2020 TAX REPORT

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One of our main goals as holistic financial professionals is to help our clients recognize tax reduction opportunities within their investment portfolios and overall financial planning strategies. Staying current on the ever-changing tax environment is a key component to help our clients benefit from potential tax reduction strategies.

2020 was an unusual year that had several major legislative bills passed that could have an impact on your taxes. It is also a presidential election year, so investors might want to think about potential future tax strategies. Although it will take more than a change in president to enact tax laws changes, it is always wise to educate yourself in advance. **This report includes sections on possible tax law changes if there is a change in administration (based on the current proposals) and a link to notable CARES Act and SECURE Act changes that you should be aware of. The main focus of this report is on what individual taxpayers can do to potentially save money on their 2020 taxes.**

The Tax Cuts and Jobs Act (TCJA) enacted in 2017 brought many changes to the tax code. One big uncertainty for all taxpayers is what will happen to the Tax Code after 2025. The way the Tax Cuts and Jobs Act is set up, the changes to the corporate side of the tax code are permanent while many provisions for individuals that took effect in 2018 are currently set to expire after 2025.

The objective of this report is to share strategies that could be effective if considered and implemented before year-end. Please note this report is not a substitute for using a tax professional. In addition, many states do not follow the same rules and computations as the federal income tax rules. Make sure you check with your tax preparer to see what tax rates and rules apply for your particular state.

INCOME TAX RATES FOR 2020

For 2020 there are still **seven tax rates.** They are **10%, 12%, 22%, 24%, 32%, 35%,** and **37%.**
Under current law this seven-rate structure will phase out on January 1, 2026.

Tax Rate	Single	Married/Joint & Widow(er)	Married/Separate	Head of Household
10%	$0 to $9,875	$0 to $19,750	$0 to $9,875	$0 to $14,100
12%	$9,876 to $40,125	$19,751 to $80,250	$9,876 to $40,125	$14,101 to $53,700
22%	$40,126 to $85,525	$80,251 to $171,050	$40,126 to $85,525	$53,701 to $85,500
24%	$85,526 to $163,300	$171,051 to $326,600	$85,526 to $163,300	$85,501 to $163,300
32%	$163,301 to $207,350	$326,601 to $414,700	$163,301 to $207,350	$163,301 to $207,350
35%	$207,351 to $518,400	$414,701 to $622,050	$207,351 to $311,025	$207,351 to $518,400
37%	$518,401 or more	$622,051 or more	$311,026 or more	$518,401 or more

YEAR-END TAX PLANNING FOR 2020

Everyone's situation is unique but it is wise for every taxpayer to begin their final year-end planning now! Choosing the appropriate tactics will depend on your income as well as a number of other personal circumstances. As you read through this report it could be helpful to note those strategies that you feel may apply to your situation so you can discuss them with your tax preparer.

Some items to consider include:

— Evaluate the use versus the standard deduction of itemized deductions

For 2020, the standard deduction amounts will increase to $12,400 for individuals and married couples filing separately, $18,650 for heads of household, and $24,800 for married couples filing jointly and surviving spouses.

As a reminder, in 2018, the Tax Cuts and Jobs Act roughly doubled the standard deduction. It's reported that this helped decrease tax payments for many of those who typically claim this standard deduction. Although personal exemption deductions are no longer available, the larger standard deduction, combined with lower tax rates and an increased child tax credit, could result in less tax. You should consider running the numbers to assess the impact on your situation before deciding to take itemized deductions. The TCJA still eliminates or limits many of the previous laws concerning itemized deductions. An example is the state and local tax deduction (SALT), which is now capped at $10,000 per year, or $5,000 for a married taxpayer filing separately.

