Year-End Tax Planning Updates and Strategies
This presentation is intended for informational purposes only and should not be construed as personalized investment or tax advice. Please consult your investment and tax professional(s) regarding your unique situation.
Presenters

Kelli M. Peterson
CPA, CFP®, ATA, MPA
Tax and Business Services Supervisor
Rockford, IL Office

J. Peter Doyle
CFP®, CPA/PFS
Financial Advisor
Lincolnshire, IL Office

Dominick J. Parillo
CFP®
Director of Wealth Transfer
McLean, VA Office
2020 Year in Review
New Forms and Questions

• New Withholding Form W-4 released
• New Senior form 1040-SR
• NEW for 2020 Returns (to be filed in Spring 2021): Virtual Currency Question
Updated Form W-4
## Key Dollar Amounts for 2020

### Tax Brackets and Standard Deductions

<table>
<thead>
<tr>
<th>Rate</th>
<th>2019 For Single Filers, Taxable Income over</th>
<th>2019 For Married Filers, Taxable Income Over</th>
<th>2020 For Single Filers, Taxable Income over</th>
<th>2020 For Married Filers, Taxable Income Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>12%</td>
<td>9,700</td>
<td>19,400</td>
<td>9,875</td>
<td>19,750</td>
</tr>
<tr>
<td>22%</td>
<td>39,475</td>
<td>78,950</td>
<td>40,125</td>
<td>80,250</td>
</tr>
<tr>
<td>24%</td>
<td>84,200</td>
<td>168,400</td>
<td>85,525</td>
<td>171,050</td>
</tr>
<tr>
<td>32%</td>
<td>160,725</td>
<td>321,450</td>
<td>163,300</td>
<td>326,600</td>
</tr>
<tr>
<td>35%</td>
<td>204,100</td>
<td>408,200</td>
<td>207,350</td>
<td>414,700</td>
</tr>
<tr>
<td>37%</td>
<td>510,300</td>
<td>612,350</td>
<td>518,400</td>
<td>622,050</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard Deduction</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12,200</td>
<td>12,400</td>
</tr>
<tr>
<td></td>
<td>24,400</td>
<td>24,800</td>
</tr>
</tbody>
</table>
## Key Dollar Amounts for 2020

### Retirement Limits

<table>
<thead>
<tr>
<th>Retirement Plans</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum annual IRA contribution (under age 50)</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Maximum additional &quot;catch-up&quot; IRA contribution (age 50 or over)</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Maximum annual 401(k) contribution (under age 50)</td>
<td>19,000</td>
<td>19,500</td>
</tr>
<tr>
<td>Maximum additional &quot;catch-up&quot; 401(k) contribution (age 50 or over)</td>
<td>6,000</td>
<td>6,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social Security</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full retirement age</td>
<td>*66 &amp; 6 months</td>
<td>**66 &amp; 8 months</td>
</tr>
<tr>
<td>Maximum earnings subject to social security payroll tax</td>
<td>132,900</td>
<td>137,700</td>
</tr>
</tbody>
</table>

* For those who turned 62 in 2019
**For those who turned 62 in 2020
Key Dollar Amounts for 2020

Deductible Medical Expenses
• 2019: Over 7.5% of AGI
• 2020: Over 7.5% of AGI

FSA contributions
• 2019: $2,700 max per employee
• 2020: $2,750 max per employee

HSA contributions
• 2019: Single: $3,500 / Family: $7,000
• 2020: Single: $3,550 / Family: $7,100
• Over 55 years old: $1,000 catch-up
Key Dollar Amounts for 2020

Watch out for Medicare premiums

- Premiums can increase with higher income
- Based on income from 2018 tax returns
- Appeals can be made to lower premiums if income has gone down in certain circumstances
SECURE Act and CARES ACT Recap
SECURE Act

