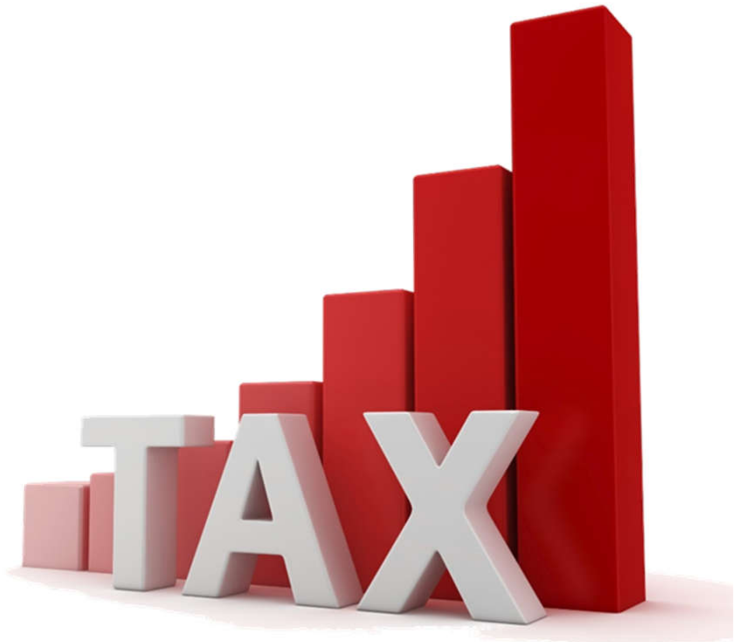

2020 Year End Tax Planning Seminar

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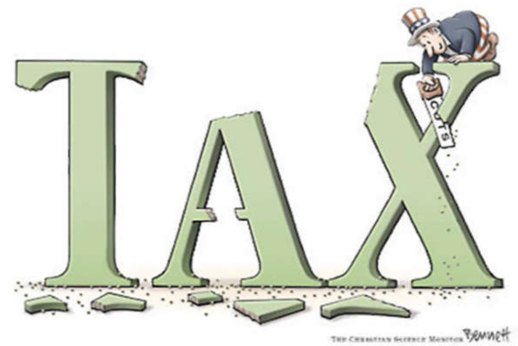
2020 Main Tax Themes



- What is The SECURE Act?
- What is The CARES Act?
- Year End Tax Planning Opportunities

The SECURE Act - Key Impacts for Individuals

- Required Minimum Distributions (RMDs).
- Maximum Traditional IRA contribution age.
- Elimination of the stretch IRA option for most non-spouse inherited IRA beneficiaries.

Required Minimum Distributions – Old Rules

Previously, taxpayers needed to begin taking RMDs by the end of the year that they turned 70 ½.

- Bob's DOB was on or before 6/30/1949. He turned 70 ½ in 2019 and needed to start his RMDs last year.
- Jane's DOB was on or after 7/1/1949 so she'll turn 70 ½ in 2020 and would have needed to start her RMD in 2020.

Required Minimum Distributions - New Rules

- Taxpayers need to begin taking RMDs by the end of the year that they turned age 72.
- Taxpayers will still have the option to push their RMD to before April 1 of the year following when they turned 72. However, they'll still need to take the RMD for that year too (i.e. two RMDs in one year).
- If you were supposed to start your RMDs before 12/31/2019 (i.e. someone whose 70th birthday was between 1/1/2019 & 6/30/2019) you're still subject to the old rules and will need to take an RMD at age 71 and beyond.
- The key benefit is that this will allow taxpayers born after 6/30/1949 to delay starting their RMDs for 2 additional years.

Elimination of the age restriction on Traditional IRA Contributions

- Previously, taxpayers over the age of 70 ½ were not allowed to make traditional IRA contributions.
- Taxpayers will now be allowed to make traditional IRA contributions beyond age 70 ½.
- You still need to have earned income to be able to make these contributions. One exception would be if they have a job or self-employment income greater than or equal to the amount they want to contribute.
- 2020 Maximum Contribution (age 50+) = $6,000 + $1,000 Catch up = $7,000

Death of the Stretch IRA - Old Rules

- Previously, when someone inherited a retirement account, they needed to begin taking a required minimum distribution.
- They had a few options depending on their preference and whether the IRA owner died before or after they turned 70 ½.
- One of the tax efficient options beneficiaries could use was the stretch IRA. This was a way IRA beneficiaries could stretch the withdrawals over their life expectancy.

Death of the Stretch IRA - New Rules

The SECURE Act replaced the stretch IRA option with a requirement that the full IRA be distributed within 10 years.

