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Year-End Tax Planning | Ask the Experts Video Transcript

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Kat Jenkins:

Hello and welcome to Barnes Dennig Ask the Experts.

I'm Kat Jenkins, Marketing Director at Barnes Dennig, and today we're talking year-end tax planning with two of our experienced tax professionals – Manager Mark Hamad will be sharing ideas, strategies, and insights with Daniel Schlacter, an experienced associate on our tax team.

Daniel, I know you've got some great questions for Mark, so let's get started.

Daniel Schlacter (00:01):

Thanks Kat. Hi Mark, thanks for joining us.

Mark Hamad (00:05):

Hi, Dan. Thanks for setting this up. I'm excited to talk about some year-end strategies with you.

Daniel Schlacter (00:10):

Me too. Obviously, a crazy 2020 tax year is finally coming to an end. And now with the 2019 tax season behind us, we're looking forward to 2020 tax year-end planning strategies. I mean, right off the bat, do you have any general tax savings strategies for the end of the year here?

Mark Hamad (00:27):

Yeah. Well, there's a lot you can do before year-end and one size doesn't fit all for tax strategies. Obviously, if you're a business owner and a W2 employee, your tax strategies are going to be completely different. If you are a young tax professional versus an older taxpayer, your strategy is going to be completely different. If you're a high income earner and a low income earner, again, strategy's going to be completely different. So it's not one size fits all when it comes to year-end tax strategies, but there are some things we look at at Barnes that fits a lot of taxpayers. Just some things off the top of your head, Roth conversions number one. If you're in a low income tax year, does it make sense to do a Roth conversion and pull that income into 2020?

Mark Hamad (01:21):

Same thing with retirement accounts. So are you contributing as much as you can to retirement account? Are you looking at traditional IRAs versus Roth IRAs, traditional 401(k)s versus Roth 401(k)s. So those are some of the things you can look at from a cash saving perspective. If you're eligible for an HSA plan. If you have a high deductible plan at work, are you eligible and contributing to an HSA? Are you a charitably inclined taxpayer? There's a lot of tax strategies surrounding charitable contributions and not just cash contributions. Some other items off the top of my head, if you have some unrealized gains in your investment portfolio, does it make sense to pull the trigger on some of those unrealized gains and pull them into 2020. Likewise on unrealized losses. Would it make sense to pull the trigger on some unrealized losses and with the CARES Act this year, RMDs are no longer required for this year, but does it make sense if you're in a low-income tax year to pull some of those required minimum distributions into 2020. And then there's just some general year-end strategies that make sense to think about some estate planning, estimated taxes, are you paying the right estimated taxes, not overpaying, so there's a lot of general strategies out there just depending on where you fit in your life.

Daniel Schlacter (02:52):

Well, great. It looks like there's a ton of stuff there we can dive into if you don't mind.

Mark Hamad (02:56):

Yeah, definitely.

Daniel Schlacter (03:01):

First off the bat, I have an HSA account at work. What are some tax implications of those?

Mark Hamad (03:10):

Yeah. So if you have a high deductible plan at work and you're eligible for an HSA, I would strongly encourage it. An HSA acts as another retirement vehicle. So think just like an IRA or a 401k, an HSA, they actually has triple tax benefits. So if you're a W2 employee, you'll contribute funds and that'll reduce your taxable income, those funds going into your HSA. They'll also grow in the HSA tax-free. And when you distribute those funds out for qualified medical expenses, those will actually be tax-free as well. So again, kind of triple tax savings, it goes in tax-free, it grows tax-free and you can distribute it tax-free. And can also use your HSA, like I said, as a retirement vehicle or an emergency fund. So if you wanted to, you could pay medical expenses out of pocket. So whether it's from your credit card or your checking account, and then a couple years down the road, if you wanted to, you could reimburse yourself through that HSA for those medical expenses you paid out of pocket.

Daniel Schlacter (04:24):

Great. Also, you mentioned Roth IRAs versus regular IRAs. Could you go into little more detail about that?

Mark Hamad (04:30):

Yeah, definitely. So obviously, if you're in a low income tax year, it might make sense to pull, if you have traditional IRAs out there or traditional 401(k)s it might make sense to roll over some of those into a Roth account. In a low-income tax year, if you're in a lower bracket, maybe you obviously get taxed on the conversion amount, so maybe it makes sense to roll those over, get taxed in a low-income tax year, and then you'll have those funds in your Roth IRA or Roth 401k, and there'll be able to grow tax-free. So it's kind of just a thoughtful strategy in a low-income tax year in a good way to hedge against increasing tax rates down the road.

Daniel Schlacter (05:16):

Great. If I did want to make some charitable contributions this year, how can I get the best tax advantage there?

Mark Hamad (05:22):

Yeah, definitely. So no going in married filing joint is slightly under $25,000 for the standard deduction this year. So if you don't have deductions over that amount you obviously take the standard deduction this year. And taking a step back, I mentioned the CARES Act before, which was enacted in March, with COVID stimulus bill. It allows non-itemizes this year. So people who take the standard deduction to get a $300 charitable write-off this year, even though they don't itemize. So I know we've got the United way campaign going on at Barnes here, if you were to contribute up to $300 today, you could take that right off in 2020, even if you were to take the standard deduction. But just going off a charitable contributions if you did itemize, there's a lot of strategies involved in just instead of giving cash contributions to these organizations.