— Consider bunching charitable contributions or using a donor-advised fund

For many taxpayers, the larger standard deduction and changes to key itemized deductions resulted in them no longer itemizing. It was estimated that about 15 million filers used the charitable contribution write-off in 2018, a sharp decline from the 36 million who utilized it in 2017. For those taxpayers who are charitably inclined it makes sense to think about a plan. One way to utilize the tax advantages of charitable contributions is through a strategy referred to as "bunching". Bunching is the consolidation of donations and other deductions into targeted years so that in those years, the deduction amount will exceed the standard deduction amount. *(wsj.com 2/15/2019)*

— Review your home equity debt interest

For mortgages taken out after October 13, 1987, and before December 16, 2017, mortgage interest is fully deductible up to the first $1,000,000 of mortgage debt. The threshold has been lowered to the first $750,000 or $375,000 (married filing separately) on homes purchased after December 15, 2017. All interest paid on any mortgage taken out before October 13, 1987 is fully deductible regardless of your mortgage amount (called "grandfathered debt"). This change under the TCJA law applies to all tax years between 2018 and 2025. Many mortgage holders refinanced for lower rates in the last few years so remember for larger mortgages that could change your situation. Home equity lines of credit (HELOCs) are deductible as well, but only if the funds were used to buy or substantially improve the home that secures the loan. Please share with your tax preparer how the proceeds of your home equity loan were used. If you used the cash to pay off credit card or other personal debts, then the interest isn't deductible.

— Revisit the use of qualified tuition plans

Qualified tuition plans, also named 529 plans, are a great way to tax efficiently plan the financial burden of paying tuition for children or grandchildren to attend elementary or secondary schools. Earnings in a 529 plan originally could be withdrawn tax-free only when used for qualified higher education at colleges, universities, vocational schools or other post-secondary schools. However, they changed that so 529 plans can now be used to pay for tuition at an elementary or secondary public, private or religious school, up to $10,000 per year. Unlike IRAs, there are no annual contribution limits for 529 plans. Instead, there are maximum aggregate limits, which vary by plan.

Under federal law, 529 plan balances cannot exceed the expected cost of the beneficiary's qualified higher education expenses. Limits vary by state, ranging from $235,000 to $529,000. Some states even offer a state tax credit or deduction up to a certain amount.

If you want to explore setting up a 529 plan, call us and we would be happy to assist you.

Actions to Consider Before Year-End
• Guestimate your new tax rate.
• Review notable tax law changes for 2020 that may affect you.
• Review your capital gains and losses.
• Review your charitable giving.
• Review your retirement savings options.
• Consider Roth IRA conversions.
• Consider additional year-end tax strategies.
• Understand potential tax law proposals.
• *Review your tax strategies with a tax preparer.*

CONSIDER ALL OF YOUR RETIREMENT SAVINGS OPTIONS FOR 2020

If you have earned income or are working, you should consider contributing to retirement plans. This is an ideal time to make sure you maximize your intended use of retirement plans for 2020 and start thinking about your strategy for 2021. For many investors, retirement contributions represent one of the smarter tax moves that they can make. Here are some retirement plan strategies we'd like to highlight.

401(k) contribution limits increased. The elective deferral (contribution) limit for employees under the age of 50 who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $19,500, up from $19,000. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan increases also to an additional $6,500 ($26,000 total). **As a reminder, these contributions must be made in 2020.**

IRA contribution limits unchanged. The limit on annual contributions to an Individual Retirement Account (IRA) which was increased in 2019, remains at $6,000 for 2020. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000 (for a total of $7,000). **IRA contributions for 2020 can be made all the way up to the April 15, 2021 filing deadline.**

Higher IRA income limits. The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement

plan and have modified adjusted gross incomes (MAGI) of $65,000 and $75,000 for 2020. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is $104,000 to $124,000. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out in 2020 as the couple's income reaches $196,000 and completely at $206,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range remains at $0 to $10,000 for 2020. **Please keep in mind, if your earned income is less than your eligible contribution amount, your maximum contribution amount equals your earned income.**

Be careful of the IRA one rollover rule. Investors are limited to only one rollover from all of their IRAs to another in any 12-month period. A second IRA-to-IRA rollover in a single year could result in income tax becoming due on the rollover, a 10% early withdrawal penalty, and a 6% per year excess contributions tax as long as that rollover remains in the IRA.

