2020 YEAR-END PLANNING IDEAS

November and December are traditionally a time for year-end planning and taking stock of things to "wrap up" by the end of the year. Having "things in order" certainly has taken higher importance in this unusually stressful year.

Here are some brief planning ideas to consider:

1 | Give Some Bucks, Pocket Some Coins

The "CARES Act" passed earlier this year included a $300 "above-the-line" charitable deduction for taxpayers who do not itemize—and there are more of those than ever with the higher standard deduction. So, encourage your favorite charity with a gift, and save some taxes in the process.

2 | Make a Basis Swap

We've all heard of the "stepped-up basis" for capital assets at death. But did you know you don't have to die to receive a basis adjustment on a long-term capital asset? Let's start with a common technique to avoid capital gains tax on stock one intends to sell; that is, give it to charity instead of giving cash. The donor receives a deduction at full fair market value without having to recognize the gain.

But what about low-basis stock you do not intend to sell? If you plan to make a cash gift to charity, consider keeping the cash, giving low-basis stock, and then using the cash to buy the same stock with a new, higher basis. This gives you a stepped-up basis of sorts—and you're still breathing!

3 | Liberate Imprisoned IRA Dollars

Traditional IRA owners are well aware that every dollar withdrawn from the IRA triggers ordinary income tax, and at a certain age the owner is required to withdraw some amount annually. But there's a "get out of jail free" option for those imprisoned assets for IRA owners age 70½ or older.

Use an "IRA Charitable Rollover" to distribute such assets directly to a qualified charity rather than taking the distribution yourself. The amount distributed will not be taxed to you because it does not count as income. If you are at the age when required minimum distributions must be taken, the "qualified charitable distribution" will count directly toward your required minimum distribution (up to $100,000 per year).

4 | Go Ahead, Get Your "Gifties" in a Bunch

Many taxpayers still have significant deductible expenses and donations, but not quite enough to itemize under the higher standard deduction. Others may have a higher-than-normal income year for which additional deductions could help mitigate the tax consequences. If you find yourself in a situation like that, a simple change in timing might help.

Consider "bunching" charitable gifts by making gifts for two or more years that year to push itemized deductions to a deductible level for that year. If you don't want to give double or more to specific charities in advance, consider directing the gift to a donor advised fund from which you can make distributions in the later year or years. Bear in mind, also, that the CARES Act allows for a charitable deduction for cash gifts of up to 100% of AGI for 2020—although not to a private foundation or donor advised fund. This may be the year to put the bunching technique to the test if you have the cash available.

5 | Gifts to Soothe a Roth Bite

Many people opt to convert a traditional IRA or 401(k) plan to a Roth IRA, but that can come with a significant tax bite (i.e., all of the converted funds are taxable as ordinary income). For those with the means to make larger cash gifts to charity in the year of conversion, the deduction can help offset the income recognized due to the conversion. Remember that for the year 2020, the CARES Act boosts that offset ability by allowing a deduction for cash gifts up to 100% of AGI.

6 | "Give it Twice" Trusts for IRAs

This idea is more traditional estate planning than income tax planning, but still quite worthy of mentioning here. The "SECURE Act" passed at the end of 2019 included several favorable changes for taxpayers with tax-deferred retirement accounts, but it included one bitter pill—elimination of the so-called "stretch IRA." Now, instead of being able to stretch payments from an inherited plan over the beneficiary's life expectancy, all such funds must be withdrawn within ten years following the account owner's death (with some exceptions).

But wait! There's a charitable option to the rescue. Instead of leaving tax-deferred retirement accounts outright to heirs or to a traditional trust for them, consider directing them to a Charitable Remainder Trust ("CRT") or a Charitable Gift Annuity ("CGA") for them. A CRT may pay an income to the heir for a specific term up to 20 years (already doubling the hobbled stretch IRA option), or perhaps the heirs' lifetime in the right situation. Similarly, a CGA may be created at death using the tax-qualified funds for his or her lifetime. The CRT or CGA will qualify for some level of charitable estate tax deduction (if needed), it will force a stretch of the income that you intended for your heirs, and the remaining assets at the end of the income term will leave a legacy of charitable giving.

These ideas are obviously (and necessarily) brief descriptions of techniques that have much more substance to them. It is our hope that something in this article can prove to be useful for your planning as 2020 comes to a close. If you have more interest in exploring any of these ideas, please let us know or consult with your trusted tax and planning advisors.