Mark Hamad (06:22):

So off the top of my head, the number one thing we suggest to clients is called charitable bunching. So what this does is it lumps two years of charitable contributions into one year. So for example, say you were going to give to your church in 2020, you give your normal contributions throughout 2020, and then say in December you decided, hey, I want to do this charitable bunching. You would go ahead and give all your 2021 contributions in December, or, I mean, you could spread it out throughout 2020 if you wanted. But what this does is allows you to take advantage of two years worth of charitable contributions.

Mark Hamad (07:00):

And then the next year, since you already gave your 2021 and 2020, you would take advantage of the high standard deduction. And then the following year, you would double up again, take advantage of the itemized and then the following year and do the standard deduction. So that's kind of an example of charitable bunching. Some other ideas, Donor-Advised Funds, we suggest a lot. So that allows you to set aside a certain amount of money into a Donor-Advised Fund, into the specific fund. You would get the write off in year one, and then you could take that money sitting in that Donor-Advised Fund and distribute it how you see fit whenever you see fit.

Mark Hamad (07:44):

But the main idea there is you get the funds, you get the deduction in year one. Two other real quick items, if you had an IRA, you could do a QCD or a Qualified Charitable Distribution. And what that would do is you would take your IRA distributions and you would distribute it directly to charity. So that would allow you to eliminate that income in 2020. So that IRA distribution wouldn't be pulled into income this year because you're giving it directly to charity. And then kind of a last item there is to donate appreciated stock. So if you had a low cost basis assets sitting in your portfolio, instead of selling that and getting taxed on the capital gains and then turn around and paying that cash to the charity, why don't you just go ahead and directly donate that appreciated stock, get the fair market value deduction, and then you don't pay any capital gains on that sale stock.

Daniel Schlacter (08:48):

Great. A lot of good stuff there, speaking to the unrealized gains, what can you do with that as far as year-end planning?

Mark Hamad (08:56):

So again, kind of like the Roth conversions, if you're in a low income tax year and you have a lot of unrealized capital gains in your portfolio, maybe it makes sense to pull the trigger and realize some of those gains in the low-income tax year. Same thing if you have a lot of unrealized capital losses, if you have a lot of bad investments that didn't recover from the March lows, does it make sense to maybe pull the trigger on some of those unrealized capital losses and offset some capital gains.

Daniel Schlacter (09:29):

Okay, great. As far as the SECURES Act and CARES Act, you brought up earlier, what are some tax implications there specifically in regards to retirement income?

Mark Hamad (09:39):

Yeah. So SECURES Act, the big thing there, it was enacted in late 2019, it changed the RMD age. So it used to be 70 and a half, the SECURES Act changed it to 72. And then kind of to forward here, the CARES Act, which was enacted like I said, in March of this year, eliminated RMDs for 2020. So you could actually, if you had an RMD you're required to distribute out of your IRA, you could actually skip it this year because of the CARES Act. But getting back again to the, if you have a low income tax year, maybe it makes sense to just go ahead and take that RMD, pull it into 2020. If you have a low-income tax year and get taxed on lower tax bracket.

Daniel Schlacter (10:27):

Now say my spouse passed away this year, should we be planning to file an estate tax return?

Mark Hamad (10:34):

That's a good question. There's a lot of misconceptions out there. A lot of people say, well, I'm under the lifetime exemption, do I have a need to do anything in the state tax return? There's no way we're going to hit it. So we've been telling a lot of people go ahead and file that a state return, get the portability, and you're allowed what that does is it allows the surviving spouse to use any available tax exemptions from their spouse. So, and I know in an election year, the estate taxes are a hot topic. So yes, it's a high limit right now, but maybe that gets cut in half down the road, so who knows? So we always suggest going ahead and falling out of state return, claiming the portability, getting that unused exemption.

Daniel Schlacter (11:26):

Yeah. Before we go, any final cash saving or tax saving strategies for year-end?

Mark Hamad (11:33):

We briefly touched on estimated taxes. So not really a tax savings idea, but more of a cash savings idea and keeping money in your pocket longer. So there's something called a Safe Harbor estimate, which allows you to pay in a hundred, depending on your income allows you to pay in a hundred percent, 110% of your prior tax. So say for example, 2020 was another low income tax year, but you're expecting 2021 to be a blowout year. You wouldn't want to go ahead and pay your 2021 estimates based on 2021. You would want to go ahead and take advantage of the Safe Harbor pay in 110% low-income tax year, hold onto that cash as long as possible, and then true it up when you file your 2021 tax return. It just allows you to hold onto the cash longer instead of giving it into the government earlier.

Mark Hamad (12:34):

Another strategy that we've been talking to business owners is the QBI deduction, Qualified Business Income. I'm sure everyone's aware of the 20% deduction on Qualified Business Income. However, what people, a lot of people aren't aware is if taxable income is low, your QBI gets limited. So it gets limited to the lesser of QBI Qualified Business Income or taxable income. So if you had outside investments that was bringing your taxable income down, maybe it makes sense again, to do the Roth conversion, to do your RMD, to do some unrealized gains, to get your taxable income up, so you can take advantage of the 20% deduction. That's about it really.

Daniel Schlacter (13:22):

Great. Well, a ton of good stuff you gave us there. Anything else that'll wrap up our 2020 year-end tax planning video. If you guys have any questions or want some more information, visit our website at barnesdenning.com and we hope to see you next time on the ask the experts series.