CAPITAL GAINS AND LOSSES

Looking at your investment portfolio can reveal a number of different tax saving opportunities. Start by reviewing the various sales you have realized so far this year on stocks, bonds and other investments. Then review what's left and determine whether these investments have an unrealized gain or loss. (Unrealized means you still own the investment, versus realized, which means you've actually sold the investment.)

Know your basis. In order to determine if you have unrealized gains or losses, you must know the tax basis of your investments, which is usually the cost of the investment when you bought it. However, it gets trickier with investments that allow you to reinvest your dividends and/or capital gain distributions. We will be glad to help you calculate your cost basis.

Consider loss harvesting. If your capital gains are larger than your losses, you might want to do some "loss harvesting." This means selling certain investments that will generate a loss. You can use an unlimited amount of capital losses to offset capital gains. However, you are limited to only $3,000 ($1,500 if married filing separately) of net capital losses that can offset other income, such as wages, interest and dividends. Any remaining unused capital losses can be carried forward into future years indefinitely.

Be aware of the "wash sale" rule. If you sell an investment at a loss and then buy it right back, the IRS disallows the deduction. The "wash sale" rule says you must wait at least 30 days before buying back the same security in order to be able to claim the original loss as a deduction. The deduction is also disallowed if you bought the same security within 30 days before the sale. However, while you cannot immediately buy a substantially identical security to replace the one you sold, you can buy a similar security, perhaps a different stock, in the same sector. This strategy allows you to maintain your general market position while utilizing a tax break.

Always double-check brokerage firm reports. If you sold a security in 2020, the brokerage firm reports the basis on an IRS Form 1099-B in early 2021. Unfortunately, sometimes there could be problems when reporting your information, so we suggest you double-check these numbers to make sure that the basis is calculated correctly and does not result in a higher amount of tax than you need to pay.

LONG-TERM CAPITAL GAINS TAX RATES

Tax rates on long-term capital gains and qualified dividends did not change for 2020, but the income thresholds to qualify for the various rates did go up. You may qualify for a 0% capital gains tax rate for some or all of your long-term capital gains realized in 2020. In 2020, the 0% rate applies for individual taxpayers with taxable income up to $40,000 on single returns, $53,600 for head-of-household filers and $80,000 for joint returns. If this is the case, then the strategy is to figure out how much long-term capital gains you might be able to recognize to take advantage of this tax break.

The 3.8% surtax on net investment income stays the same for 2020. It starts for single people with modified AGI over $200,000 and for joint filers with modified AGI over $250,000.

Long-term Capital Gains Rate	Single Taxpayers	Married Filing Jointly	Head of Household
0%	Up to $40k	Up to $80k	Up to $53,600
15%	$40,001-$441,450	$80,001-$496,600	$53,601-$469,050
20%	Over $441,451	Over $496,601	Over $469,051

Source: irs.gov

NOTE: The 0%, 15% and 20% long-term capital gains tax rates only apply to "capital assets" (such as marketable securities) held longer than one year. Anything held one year or less is considered a "short-term capital gain" and those are taxed as ordinary income tax rates.

CHARITABLE GIVING

This is a great time of year to clean out your garage and give your items to charity. Please remember that you can only write off these donations to a charitable organization if you itemize your deductions. Sometimes your donations can be difficult to value. You can find estimated values for your donated items through a value guide offered by Goodwill at *https://goodwillnne.org/donate/donation-value-guide/*

Send cash donations to your favorite charity by December 31, 2020 and be sure to hold on to your cancelled check or credit card receipt as proof of your donation. If you contribute $250 or more, you also need a written acknowledgement from the charity. If you plan to make a significant gift to charity this year, consider gifting appreciated stocks or other investments that you have owned for more than one year. Doing so boosts the savings on your tax returns. Your charitable deductions is the fair

market value of the securities on the date of the gift, not the amount you paid for the asset and therefore you avoid having to pay taxes on the profit.