- Expansion of 529 withdrawals
- Penalty-free withdrawals for birth or adoption expenses up to $5,000
- RMD age increased from 70 ½ to 72
- Repeal of age cap for deductible IRA contributions
- Elimination of the “stretch IRA” for non-eligible designated beneficiaries
SECURE Act

- Who is an eligible designated beneficiary?
  - Surviving spouse
  - Owner’s children under age of majority
  - Disabled individuals
  - Chronically ill individuals
  - Individuals not more than 10 years younger

These beneficiaries can still use life expectancy
SECURE Act

• Non-Eligible Designated Beneficiaries:
  — Required to distribute entire IRA balance within *ten years* following year of death
  — Also applies to “successor beneficiaries” of grandfathered beneficiary IRAs

• No Beneficiary:
  — Five-year rule applies
CARES Act

• Economic Impact Payments (Stimulus checks)
  – Recovery Rebate will be on the 2020 Return (to be filed in Spring 2021)
• Paycheck Protection Program (PPP) Loans
• Required Minimum Distributions (RMDs) suspended for 2020
• $100,000 Retirement plan withdrawals could be taken for those affected by COVID-19
Tax Planning Strategies and Charitable Giving
Tax Strategy: Manage Tax Bracket

*Summary* – “Pay less tax over your lifetime by maxing out lower tax brackets right now”

**Ideal Situation**
- Has lower income years between retirement and the start of Social Security/RMDs
- Experiences taxable income fluctuations
- Has long-term perspective on taxes

**Strategy**
- Use multi-year income tax projections to identify potential lower income years
- Increase income in lower income years to max out a specific tax bracket
- If low FMV of annuity compared to basis, realize minimal gains

**Be Careful If You**
- Are 63 or older and near a MAGI Medicare premium cliff
- Have unexpected income fluctuations at year-end
Tax Strategy: Manage Capital Gains

Ideal situation
- Taxpayer currently at 0% capital gains rate
  - Below $80,000 taxable income MFJ and $40,000 Single
- Owns appreciated investments
- Taxpayer has significant capital losses that can offset gains

Other considerations
- Transaction will still be subject to state income tax
- Transaction can change how much of your Social Security benefits are taxable
Tax Planning Strategies and Charitable Giving

Tax Strategy: Manage Tax Bracket – Roth Conversion

Example

- Taxpayer is 50 years old and married
- Has significant IRAs and anticipates large RMDs
- Anticipates being in higher income tax bracket during retirement
- $140,000 taxable income

Strategy - Max out the 22% Bracket

- Convert $31,000 from IRA to Roth IRA
- This pushes taxpayer to $171,000 taxable income, maxing out the 22% bracket
- Reduces IRA balance, thus decreasing future RMDs
- Growth in Roth account will not be taxed
- Non-spouse heirs will now only have 10 years to deplete Inherited IRA (SECURE Act)

<table>
<thead>
<tr>
<th>Rate</th>
<th>For Single Filers, Taxable Income Over</th>
<th>For Married Filers, Taxable Income Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>12%</td>
<td>9,875</td>
<td>19,750</td>
</tr>
<tr>
<td>22%</td>
<td>40,125</td>
<td>80,250</td>
</tr>
<tr>
<td>24%</td>
<td>85,525</td>
<td>171,050</td>
</tr>
<tr>
<td>32%</td>
<td>163,300</td>
<td>326,600</td>
</tr>
<tr>
<td>35%</td>
<td>207,350</td>
<td>414,700</td>
</tr>
<tr>
<td>37%</td>
<td>518,400</td>
<td>622,050</td>
</tr>
</tbody>
</table>

Standard Deduction

- For Single Filers: $12,400
- For Married Filers: $24,800

*For illustrative purposes only.
Tax Planning Strategies and Charitable Giving

Tax Strategy: Utilize “Backdoor” Roth Strategy

Summary - “Turn traditional IRA into a Roth IRA”