Example:

- *Jacob inherits a $1,000,000 IRA. Rather than having to take out roughly $21,000 a year, he'll now have to deplete the account within 10 years.*
- *He could take out $100,000 per year, or $0 in years 1-9 and then the entire account balance in year 10, or any combination that he likes so long as the account is depleted within 10 years.*
- *The impact to Jacob is that he'll need to treat the IRA withdrawals as income on top of his normal income which will likely subject it to a higher tax rate than under the previous Stretch IRA rules.*

Death of the Stretch IRA - New Planning Opportunities

One potential silver lining of the end of the stretch IRA would be if a beneficiary inherited an IRA and were less than 10 years from retirement, they could choose to incur more income in the years after they stop working.

Example:

Jane is 55 when she inherits an IRA. She doesn't love her job and after she reaches 60, she hopes to leave her current employer for a less stressful, lower paying job combined with some volunteer work.

- *She can delay taking RMDs from age 55 – 60 and then start taking RMDs from 60-65.*
- *Or she may opt to not take any RMDs from 55-64 so she can qualify for health insurance subsidies under the Affordable Care Act. She'd then have to withdraw the entire balance in the 10th year.*

Death of the Stretch IRA - New Planning Opportunities

For taxpayers with large IRA balances, the end of the stretch potentially makes Roth IRA conversions more compelling.

- Consider what tax rate you would be paying if converting to a Roth IRA and decide whether it was likely to be at a more favorable tax rate than you or your heirs would be subject to.
- Consider what phase of life your heirs will likely be in at the time they'd be receiving this money. Would they be in their peak earnings years or if you're naming grandchildren would they be just starting a family?

Other Changes

- 529 Plans will allow a one-time $10,000 penalty-free and tax-free withdrawal from 529 Plans to pay qualified student loans.
- The Kiddie Tax was modified under the Tax Cuts and Jobs Act (TCJA) to tax minor children at the Trust and Estate tax rates. The SECURE Act overturns that and makes child income taxed at the parent’s rates.
- Under TCJA, health care expenses were only deductible to the extent they exceeded 10% of AGI. They will now be deductible once they exceed 7.5% of AGI.

The CARES Act - Key Impacts for Individuals

- **Stimulus Payments** - $1,200 per taxpayer plus $500 per dependent child under age 17 (if AGI is below income limits).
- **Required Minimum Distributions (RMDs) Waived for 2020** – Also allows people to return their RMDs back to their IRA in specific scenarios.
- **Additional Charitable Deduction** – Allows taxpayers a maximum $300 above the line deduction for gifts to a qualified charity if they take the standard deduction.
- **Paycheck Protection Program Loans (PPP)** – Forgivable loans to businesses with fewer than 500 employees if at least 75% is directed to payroll expenses and 25% or less is directed to mortgage, rent, or utilities.
- **Expansion of Unemployment Insurance** – Coverage extended to self employed. Additional $600 per week paid to workers from the Federal government who are eligible to collect unemployment under their state's unemployment program.

The CARES Act - Key Impacts for Individuals

- Taxpayers who already took their RMD had the opportunity to put it back before August 31 or within 60 days of taking it out.
  - If you took a withdrawal on 1/1/2020 you could put it back before 8/31/2020.
  - If you took a withdrawal on 9/1 you could put it back before 10/31 because it was 60 days from the withdrawal. They also waived the one-indirect rollover per 365-day period rule for this year only.
  - Coronavirus Related Distributions – Allows certain people affected by Coronavirus to withdraw up to $100,000 from retirement plans and spread the tax liability over three years. More guidance is expected from the IRS on this.
  - A 10% additional penalty will not apply to all coronavirus-related distributions.
  - Distributions are taxable starting in the year in which the distribution is received. The distribution would be spread apportioned over a 2020, 2021 and 2022.

Year End Tax Planning

INCOME	Determine if you need to accelerate income or reduce income.
ACCELERATE	Accelerate income to take advantage of low tax brackets, 0% long term capital gains rate or to plan for single filing status.
REDUCE	Reduce income to stay in a lower tax bracket, keep Modified Adjusted Growth Income (MAGI) below the Income Related Monthly Adjustment Amount (IRMAA) thresholds, or to keep Social Security from being taxed up to the 85% maximum threshold.
GIFT	Determine wealth transfer gifting strategies via annual exclusion amounts or gift cash directly to charities in order to take advantage of the temporary 100% of AGI limit. Consider bunching deductions.
DAF	Fund Donor Advised Charitable Funds with appreciated stock.
529s	Fund 529 plans for grandchildren if applicable to reduce PA income.

