VWG WEALTH MANAGEMENT
A Hightower Company

Year-End Planning

The unexpected turmoil of 2020 only further adds to the often-complex process of year-end tax planning, retirement funding, and gifting. VWG is here to help. Here is a checklist of topics and specific strategies that should serve as a catalyst for conversations with our team.

Tax Planning

- [ ] Review your payroll tax withholding for 2020 to ensure you are having enough (but not too much) federal and state taxes taken from your paycheck for 2021. Access a simple IRS withholding estimator: (https://www.irs.gov/individuals/tax-withholding-estimator).

- [ ] VWG has taken aggressive tax-loss harvesting swaps and strategies during this year' sharp asset declines. We will continue to review and cull further losses through year-end. Even if these losses cannot be used to offset 2020's realized gains, they represent real value for you against future gains. There is no limit on how many years one can use capital loss carryovers. $3,000 in net realized losses can be used per year to offset ordinary income.

- [ ] The CARES Act waives 2020 required minimum distributions (RMDs) from IRAs, 401(k)s, and inherited IRAs and Roth IRAs. In unique situations, withdrawals that have been taken from retirement accounts can be considered loans with a three-year payback period.

- [ ] Although tax planning usually focuses on ***reducing*** taxable income, certain individuals may want to maintain or even ***increase*** taxable income for 2020. Those in lower tax brackets should consider taking IRA distributions even though not required. Federal tax rates are historically low and may not remain that way for long. If one expects higher tax rates in the future, it may be wise to take some amount of taxable income today.

- [ ] Although no one knows the future, it is possible that the current 20% maximum tax rate on long-term capital gains will increase for some taxpayers. Those expecting very large capital gains in 2021 and beyond may consider accelerating some capital gains before the end of this year. This would in effect swap the "known" for the "unknown."

- [ ] Maximize Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs). Review your current benefits and options, particularly for those whose employers' plans are in the open enrollment period for next year. HSAs (associated with high-deductible health plans), can also be used to expand salary deferral as a savings vehicle that can be used in later years or in retirement. Your contributions are tax-deductible, and these funds can be invested for tax-free growth if used for future healthcare expenses. Since funds placed in an HSA will stay with you forever, regardless of whether you change employers or insurance, any unused money rolls over and continues to grow until you use it for medical expenses.

Funding and Taking Distributions from Retirement Accounts

- [ ] If still working, confirm that you have made the 401(k) maximum contribution this year. Depending on your 2020 income, you and/or your non-working spouse may also be able to contribute to an IRA or Roth IRA. Self-employed individuals have further options in which they could defer larger amounts of earnings. These actions have the dual benefit of increasing your retirement savings and potentially reducing this year's tax liability.

- [ ] 2020 could be an opportune time for converting IRAs or pre-tax 401(k) funds to Roth IRAs. Although conversions generate immediate taxable income, federal tax rates may rise in the future. Older clients who have had their RMD waived this year should consider converting the RMD amount or more, depending on their expected tax bracket. For those charitably inclined, some of the tax liability from a Roth IRA conversion could be offset by making a larger-than-usual contribution to charitable organizations or a donor-advised fund.

- [ ] Older owners of IRAs with multiple beneficiaries should review their estate planning. Depending on the specific situation, it may be prudent to split the IRA into separate accounts designated for each beneficiary to take advantage of favorable distribution rules.

Charitable Gifts and Tax-Smart Gifting Strategies

- [ ] Start planning which charitable donations. Keep records of all donations. For larger gifts, consider gifting highly appreciated stocks, funds or other assets instead of cash. With so many afflicted by the COVID-19 pandemic, now is the perfect time to donate to organizations working hard at making a difference.

- [ ] The CARES Act allows an 'above-the-line' charitable deduction for all taxpayers who do not itemize their deductions. This temporarily supersedes 2018's State and Local ("SALT") tax law change. All who are inclined and qualify should consider making a $300 charitable contribution.

- [ ] Taxpayers who expect to claim the standard deduction in 2020 can consider "bunching" multiple years of charitable gifts into one year so that they can qualify for a tax deduction. If one is nearing retirement and expects to be in a lower tax bracket in the future, "bunching" now can provide greater tax savings. Large "lump" contributions can be placed into a Donor Advised Fund (DAF), from which you can easily disperse smaller "grants" to multiple IRS-approved public charities at your discretion over the coming years.

- [ ] For 2020, those age 50 1/2 and older may consider making a charitable contribution to a qualified charity directly from their IRA. Limited to $100,000 in past years, the CARES Act allows charitable contributions up to 100% of their adjusted gross income (AGI). This qualified charitable distribution (QCD) will not be deemed to be taxable income.

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Family Gifting

- [ ] Consider year-end gifting to family members. The 2020 annual gift tax exclusion for individuals is $15,000. That means that the maximum a husband and wife can gift to a single person in one year is $30,000. If you intend on making a very large gift to a child - for example helping with a home down payment - consider spreading your gifting between the end of this year and the beginning of next year.

- [ ] This annual limit is overridden for gifts made directly into 529 education savings accounts. It is also exempted for college tuition payments sent directly to the educational institution. A special 529-exclusion allows five years' worth of gifts – up to $75,000 for single or $150,000 for married couples – to be contributed at once, provided that no other gifts are made within the next five-year period. If the grandparents are the owners of these 529 accounts, these assets are not currently factored as assets for determining federal financial aid (but plan distributions may be counted as part of the income test). For further information on 529 savings accounts, please reference our article in September 2019 Ponderings & Musings. (link)

Estate Planning

- [ ] Historically low interest rates, and the 2025's estate tax "sunset" present potentially powerful estate planning opportunities. Many estate and gift tax strategies hinge on the ability of assets to appreciate faster than IRS prescribed interest rates. Without a law change, the current $11.58 million estate-tax exemption will 'sunset,' reverting to the pre-2018 $5 million level for individual taxpayers. In the face of large federal deficits and the widening gap between the 'haves' and the 'have-nots,' there is no guarantee of this law remaining untouched prior to 2025.

1919 Gallows Rd. Suite 330
Vienna, VA 22182
(571) 406-4700
vwg.hightoweradvisors.com