Ideal Situation
• AGI exceeds the limits to allow a Roth IRA contribution (over $139,000 Single or $206,000 MFJ)
• Want the tax benefits Roth accounts provide
• Has earned income

Strategy
• Make non-deductible contributions to a traditional IRA
• Convert the non-deductible IRA to a Roth IRA

Be Careful If You
• Already have a large traditional IRA
Case Study: Tax Optimized Charitable Giving

Art and Alice

Married taxpayers filing a joint return

Typically give $15k to charity annually at year-end

The SALT deduction (capped at $10k) is the only other itemized deduction they can claim

SALT = State And Local Taxes (Income & Property)

*For illustrative purposes only.
## Baseline Tax Situation

<table>
<thead>
<tr>
<th>Normal Deductions</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Combined SALT</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Total Itemized</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Deduction Taken</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>24,400</td>
<td>24,800</td>
<td>24,800</td>
<td>24,800</td>
<td></td>
</tr>
<tr>
<td>Decrease in Taxable Income</td>
<td>600</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>1,200</td>
</tr>
</tbody>
</table>

Source: irs.gov.
### Scenario One: “Bunching 1.0”

<table>
<thead>
<tr>
<th>Timed Deductions</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
<td>30,000</td>
<td>-</td>
<td>30,000</td>
<td>-</td>
<td>60,000</td>
</tr>
<tr>
<td>Combined SALT</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Total Itemized</td>
<td>40,000</td>
<td>10,000</td>
<td>40,000</td>
<td>10,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Deduction Taken</td>
<td>40,000</td>
<td>24,800</td>
<td>40,000</td>
<td>24,800</td>
<td></td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>24,400</td>
<td>24,800</td>
<td>24,800</td>
<td>24,800</td>
<td></td>
</tr>
<tr>
<td>Decrease in Taxable Income</td>
<td>15,600</td>
<td>-</td>
<td>15,200</td>
<td>-</td>
<td>30,800</td>
</tr>
</tbody>
</table>

Source: irs.gov.
### Scenario Two: “Bunching 2.0”

<table>
<thead>
<tr>
<th>Timed Deductions</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
<td>-</td>
<td>60,000</td>
<td>-</td>
<td>-</td>
<td>60,000</td>
</tr>
<tr>
<td>Combined SALT</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Total Itemized</td>
<td>10,000</td>
<td>70,000</td>
<td>10,000</td>
<td>10,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Deduction Taken</td>
<td>24,400</td>
<td>70,000</td>
<td>24,800</td>
<td>24,800</td>
<td></td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>24,400</td>
<td>24,800</td>
<td>24,800</td>
<td>24,800</td>
<td></td>
</tr>
<tr>
<td>Decrease in Taxable Income</td>
<td>-</td>
<td>45,200</td>
<td>-</td>
<td>-</td>
<td>45,200</td>
</tr>
</tbody>
</table>

Source: irs.gov.
Consider Different Charitable Strategies

Cash gifts
• Easy to give
• Up to 100% of AGI for 2020
• $300 if not itemizing

Appreciated securities/property
• Reduces or eliminates capital gains tax
Qualified Charitable Distribution (QCD)

Excellent strategy even if you do not itemize!

IRA to charity
• Up to $100,000/year if over 70 ½ (*Note this has not changed to 72)
• Can give portion or all of RMD
• Exclude from income, no itemized deduction

IRA custodians do not identify QCD on Form 1099-R
• Tell your tax preparer!
Utilize a Donor Advised Fund (DAF)

You → DAF → Grants

- Property
- Charity 1
- Charity 2
- Charity 3
Estate Tax Overview and Considerations
Estate Planning Considerations
Post Tax Cuts and Jobs Act (TCJA)

• TCJA increased the basic exemption amount for years 2018 through 2025
  • For 2020 the basic exemption per person is $11,580,000
  • For 2021 the basic exemption per person is $11,700,000

• 2026 basic exemption will sunset back to the pre-TCJA exemption of $5,000,000
  • 2026 inflation adjusted exemption amount estimated at $6,000,000

• Annual gift exclusion for 2020 and 2021 is $15,000
Historical Federal Estate Exemptions

Source: https://www.thebalance.com/exemption-from-federal-estate-taxes-3505630#citation-11
Estate Tax Overview and Considerations

Does Your State Have an Estate or Inheritance Tax?