Do not donate investments that have lost value. It is best to sell the asset with the loss first and then donate the proceeds, allowing you to take both the charitable contribution deduction and the capital loss. Also remember, if you give appreciated property to charity, the unrealized gain must be long-term capital gains in order for the entire fair market value to be deductible. (The amount of the charitable deduction must be reduced by any unrealized ordinary income, depreciation recapture and/or short-term gain.)

The law allowing taxpayers age 70½ and older to make a Qualified Charitable Distribution (QCD) in the form of a direct transfer of up to $100,000 directly from their IRA over to a charity, including all or part of the required minimum distribution (RMD) was made permanent in 2015. If you meet the qualifications to utilize this strategy, the funds must come out of your IRA by December 31, 2020.

SOME NOTABLE CARES ACT AND SECURE ACT CHANGES

Please visit our Veater Financial Group blog for information relevant to you regarding the SECURE & CARES Act:

https://www.veaterfinancialgroup.com/blog/some-notable-cares-secure-act-changes

POSSBILE CHANGES IF JOE BIDEN WINS

While the election has not been decided, Democratic Party nominee Joe Biden has released some possible tax law changes he would like to make if he unseats incumbent Republican Donald Trump for the presidency come November. While these would be future changes and have to be approved by Congress, to help you think about planning your future strategies here are some of the proposed changes to be aware of:

Increase Corporate Tax Rates. Under the TCJA, the peak marginal corporate tax rate was reduced from 35% to 21%. Under the Biden tax plan, the corporate tax rate would be increased to 28%.

Increase the marginal tax rate for top earners. Biden's tax plan would raise the top marginal income-tax bracket from 37% to 39.6% (please note that the TCJA lowered the top marginal bracket from 39.6% to 37% in 2018).

Raise the capital gains tax on filers with incomes above $1 million. Biden's tax proposal calls for filers with over $1 million in income to pay ordinary tax rates on their gains, no matter how long they've held they've held an asset. This would imply 39.6%, plus the Net Investment Income Tax (NIIT), for a total tax rate of over 43%.

Limit itemized deductions. Biden's tax plan includes a cap on itemized deductions of 28%. This means for each dollar of itemized tax deductions, including charitable contributions, a taxpayer or couple filing jointly would only receive a maximum benefit of $0.28. This 28% limit would hold true even if a filer is paying a higher marginal tax rate.

Phase out small business income deductions over $400,000. Biden's tax plan aims to keep Qualified Business Income (QBI) deductions in place for those with less than $400,000 in earnings but phasing out pass-through deductions for those with over $400,000 in earnings.

Eliminate step-up in basis. Biden's tax plan wants to put an end to the step-up in basis. A step-up in basis refers to the cost basis of assets or property transferrable to an heir upon death. If, as an example, an individual purchased a home for $300,000, but it was worth $600,000 at the time of their death, their heir would pay capital gains on anything over $600,000 if the home were ever sold. If Biden's tax proposal were to become law, heirs would not "inherit" a stepped-up cost basis.

Reduce Estate Tax exemption. Biden's tax plan wants to reduce estate tax exemptions back down to $3.5 million immediately. This means estates over that value would be taxed.

CONCLUSION

One of our primary goals is to keep clients aware of tax law changes and updates. This report is not a substitute for using a tax professional. Please note that many states do not follow the same rules and computations as the federal income tax rules. Make sure you check with your tax preparer to see what tax rates and rules apply for your particular state. There are many other additional tax reduction strategies that will vary depending on your financial picture. We encourage you to come in so that we can review your particular situation and hopefully take advantage of those tax rules that apply to you. **We will try to monitor impactful changes and as always, we appreciate the opportunity to assist you in addressing your financial matters and look forward to seeing you soon!**