Future appreciation not included in taxable estate;

Estate Planning Strategies in Today's Economy

Grantor Retained Annuity Trust

Shift future appreciation in the value of the property;

Donor funds trust with property but retains a right to receive an annuity for a short period;

Annuity returns to Donor the amount contributed plus IRS interest rate (currently 1.2%);

Appreciation in the value of the property of more than 1.2% effectively transferred.

Intentionally Defective Grantor Trust (IDGT)

With this strategy, the Client would sell their highly appreciated assets to the IDGT in exchange for a promissory note for the current fair market value of the asset;

This is not a sale for income tax purposes, and is also not treated as making a gift;

This strategy allows the Client to take advantage of the economic downturn by exchanging an appreciating asset for a depreciating asset (the promissory note).

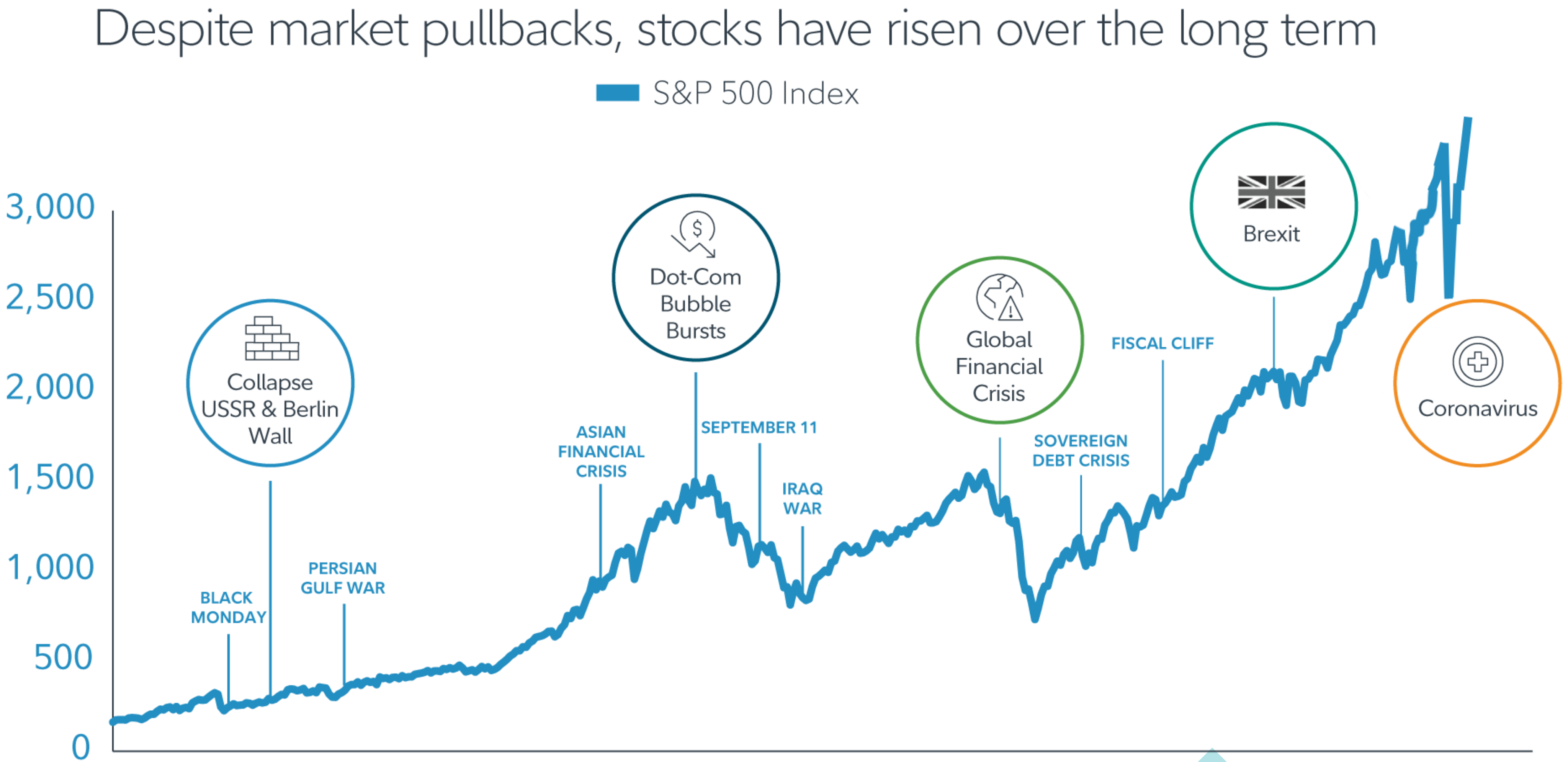
Poll Question 2

Has the current value of your assets decreased due to COVID-19?

*CPE Requirement

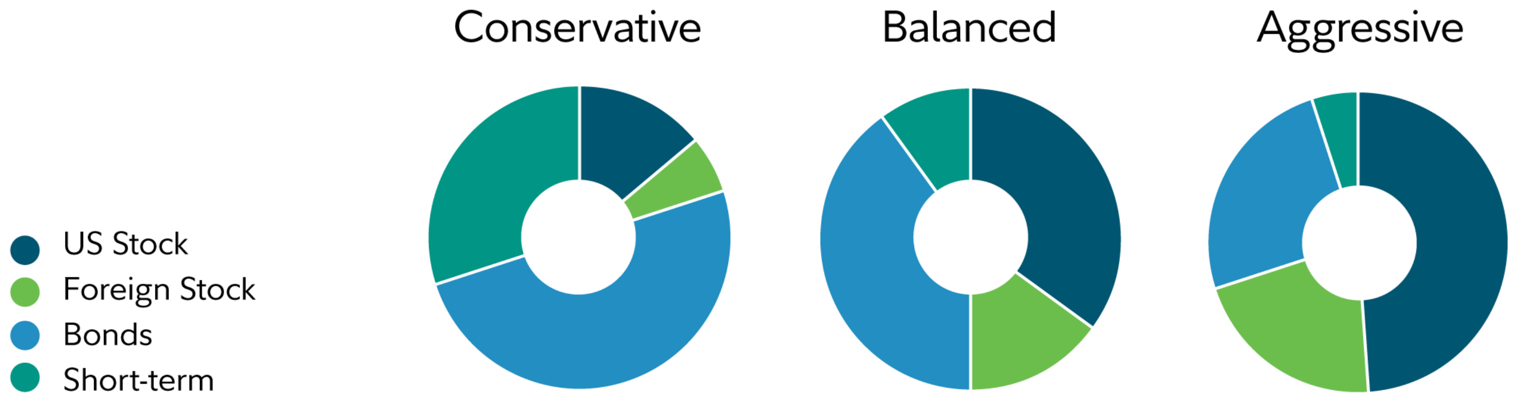
Wealth Management

Be Consistent During Inconsistent Times



Past performance is no guarantee of future results. | **Source:** https://www.fidelity.com/viewpoints/investing-ideas/six-tips

Your Asset Allocation is Important



ANNUAL RETURN %			
Average annual return	5.94%	7.93%	8.94%
Worst 12-month return	-17.67%	-40.64%	-52.92%
Best 12-month return	31.06%	76.57%	109.55%
Worst 20-year return (annualized)	2.92%	3.39%	3.10%
Best 20-year return (annualized)	10.98%	13.84%	15.34%