State Estate & Inheritance Tax Rates & Exemptions in 2020

Note: Exemption amounts are shown for state estate taxes only. Inheritance taxes are levied on the posthumous transfer of assets based on the relationship to the decedent; different rates and exemptions apply depending on the relationship. CT’s exclusion is scheduled to rise further, matching the federal threshold by 2023.

Source: Bloomberg Tax: state statutes
Estate Planning Considerations
Post Tax Cuts and Jobs Act (TCJA)

• Estate exclusions are historically high

• Planning shifted from estate tax avoidance to income tax minimization and distribution planning

• Auto funded credit shelter trusts fell out of favor
  – Credit shelter trusts avoid estate tax by remaining outside of a surviving spouse’s taxable estate - but do not provide for a second step-up in cost basis

• No step-up in cost basis may result in more income tax paid by inheriting generation
Outright Gift Approach

- **Buy Stock**: $1 M
- **At First Death**: $2 M
- **Transfer to Trust**: $2 M
- **At Second Death**: $3 M

*For illustrative purposes only.*
Outgoing Gift Approach

- **Buy Stock**
  - Wife: $1M
  - Husband: $1M

- **At First Death**
  - Wife: $2M
  - Husband: $2M

- **Transfer To Spouse**
  - $4M

- **At Second Death**
  - $6M

*For illustrative purposes only.*
Estate Tax Proposals

- Elimination of the TCJA exemptions before 2026
- $3,500,000 per person exemption (2009 level)
- Increased estate tax rate from 40% to 45%
- Elimination of step-up in cost basis

Source: www.taxfoundation.org
Estate Tax Management

Planning Strategies

• Asset Disclaimers
• SLATs
• GRATs
• Annual Gifting & Gift Trusts
  • 529 plans, education, medical care
• Charitable Trusts & Charitable Gifts

Trust Design

• Conduit vs. Accumulation Trusts
• Contingent GPOA
• Trust Protectors
Year-End Reminders
Don’t Forget

• Submit cash charitable contributions before December 31!
  – Earlier deadlines for donating securities

• QCDs - Tell your tax preparer!

• Roth conversions

• Additional capital gains

• Unemployment Income

• 529/Education savings before December 31!
Tax Outlook for 2021
What’s Next

• Tax Cuts and Jobs Act (TCJA) is still in play

• Still many unknowns for future tax legislation

• We are staying on top of legislation as it passes to ensure we communicate the latest strategies

Source: https://www.natlawreview.com/article/2021-us-tax-forecast-how-november-elections-could-lead-to-significant-tax-changes
https://taxfoundation.org/joe-biden-tax-plan-2020/
Disclosures and Notes

Savant Wealth Management ("Savant") is an SEC registered investment adviser headquartered in Rockford, Illinois. Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy, including the investments and/or investment strategies recommended and/or undertaken by Savant, or any non-investment related services, will be profitable, equal any historical performance levels, be suitable for your portfolio or individual situation, or prove successful. Savant is neither a law firm nor a certified public accounting firm, and no portion of its services should be construed as legal or accounting advice. You should not assume that any discussion or information contained in this presentation serves as the receipt of, or as a substitute for, personalized investment advice from Savant. A copy of our current written disclosure Brochure discussing our advisory services and fees is available upon request or at www.savantwealth.com. The scope of the services to be provided depends upon the needs of the client and the terms of the engagement. "Ideal" is not intended to give assurance as to achieving successful results.