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How Do The Election Results Impact Year-End Tax Planning?

This year certainly has seen more than its fair share of disruption and many are looking forward to bidding a not-so-fond farewell to 2020. Much has been written (by us and others) about potential large changes to tax laws that might occur under a Biden administration. Although wholesale change looks less likely, assuming the Republicans retain control of the Senate, that uncertainty nevertheless remains. You can read our most recent article on tax planning during this time of uncertainty here.

Having said that, whether or not big changes to tax laws are afoot, the "every year" tax strategies are still important to consider. Although these may be somewhat mundane and easily overlooked, especially given the spectacle of the election and the spike in COVID-19 cases, they are as important and valuable as ever. They include:

- Making maximum contributions to retirement accounts. For 401(k) plans, this is $19,500 plus, if you are age 50 or older, a $6,500 catch-up contribution.

- Realizing losses in investment portfolios. Tax loss harvesting is the practice of selling securities that are currently worth less than what you paid for them. Selling these securities and recognizing the loss allows you to offset gains from sales of other securities. You can subsequently repurchase the security but in order to avoid the "wash sale" rule, the purchase and the sale must be separated by at least 31 days.

- Charitable gifts. Many people make charitable gifts at the end of the year because they have a better sense of what their income will be for the year, and therefore of how much they can deduct. Unlike other types of deductions, such as deductions for state and local taxes, the tax treatment of charitable gifts was not affected by the 2018 changes to tax laws. And in 2020, COVID relief legislation improved the tax treatment of charitable gifts by increasing the cap on deductions for charitable gifts from 60% of adjusted gross income to 100%, provided the gifts are of cash and made to public charities (not including donor advised funds or supporting organizations). Of course, most people don't give away every dollar they've earned but for some people who are in a position to make large gifts and/or who may have relatively low adjusted gross income (for example people who are retired), the higher deduction limit could be useful. As indicated below, this cap will return to a maximum of 60% of adjusted gross income in 2021.

- Making qualified charitable distributions from IRAs. Any IRA account holder who is age 70 ½ or older may make a direct charitable rollover from an IRA account to charity of up to $100,000 each year. This distribution counts towards the holder's required minimum distribution, and is completely excluded from both federal and state income tax. Although there are no required minimum distributions for 2020, it is still generally more tax efficient to use IRA proceeds (which otherwise will be subject to income tax when eventually distributed) to satisfy charitable gifts. The exclusion from state income tax can be especially beneficial in a state like Massachusetts, which at least at present does not allow a charitable deduction for state income tax purposes (the Massachusetts charitable income tax deduction, dormant since 2002, is set to return in 2021).

- Annual gifts to family members. Any person may make a gift to another of up to $15,000 without having to pay gift tax or even use any of their federal gift tax exemption (currently $11.58 million but slated to be reduced by about 50% in 2026 or possibly sooner). Married couples can double their annual gifts to $30,000 per donee. Any unused benefit does not carry forward to the following year. We encourage clients who make annual gifts to family members to do so early in the year so that the gifted asset might appreciate above $15,000 by the close of the year. For those who wait, the transfer must be completed before December 31st to qualify as a 2020 gift.

Finally, there are a number of changes that will take place under current law regardless of political developments. These include both annual inflation adjustments to certain tax exemptions as well as the expiration of other tax benefits put in place as part of COVID relief legislation. They affect charitable deductions, retirement accounts, gift and estate tax exemption amounts, and certain annual gift amounts. Below are charts showing the figures for 2020 and how they are set to change in 2021.

Tax Provisions Expiring in 2020

	2020	2021
Charitable Deduction	Deduction of up to 100% of AGI for cash gifts to public charities	Deduction limited to 50-60% of AGI for cash gifts
	Up to $300 above-the-line deduction for cash gifts to public charities (for non-itemizers)	No additional deduction available (for non-itemizers)
Retirement Accounts	No required minimum distributions in 2020	Required minimum distributions must be taken annually
	Penalty-free withdrawal of up to $100,000 for coronavirus-related withdrawals under age 59 ½	10% penalty on withdrawals made by owners who have not yet reached age 59 ½

Federal Estate and Gift Tax Exemption/Exclusion Levels for Individuals (double if married)

	2020	2021
Gift and Estate Tax Exemption	$11,580,000	$11,700,000
Generation-Skipping Tax Exemption	$11,580,000	$11,700,000
Gift Tax Annual Exclusion	$15,000	$15,000 *no change*
Annual Exclusion for Gifts to Noncitizen Spouse	$157,000	$159,000

Additional Resources:

- Election Year Tax Planning
- COVID-19 and Presidential Election Have Significant Effect on Estate Planning
- 2020 Personal Tax Planning Update

Contact Us

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