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The past year has definitely provided some challenging times, and if you are anything like me, you can't wait for this year to end! On top of everything else that has been going on in this world, we have an election coming up very soon, so the future of taxes is uncertain. That being said, you don't want to rush to the end of the year without reviewing your current tax situation and taking advantage of some planning strategies based on the tax laws that we currently have in place. The following is a brief description of the some of the changes that have taken place for 2020.

Individual Taxes

- With the higher standard deductions in place, many people are no longer able to itemize deductions. There could still be opportunities to itemize through doubling up on charitable donations or using donor advised funds as a vehicle for making charitable donations. In addition, whether you itemize your deductions or not, all taxpayers are allowed a charitable deduction up to $300 for 2020. The income threshold for allowing deductions for your charitable donations has also been increased from 60% of adjusted gross income to 100% of adjusted gross income, which makes 2020 a great year to bunch up your donations.

- The required minimum distribution age has been increased to 72, and the required minimum distribution has been waived for 2020. If you are over age 70 ½ you can still have distributions paid directly to charities of your choice and those IRA distributions would not be taxable. This is a very powerful tool given that many seniors do not have enough overall deductions to itemize given the higher standard deduction amounts. You may also want to consider converting a portion of your IRA to a Roth IRA in place of the minimum distribution that would otherwise be required.

- The child tax credits and education credits remain the same for 2020, and a new credit was created for the economic stimulus. Many people received stimulus checks (prepayment of this tax credit) earlier this year, but the checks may not have been for the full amount that they are eligible for. An individual's eligibility will be determined with the filing of the 2020 tax returns. We are required to reconcile the amounts received with the eligible amounts as determined on the tax return. If you already received more than you are eligible for based on 2020 income, you will not have to pay back the excess. However, if you received less than your eligible amount, or you received no payment at all, you could be eligible for the difference as a tax credit on your 2020 tax return.

- Folks having a baby or adopting can now take payouts from IRAs and 401(k)s of up to $5,000, without having to pay the 10% fine for pre-age 59 ½ withdrawals.

- There's a tightening on inherited IRAs and workplace retirement accounts. Many of these inherited accounts need to be cleaned out within 10 years of the death of the IRA owner. Exceptions allow payouts over the beneficiary's life expectancy for surviving spouses, the disabled or chronically ill, minor children until they reach 18, and beneficiaries who are not more than 10 years younger than the account owner.

- There are two more expansions to 529 college savings plans. Funds can now be used to pay for fees, books, supplies and equipment for certain apprenticeship programs. Also, up to $10,000 in total (not annually) can be withdrawn to pay off student loans.

Business Taxes

- We still have the 100% bonus depreciation and section 179 deductions to take advantage of to reduce taxable income. As a reminder, businesses can write off the entire cost of qualifying assets. These deductions apply to new and used assets with depreciable lives of 20 year or less. The section 179 direct write offs can be taken on qualifying assets up to $1,040,000.

- A key dollar threshold on the 20% deduction for pass-through income has increased for 2020. Self-employeds and owners of LLCs, S-Corporations, and other pass-through entities can deduct 20% of their qualified business income, subject to limitations for individuals with taxable income in excess of $326,600 for joint filers and $163,300 for others.

- Paycheck Protection Program (PPP) loans – six months have elapsed since the first loans were issued and we are still waiting on Congress to provide a fix on the deductibility of PPP expenses. Under the current rules, the forgiven loans are not considered taxable income; however, expenses paid with those loan proceeds are not deductible. We anticipate that Congress will pass a bill that allows for the tax deductions for those expenses, as was there intent, but for the time being we cannot guarantee that.

- There are various retirement planning opportunities that can be done through your business. If you currently do not have a retirement plan, it is never too late to set one up. If you do have a plan in place, it is good idea to review that plan to make sure it is the best option for your current situation. We would be happy to discuss the different options with you.

Estate and Gift Taxes

- Two factors make this an ideal time to review your estate and gift-giving plans. First, the estate and gift tax exemption is currently $11,580,000 per person. This could be up to $23,160,000 for couples if portability is timely elected by the surviving spouse. The exemption is slated to go down after 2025, but depending on the election results, this amount could fall significantly sooner than that. Second, historically low interest rates make 2020 opportune for wealth transfer planning.

This is a great time to determine whether you can take advantage of any tax saving strategies, such as maximizing depreciation deductions or maximizing retirement plan contributions. Please remember also that for related companies, it is important that you pay the correct amounts of rent between the companies to allow for maximizing your deductions.

Please refer to the attached checklist for some examples of tax planning strategies that may be beneficial to you. Please note that it is not an all-inclusive list and your situation may present other tax saving strategies that could work for you.

I would like to invite you to participate in a year-end tax planning meeting with one of our consultants so we can discuss your unique situation and make sure that you implement any necessary tax strategies to maximize your savings. Our fee for such a meeting and related projections would be based on our hourly rates. From my past experience, the benefits gained from such a meeting can easily outweigh the cost.

Your trust and confidence in allowing us to assist you with your tax and financial needs is greatly appreciated. With the current staff that we have in place, we are in a position to grow our firm and continue to provide the quality service that you deserve. If you know any friends or colleagues who might need tax or financial assistance, or would just be interested in a second opinion regarding their unique situation, we would be more than happy to help them.

Tax rates are currently at an all time low, and there is a lot of uncertainty related to what the future will hold regarding taxes. To schedule your year end planning meeting, please call our office as soon as possible in order to ensure a meeting prior to December 31st. I strongly encourage you to schedule your meeting as soon as possible to allow for ample time to implement any strategies prior to year end.

Sincerely,

Integrated Management & Accounting, LLC

Kevin Lorge, CPA, Managing Partner

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TAX STRATEGIES CHECKLIST

ARE YOU DOING EVERYTHING YOU CAN TO SAVE TAX?

Making sure you keep your tax liability to a minimum is key to your overall financial health. Fortunately, there are some tried and true ways to help you achieve that goal. Below are common tax-reduction strategies for individuals and businesses.

Personal Strategies:

Accelerating or deferring income

Maximizing or bunching deductions

Watch out for Net Investment Tax triggers

Contributing to a retirement plan

Donating to charity

Claiming all possible credits

Taking child-related tax breaks

Planning for retirement distributions

Contributing to a flex plan or HSA

Contributing to education accounts

Making timely estimated tax payments

Incorporate tax planning with estate planning

Business Strategies:

Selecting a tax-advantaged business structure

Claiming all credits for which you are eligible

Deducting all eligible business expenses

Accelerating or deferring income

Using a tax-smart depreciation method

Considering cost segregation

Qualifying expenditures as repairs

Evaluating the merits of leasing

Choosing a proper inventory method

Setting up a retirement plan

Making timely estimated tax payments

Incorporate tax planning with exit plan

We would welcome the opportunity to help you pay as little tax as necessary. Please call us today to talk about ways to put these and other strategies to work for you.