



2020 Personal Tax Planning Update

Updated for the CARES Act, enacted March 27, 2020. More information on the CARES Act and how it affects individuals and families can be found [here](#).

The new year brings with it new tax-savings opportunities, including larger tax exemptions and exclusions, and new rules governing most retirement accounts. Below are charts showing these figures for 2020 as well as this year's income tax brackets. A list of strategies and tips to consider in your tax planning this year follows each chart.

Federal Estate and Gift Tax Exemption/Exclusion Levels

	2019	2020	2026
Gift and Estate Tax Exemption	\$11,400,000	\$11,580,000	\$5,790,000*
Generation-Skipping Tax Exemption	\$11,400,000	\$11,580,000	\$5,790,000*
Gift Tax Annual Exclusion	\$15,000	\$15,000	\$15,000*
Annual Exclusion for Gifts to Noncitizen Spouse	\$155,000	\$157,000	\$157,000*

* Plus inflation adjustments

Gift and Estate Tax Strategies for 2020

- Make Annual Family Gifts Early - The "annual exclusion" allows you to transfer up to \$15,000 (\$30,000 for married couples) to any individual in 2020 and it is adjusted each year for inflation. Making these gifts early in the year often results in more value passing to family members at no additional tax cost. While timing gifts of stock is always difficult, making gifts early will allow any appreciation to pass to the recipients tax-free.
- Use Larger Tax Exemption Before It Expires - Both the estate/gift tax exemption and the generation-skipping tax exemption doubled in 2018 and have been modestly adjusted for inflation in 2019 and again in 2020. Importantly, in 2026 these exemptions are scheduled to be cut back in half (plus inflation adjustments). Anyone who is in a position to take advantage of these larger exemptions but does not act prior to 2026 will have missed an opportunity to save millions in taxes. While it is possible that the larger exemptions could be made permanent, it is also possible that the exemptions will be reduced prior to the 2026 sunset date. Especially in an election year, where plans for the exemption differ among candidates, it might make sense to take advantage of the increased exemptions and current certainty. Additionally, the IRS has indicated that it won't seek to "claw back" any use of this additional exemption





once it reverts to its old level, so taxpayers who take advantage of the larger exemption now should not face any risk on that front. Details of strategies are available [here](#).

- Large Gifts to Spousal Access Trust - Married couples may wish to consider using a specialized type of trust that includes a spouse as a beneficiary in order to make use of the doubled tax exemption while preserving the possibility for a spouse to be distributed assets. This could make it more palatable for some to take advantage of the large tax exemptions before they are cut back in half.
- Capital Gains Tax Savings - In certain situations, it may be possible to use the larger gift and estate tax exemption to reduce or eliminate capital gains tax. Details of this strategy are available [here](#).

Federal Income Tax Brackets for 2020

The income tax rates have not changed for 2020, but the break points of the various brackets have been modestly adjusted for inflation, as shown in the charts below. (Note that lower rates apply to income from qualified dividends and capital gains.)

Single Individuals	
<i>Taxable Income</i>	<i>Rate</i>
\$0 - \$9,875	10%
\$9,875 - \$40,125	12%
\$40,125 - \$85,525	22%
\$85,525 - \$163,300	24%
\$163,300 - \$207,350	32%
\$207,350 - \$518,400	35%
\$518,400 +	37%

Married Couples Filing Jointly	
<i>Taxable Income</i>	<i>Rate</i>
\$0 - \$19,750	10%
\$19,750 - \$80,250	12%
\$80,250 - \$171,050	22%
\$171,050 - \$326,600	24%
\$326,600 - \$414,700	32%
\$414,700 - \$622,050	35%
\$622,050 +	37%

Important Facts and Tips for 2020 Income Tax Planning

- The SECURE Act Changes to Retirement Savings – Effective January 1, 2020, the Setting Every Community Up for Retirement Enhancement (SECURE) Act permanently changes many rules governing retirement accounts. Specifically, the 70½ maximum age for contributing to an individual retirement account has been repealed, so that all individuals who meet the requisite rules for IRA contributions can contribute, regardless of age. This means that anyone working past age 70½ can still make contributions to an individual retirement account. Further, for those who turn 70½ in 2020 or later, the age at which “required minimum distributions” must be taken from a retirement account has been increased to 72. This potentially allows for years’ worth



of additional tax-free growth in a retirement account. Additional changes include a provision that encourages employers to offer annuities inside their 401(k) accounts.

