Smith, Moore & Co.
7777 Bonhomme
Suite 2400
St. Louis, MO
314-727-5225
www.smithmoore.com

2020 Year-End Tax Tips

Here are some things to consider as you weigh potential tax moves between now and the end of the year.

1. Defer income to next year

Consider opportunities to defer income to 2021, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

2. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2021) could make a difference on your 2020 return.

3. Make deductible charitable contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 60%, 30%, or 20% of your adjusted gross income (AGI), depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

For 2020 charitable gifts, the normal rules have been enhanced: The limit is increased to 100% of AGI for direct cash gifts to public charities. And even if you don't itemize deductions, you can receive a $300 charitable deduction for direct cash gifts to public charities (in addition to the standard deduction).

4. Bump up withholding to cover a tax shortfall

If it looks as though you will owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. There may not be much time for employees to request a Form W-4 change and for their employers to implement it in time for 2020. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck. This strategy can be used to make up for low or missing quarterly estimated tax payments.

5. Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2020 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2020, you can contribute up to $19,500 to a 401(k) plan ($26,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older).* The window to make 2020 contributions to an employer plan generally closes at the end of the year, while you have until April 15, 2021, to make 2020 IRA contributions.

*Roth contributions are not deductible, but Roth qualified distributions are not taxable.

6. Avoid RMDs in 2020

Normally, once you reach age 70½ (age 72 if you reach age 70½ after 2019), you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans. Beneficiaries of retirement plans are also generally required to take distributions after the death of the IRA owner or plan participant. However, recent legislation waived RMDs from IRAs and most employer retirement plans for 2020 and you don't have to take such distributions.

If you have already taken a distribution for 2020 that is not required, you may be able to roll it over to an eligible retirement plan. The IRS provided a safe-harbor date (August 31, 2020) to roll over a distribution that was not required because RMDs were suspended for 2020 and that date has passed.

There are other provisions that could allow for a rollover. For example, amounts that are distributed can generally be rolled over as long as the rollover is completed within 60 days. So, for example, if an amount is distributed on November 1, 2020, it may be possible to roll it over during 2020. Also, for someone who takes a coronavirus-related distribution in 2020, it may be possible to roll it over to an eligible retirement plan within three years of the day after the distribution was received.

7. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.
