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# Year-End Tax Planning For Individuals


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As the end of the year approaches it is important to consider strategies to lower your tax liabilities for 2020. Here are some key strategies that may help in reducing your tax bill.

## Strategize Your Itemized and Standard Deductions

Taxpayers can choose to itemize deductions or take the standard deduction. For 2020, the standard deduction is $12,400 for single or married filing separately, $18,650 for head of household, or $24,800 for married filing jointly. If your total itemized deductions are close to the standard deduction amount, you may consider strategies to increase itemized deductions for 2020.

## Mortgage Interest

In general, you can deduct the interest expense on mortgages and home equity used to buy, build, or improve a first or second home. Points paid may also be deductible. The Tax Cuts and Jobs Act reduced the debt limit from $1 million to $750k for debt incurred after December 15, 2017, for married filing jointly and $375k for married filing separately.

In order to increase your deductions for 2020, consider paying your January home mortgage payment in 2020.

## State and Local Taxes

The deduction for state and local taxes, including property tax and either income tax or sales tax, is limited to $5,000 for married filing separately and $10,000 for married filing jointly. If you have not reached this threshold, consider paying state and local income and property taxes in 2020 that are due early next year.

## Charitable Deductions

Consider making larger charitable donations this year. If you take the standard deduction, you can deduct up to $300 of cash contributions to qualified charities in 2020. However, if you itemize, you may be able to deduct significantly more.

Under the Cares Act, taxpayers can deduct cash contributions made directly to qualifying organizations in 2020, up to 100% of their adjusted gross income. Contributions that exceed 100% of adjusted gross income can carry over to the next tax year.

Contributions of non-cash property are limited to 60% of the taxpayer's adjusted gross income.

To increase your itemized deductions, you may want to consider bunching contributions where you make 2020 and 2021 contributions in 2020. With this strategy, you would bunch contributions in alternating years.

## Donor- Advised Funds

If you plan on making charitable contributions in 2020 and future years, you may want to consider setting up a donor-advised fund. With a donor-advised fund, you're able to make a large contribution to the fund and realize the tax deduction in 2020, but then distribute the funds to qualified charities over multiple years in the future.

The downside is that the deduction for contributions to a donor-advised fund is limited to 60% of adjusted gross income for cash contributions, 30% of AGI for contributions of non-cash assets held more than one year, and 50% of AGI for blended contributions of cash and non-cash assets. Donation amounts in excess of these deduction limits may be carried over up to five tax years.

## Sale of Residence

If you sold your principal residence in 2020, you can exclude up to $250,000 of gain for single filers and $500,000 for married couples filing jointly if you meet certain tests. On the other hand, if you sold your home at a loss and part of your home is rented out or used exclusively for your business, the loss attributable to that portion may be deductible.

## Medical Expenses

If you have paid out of pocket for medical expenses, not through a tax-advantaged account and not reimbursable from insurance, you may be able to claim a deduction. Out of pocket expenses such

as health insurance premiums, long-term-care insurance premiums, medical and dental services, prescription drugs, and mileage costs that in total exceed 7.5% of your adjusted gross income may be deductible.

If you have a qualified high-deductible healthcare plan, you may be able to benefit from a Health Savings Account. You are able to contribute up to $3,550 for individual coverage and up to $7,100 for family coverage plus an extra $1,000 if you are age 55 or older. Contributions made to the HSA are pre-tax, any earnings from interest or investment gains are tax-deferred and withdrawals for qualified medical expenses are tax-free. If you have not funded your HSA yet, you can do so now and any balance not spent will roll over to the next year.

If your employer offers a Flexible Spending Account, you may be able to contribute up to $2,750 pretax in 2020 to pay for or reimburse you for qualified medical expenses. Also, if you have dependents, you may be able to contribute up to $5,000 pretax in 2020 to an employer-sponsored child and dependent care Flexible Spending Account for the cost of their qualified medical expenses. The downside to an FSA is that in general, if you don't use the funds for qualified medical expenses within a specific time period, you may lose some or all of the remaining funds.

## Manage Gains & Losses in Your Investment Accounts

If you have an investment whose values have fallen below your original purchase price, you can sell the asset to offset capital gains. If the investment was held for less than a year, then the loss can be applied to your short-term capital gains, which are taxed at a higher rate than long-term capital gains. Further, if your capital losses exceed your capital gains, you may be able to apply up to $3,000 of losses to your ordinary income, which generally carries the highest tax rate. Now, if you plan on selling any investment for the tax losses, please be aware that the IRS does not allow you to repurchase the same stock or a substantially identical security within 30 days.

## Maximize Retirement Savings

You may want to contribute the maximum allowed to your retirement accounts, especially if your employer offers matching funds. You can contribute up to $6,000 to a Traditional IRA in 2020 along with a $1,000 catch-up if you're aged 50 or older. You can contribute up to $19,500 to your 401(k) in 2020 along with a $6,500 catch-up. And for SIMPLE plans, you can contribute up to $13,500. Contributions to these types of plans are pretax. However, ff you have a Roth 401(k) or Roth IRA, contributions are post- tax, but qualified withdrawals are tax-free.

If you are a business owner, you may want to consider strategies to maximize contributions to retirement accounts from both employee and employer contributions. In 2020, you may be able to add up to $57,000 from both employee and employer contributions to your retirement account. If you are age 50 or older, the amount increases to $63,500. Be sure to consult with our office to discuss your particular situation.

## Dependent Care Costs

If you are paying someone to take care of your children or another qualified dependent in your household while you work, you might be eligible for the child and dependent care credit. You can claim a credit of up to 20% of the first $3,000 of childcare expenses for one child or 20% of the first $6,000 for two or more children.

## 529 College Savings Plan

More than 30 states allow you to deduct a portion of your 529 contributions from your state income taxes. If you don't have a child, many states also allow grandparents and other relatives to contribute to a child's plan. You can find your state's rules at [www.savingforcollege.com](http://www.savingforcollege.com).

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## American Opportunity Tax Credit

The American Opportunity Tax Credit is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. The amount of the credit is 100% of the first $2,000 of qualified education expenses and 25% of the next $2,000 of qualified education expenses you paid for each student. You can get a maximum annual credit of $2,500 per eligible student. If the credit brings the amount of tax you owe to zero, you can have 40 percent of any remaining amount of the credit, up to $1,000, refunded to you.

## Lifetime Learning Credit

The lifetime learning credit is for qualified tuition and related expenses paid for eligible students enrolled in an eligible educational institution. This credit can help pay for undergraduate, graduate, and professional degree courses, including courses to acquire or improve job skills. The amount of the credit is 20 percent of the first $10,000 of qualified education expenses or a maximum of $2,000 per tax return.

## Final Thoughts

As always, we encourage you to speak with one of our associates to discuss tax planning for your specific situation. Feel free to contact our office any time. We're always happy to help.

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