- Update as of March 27, 2020: As a result of the CARES Act, taxpayers in 2020 are not required to take otherwise-required minimum distributions (RMDs) from certain retirement plans and accounts, and may make penalty-free early withdrawals for "coronavirus-related" purposes. Further information is available [here](#).
- The SECURE Act Changes to Inheriting Retirement Accounts – Most people who inherit retirement accounts on or after January 1, 2020 now must withdraw the assets within ten years. Exceptions to this rule include retirement accounts left to a surviving spouse, a minor child, a disabled or chronically ill beneficiary, and beneficiaries who are less than ten years younger than the account's original owner. Previously, people who inherited a retirement account could generally "stretch" distributions out over a longer period of time based on life expectancies. In cases where the original owner wanted to leave the retirement account to a trust, a "see-through trust" (also called a "conduit trust") enabled the same ability to stretch withdrawals using life expectancies. The SECURE Act's ten-year rule limits the usefulness of these types of trusts, although anyone with minor children can still use a see-through trust to take advantage of the exception to the ten-year rule while a child is a minor. Finally, some might consider converting a traditional retirement account to a Roth IRA to eliminate the potentially large income tax liability for an inheritor.
- 529 Plans – The SECURE Act expands the definition of a tax-free or qualified distribution from a 529 plan to include repayment of up to \$10,000 in qualified student loans, and expenses for certain apprenticeship programs. This change is retroactive to distributions made after December 31, 2018. Otherwise, as was the case in 2019, distributions from 529 plans of up to \$10,000 per student may be used for all public, private and religious elementary and secondary school tuition. There is no limit on distributions for tuition at higher education institutions. Prior to 2018, only distributions to higher education institutions were permitted.
- Birth or Adoption of Child – The SECURE Act permits an individual to take a "qualified birth or adoption distribution" of up to \$5,000 from certain retirement accounts, including IRAs and 401(k)s. The 10% early withdrawal penalty will not apply to these withdrawals, and you can repay them as a rollover contribution to an applicable retirement account if desired.
- Consider Charitable Gifts from IRA – These gifts may be preferable to gifts from non-IRA accounts. The tax rules allow those who are above age 70½ to make gifts of up to \$100,000 directly from their IRA to charities. Unlike gifts from non-IRA accounts,





there is no AGI limit on these gifts. Because your heirs must pay income tax on inherited retirement accounts (unlike other assets), making your charitable gifts from your IRA account can lessen the tax burden for family members. Additionally, the IRA owner's "required minimum distribution" for the year of the gift will be reduced by the amount of the charitable gift. Note, however, with the change in the age by which "required minimum distributions" must begin (to 72 from 70½), there is no "credit" for required minimum distributions for any of these charitable gifts if done before age 72, which might diminish their tax-benefits during that brief period.

- Consider Using Cash for All Charitable Gifts – If you use cash (and only cash) for 100% of your gifts to public charities, the income tax charitable deduction limit is 60% of your adjusted gross income (AGI). Prior to 2018, this limit was 50% of AGI. All other types of charitable gifts, e.g. of appreciated securities, continue to be subject to a general limit of 30% of your AGI. Note, however, that giving appreciated securities also avoids incurring capital gains tax on the sale of the securities, so in cases where low-basis stock would be sold to raise cash for charitable giving, transferring the stock itself would likely still produce more tax savings. Moreover, any unused charitable deductions may be carried forward for up to five years, so in some cases the lower (30%) limit on gifts of stock may not ultimately reduce the tax benefit.
 - *Update as of March 27, 2020:* After enactment of the CARES Act, you can now, for 2020 only, make a special election to "top off" your AGI limit for additional cash gifts to public charities (other than donor-advised funds or supporting organizations). This special election effectively allows you to deduct up to 100% of your AGI in 2020, even if up to 30% of your gifts consists of appreciated securities donated to public charities.
 - *Update as of March 27, 2020:* Alternatively, under the CARES Act, if you do not itemize your deductions you may take an "above-the-line" tax deduction of up to \$300 for cash gifts to public charities (other than donor-advised funds and supporting organizations) made in 2020.
- State and Local Tax – As was the case last year, 2020 deductions for state and local taxes (SALT) are capped at \$10,000.
- Home Mortgage Interest – For mortgages originated in 2019 or later, only interest on up to \$750,000 of principal is deductible until 2025, at which point the rule is scheduled to revert to the old limit of \$1 million of principal. Interest on home equity loans and lines of credit are not tax-deductible (until 2025) unless funds are used to buy, build or substantially improve the home that secures the loan, and only to the extent the cumulative principal of the loans, when added to any mortgage, does not exceed \$750,000.





- Itemized Deductions Phaseout – Itemized deductions are not phased out at any level of income for 2020. Prior to 2018, this phaseout would apply at income levels of \$261,500 for individuals and \$313,800 for married couples filing jointly (adjusted for inflation). Note that other changes, such as the \$10,000 cap on SALT deductions, may still limit a taxpayer’s itemized deductions regardless of whether a phaseout exists.

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