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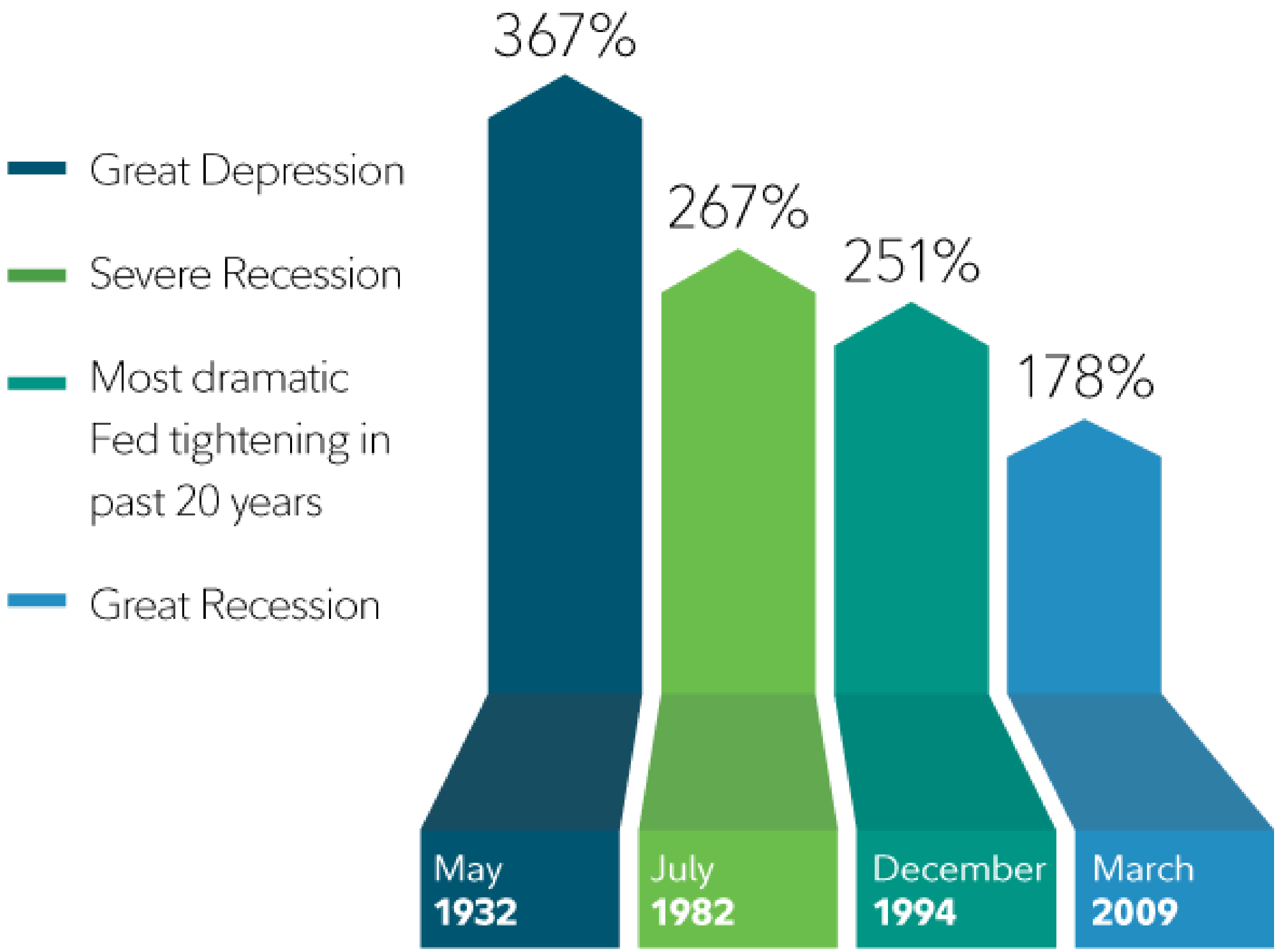
Subsequent 5 Year Return



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Investment Tax Strategies

Tax Loss Harvesting

Roth Conversions

Rebalancing

Auto-Invest

Past performance is no guarantee of future results.

Poll Question 3

Are you confident you have an all-weather portfolio?

*CPE Requirement

Questions

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