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OUR 2020 YEAR-END PLANNING CHECKLIST FOR UNCERTAIN TIMES

THOUGHT LEADERSHIP PERSPECTIVES

BY JULIA ZIECHMANN, JD, LLM

ONE ADJECTIVE THAT DESCRIBES THIS YEAR IS 'UNCERTAIN'. REGARDLESS OF WHAT THE FUTURE BRINGS, PROACTIVE YEAR-END PLANNING IS ALWAYS ESSENTIAL.

Here is a checklist of things to consider before the end of 2020:

1. REVISIT YOUR ESTATE PLAN AS SOON AS POSSIBLE

- As of today, an individual taxpayer can gift up to $11.58 million ($23.16 million for married couples) without paying federal estate or gift tax. This elevated exemption amount is set to sunset at the end of 2025 and revert to $5 million ($10 million for married couples) adjusted for inflation.
- It is possible the amount of lifetime exemption could change post-election and before the projected sunset. If you would be impacted by a significant reduction in the exemption amount, consider taking advantage of utilizing the higher exemption before year end.
- Re-examine wills. Possible changes in exemption levels could warrant revising your documents.

2. MAKE CHARITABLE CONTRIBUTIONS

- The CARES Act added two charitable giving planning opportunities for **cash** contributions to public charities (excluding Donor Advised Funds):
  - First, taxpayers who do not itemize deductions can take advantage of a special above-the-line deduction for up to $300 of qualified charitable contributions.
  - Second, taxpayers who itemize can elect to deduct certain qualified cash contributions up to 100% of their adjusted gross income.
- Contribute to a Donor Advised Fund (DAF). If you want to take advantage of itemizing deductions through charitable giving but do not want all the money to go to charity immediately, a DAF is the perfect mechanism to do so.
- Consider a Qualified Charitable Distribution (QCD). Instead of taking cash distributions from an Individual Retirement Account (IRA), taxpayers age 70 ½ and over may transfer up to $100,000 from their IRAs directly to public charities. With a QCD, the distribution is not recognized as income and you do not record a charitable deduction on your Itemized Deductions. The income tax benefit is derived from lowering your Adjusted Gross Income (AGI).
- Contributing appreciated securities held for longer than a year directly to charities or to a DAF is an excellent planning technique. Taxpayers receive a charitable deduction equal to the fair market value of the securities contributed and avoid tax on the embedded investment gains. The total deduction for making charitable contributions in this manner is limited to 30% of adjusted gross income. Any excess contributions can be carried over for up to five years.

3. TIME YOUR INCOME: ACCELERATE OR DEFER

- Capital Gains/Losses
  - Normally, we would suggest harvesting capital losses to offset capital gains in your portfolio. However, depending on your income level and the possibility of higher future tax rates, harvesting gains may be beneficial. Recognizing capital gains before year end would lock in the gains at 2020's rates.
- 2020 Bonus/Other Compensation
  - Ask your employer to defer your bonus until early next year if you anticipate less taxable income in 2021 or accelerate your bonus into 2020 if you are experiencing a low-income year.
  - The normal strategy is to defer income where possible to the following tax year. However, consideration should be given to accelerating income into 2020 because tax rates could increase in 2021 post-election.

4. CONSIDER A ROTH IRA CONVERSION

- Consider converting all or part of your IRA to a Roth IRA if you are in a low-income year or if you expect to be subject to higher rates in the future.

5. CONTRIBUTE TO 529 EDUCATION SAVINGS PLANS

- Contribute to 529 plans before the end of the calendar year. Pennsylvania residents can deduct contributions to any state's 529 plan subject to certain limitations. 529 Plans grow free of federal, state and local income tax if used for qualified education expenses. Distributions for K-12 education are limited to $10,000 per year.

6. CONSIDER PARTICIPATING IN EITC OR OSTC PROGRAMS

- Pennsylvania residents can make cash contributions to certain educational institutions through established entities. Taxpayers receive Pennsylvania tax credits of up to 90% of their contribution and a Federal charitable deduction for the remainder. Please see our article for further details on the Educational Improvement Tax Credit and Opportunity Scholarship Tax Credit.

7. MAKE EXCLUSION GIFTS

- Make annual exclusion gifts before the end of the year to reduce your taxable estate. You may gift up to $15,000 per recipient to as many recipients as you like. Married couples can gift up to $30,000 per recipient.
- In general, a gift by check is not complete until the check is paid or deposited.

8. MAKE ESTIMATED TAX PAYMENTS

- Fourth quarter estimated tax payments for the tax year ending December 31, 2020 must be paid by January 15, 2021. Generally, you could be penalized for underpayment if your 2020 payments are less than 90% of your actual 2020 tax.

Please note these planning ideas may not apply to everyone. Taxpayers should take into consideration their unique set of circumstance and any life events on the horizon, as well as current market conditions.

CONTACT US AT FAIRMAN GROUP FAMILY OFFICE TO ENSURE YOUR COMPREHENSIVE PLANNING NEEDS WILL BE MET BEFORE THE CRITICAL YEAR-END DEADLINE.

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