# Year-end tax planning: COVID-19 has tweaked some approaches

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The holiday season has begun. As you sit down for your holiday dinner, remember that soon Uncle Sam will be visiting you to enjoy his share of your bounty. Despite the hustle and bustle of the holidays, the savvy taxpayer will make room in their overstuffed holiday calendar to complete year-end tax planning. Of course, it would be best to take steps to minimize taxes all year, but if you have failed to do so, there are still some options that can be utilized before year-end.

**Looking at selling some loser**

If your taxable income needs to be offset, you should consider selling assets that have lost value before the end of the year. Losses will offset gains, and to the extent that the losses are greater than the gains, you may be able to write off the losses against your income this year and in future years. If you are holding an asset that in all likelihood will not go up in value, consider a sale at a loss, which may, in turn, reduce taxable income.

**Check charity deductions this year**

Often, taxpayers make additional charitable contributions in order to obtain additional deductions against their income. Normally, an additional deduction is only available if you qualify to itemize deductions, but for 2020, the CARES Act has created a temporary tax benefit where there is an "above-the-line" deduction for individuals donating up to $300 or up to $600 for married joint-filing households. If you are unsure whether you will be itemizing deductions, it makes sense to calculate your deductions prior to making any additional contributions to ensure that the contributions will have the desired effect on your income tax return.

**And 'charity' is more than cash**

If additional charitable contributions would reduce your income tax, it is not necessary to make a cash donation. You can also donate land or highly appreciated assets. If you donate highly appreciated assets to charity, the charity can avoid paying capital gains tax on the appreciation due to its charitable status. This is beneficial for you and the charity. You can also donate tangible items of personal property – automobiles, clothing, household furnishings, and the like. Your attic, garage, or basement could be filled with tax deductions.

**Consider the capital gains options**

Another option to consider if you require additional cash is to liquidate assets that are subject to capital gains tax as opposed to ordinary income tax. Paying on only the gain may be preferable to liquidating other assets that will be more heavily taxed. For example, if you are in a 28% bracket, additional withdrawals from your IRA or 401k plan will cause these amounts to be taxable at the 28% rate, if not higher. The sale of a capital gain asset (not held in a qualified plan) will trigger a smaller capital gain tax on only the gain, which is the amount over the basis.

**RMDs not required in 2020**

Another significant option is that in 2020, a required minimum distribution ("RMD") is not required to be made from an IRA or other qualified plan, so the additional tax associated with such a distribution can be avoided in 2020. In addition to this option, if you are 70 1/2 or older and charitably inclined, funds may be paid directly to a charity (or multiple charities) from your retirement account, and this donation will not increase your taxable income. The annual limit for such a donation is $100,000, but the distribution does satisfy your RMD.

**Evaluate the gifting option**

Should you have a taxable estate, which, for 2020, means an estate greater than $1 million for Massachusetts purposes and/or greater than $11.58 million for federal purposes, gifting should also be considered. Massachusetts has no gift tax. For federal purposes, in 2020, you may gift $15,000 to any person without having to file a federal gift tax return. Systematic gifting each

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year in amounts that do not exceed the annual exclusion can substantially reduce your taxable estate leaving more for your loved ones after your passing. In addition, gifting may reduce your income taxes, as you would no longer own the assets that would generate income.

**Get advice to plan right**

As you discuss these issues over the holiday dinner table, remember that the best year-end plan for you may be very different from the plan for your family member or neighbor. As with all tax issues, competent assistance should be obtained from a tax professional who has the knowledge and the technical expertise to recognize areas where planning may be available to you. The time to plan is now, as once Uncle Sam sits down at the dinner table, there is no controlling his appetite.

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