Ways to Accelerate Income

- Harvest Capital Gains
- Roth Conversions
- IRA Distributions
- Annuity Distributions
- Sale of appreciated real estate or rental

Way's to Reduce Income

Harvest Capital Losses

Take advantage of Qualified Charitable Distributions

Gifts of cash or securities directly to a qualified charitable organization

Evaluate taxable investment portfolio for tax efficiency i.e. Municipal Bonds, Exchange Traded Funds, Individual Stocks

Improvements to rental properties

Qualified Charitable Distributions (QCDs)

- Allows individuals over 70 ½ to satisfy their RMD **AND** exclude the gifted amount from their income by gifting directly from their IRA to the charity.
- If this person would normally gift $10,000 a year, they would make that distribution directly from their IRA.
- They would then report that only $8,868 of their $18,868 distribution was taxable.

Form 1040 (2018) Page **2**

	1	Wages, salaries, tips, etc. Attach Form(s) W-2				**1**	
Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	**2a**	Tax-exempt interest	**2a**		**b** Taxable interest	**2b**	
	3a	Qualified dividends	**3a**		**b** Ordinary dividends	**3b**	
	4a	IRAs, pensions, and annuities	**4a**	18,868	**b** Taxable amount QCD	**4b**	8,868
	5a	Social security benefits	**5a**		**b** Taxable amount	**5b**	
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22				**6**	
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6				**7**	
Standard Deduction for—	**8**	**Standard deduction or itemized deductions** (from Schedule A)				**8**	

Deduction Bunching

- With the new standard deduction ($24,400 for Married Filing Jointly, $12,200 for Single [+$1,300 per taxpayer for age 65+]) most taxpayers are taking the standard deduction rather than itemizing their deductions.
- Allowable itemized deductions include:
  - Medical Expenses exceeding 7.5% of AGI
  - Mortgage Interest
  - State and Local Taxes (SALT) capped at $10,000 annually (MFJ & Single)
  - Charitable Donations
- If you can estimate your charitable intent for the next several years, you could contribute several years worth of donations to a Donor Advised Fund (DAF) in one year.

Donor Advised Funds (DAFs)

- Taxpayers contribute to an account that is maintained and operated by a 501(c)(3) organization and make grant recommendations over time to the charities they care about.
- Grants are then made to the charity at the donor’s preferred pace.
- The DAF can be funded with appreciated securities to avoid capital gains tax. Can’t be funded with QCDs.
- If you’re itemizing deductions, it would allow you to claim a deduction for the value of the gift in the year you contribute to the DAF.
- Large enough gifts may change whether you’re itemizing or taking the standard deduction.

Gifting Appreciated Securities

- Long-term capital gains are generally taxed at 0%, 15% and 20%.
- If you were planning to sell your stock and give the proceeds to charity you could instead gift your shares directly to the charity.
- Since charities are tax-exempt organizations, they could sell the stock and avoid incurring gains on the sale.
- If you're itemizing, you could deduct the current value of the stock.
- If you're not itemizing, you could avoid incurring capital gains tax or increasing your AGI which could impact the portion of your Social Security that's considered taxable.

Additional Tax Considerations

- IRMMA- Income Related Monthly Adjustment Amount – Refers to certain adjusted gross income amounts including tax exempt interest that can increase your monthly Medicare Part B Premium. Enacted in 2003 as part of the Medicare Modernization Act.

If your yearly income in 2018 (for what you pay in 2020) was			You pay each month (in 2020)
File individual tax return	File joint tax return	File married & separate tax return	
$87,000 or less	$174,000 or less	$87,000 or less	$144.60
above $87,000 up to $109,000	above $174,000 up to $218,000	Not applicable	$202.40
above $109,000 up to $136,000	above $218,000 up to $272,000	Not applicable	$289.20
above $136,000 up to $163,000	above $272,000 up to $326,000	Not applicable	$376.00
above $163,000 and less than $500,000	above $326,000 and less than $750,000	above $87,000 and less than $413,000	$462.70
$500,000 or above	$750,000 and above	$413,000 and above	$491.60

Source: Medicare.gov

Additional Tax Considerations

- **3.8% Medicare Surtax on Investment Income** – Investment income is defined as interest, dividends, rents, royalties, annuities, income from a passive activity, capital gain. Part of the Patient Protection and Affordable Care Act of 2010.

  Single > $200,000 MAGI   Married > $250,000 MAGI

- **Capital Gains Tax Rates**

  0% up to $80,000 Taxable Income MFJ, $40,000 Single

  15% up to $496,600 Taxable income MFJ, $441,450 Single

  20% >$496,601 Taxable Income MFJ, $441,451 Single

- **Taxable Social Security** – Maximum of 85% Taxable

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