10 Things to Consider Before Year End

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As 2020 draws to a close, it is time once again to think about year-end tax planning. Depending on the results of the Georgia Senate runoff elections in January, the Biden Presidency could radically alter existing tax laws. Now is the time to consider capitalizing on a potentially more favorable tax regime, significant gift and estate tax exclusions and low interest rates. Below is a list of the ten things you may want to consider before year-end.

1. **Maximize Your Lifetime Estate and Gift Tax Exemption —** The Tax Cuts and Jobs Act of 2017 doubled the amount individuals can transfer to beneficiaries without being subject to a 40% estate and gift tax rate. The current lifetime estate and gift tax exemption amount is at an all-time high of $11.58 million per individual ($23.16 million for a married couple). This increased exemption amount is scheduled to sunset in 2026 and may be reduced even earlier. In fact, President-Elect Biden has expressed a desire to reduce the exemption amount to as little as $3.5 million. Individuals should consider making large gifts now to take advantage of the increased exemption amounts before they expire or decrease.

2. **Consider the Tax Impact of the Presidential Election —** President-Elect Biden has proposed extensive legislative changes that include higher income tax rates, higher capital gains rates, additional social security tax, less favorable itemized deductions and significant limitations on, or the elimination of, many common estate planning techniques currently available. It is important to understand the effect Biden's plan could have on you and be in a position to act before the end of the year. If the Republicans maintain control of the Senate after the Georgia runoff elections, it is unlikely Biden's proposed tax changes will become law.

3. **Make Annual Exclusion Gifts —** You may give up to $15,000 per year ($30,000 for a married couple) to an unlimited number of individuals gift-tax free each year. This is a powerful way to reduce your estate. We recommend giving cash or assets with a high tax basis, so your beneficiaries are not burdened with additional taxes. For charitable gifts, we generally recommend gifting low-basis, highly appreciated assets.

   You can also pay directly for another person's educational and medical expenses without those payments counting against your annual exclusion gift. For example, a grandparent could pay their grandchild's college tuition and still gift $15,000 to the grandchild with no gift tax implications.

4. **Review 2020 Required Minimum Distributions ("RMD") —** The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") waived the 2020 RMD for retirement plans and IRAs. Prior to this, individuals who had reached their required beginning date (either 70 ½ or 72 depending on their birthdate) or who own inherited IRA accounts had to take a RMD from their IRAs and/or qualified plan accounts by December 31. Depending on your situation, you may still want to consider taking your RMD in 2020 even though the CARES Act waived the requirement. For example, if taxes rise next year, your tax burden could be less if you take the distribution today (assuming you need the distribution) and pay the current rate.

5. **Harvest Tax-Losses —** Tax loss harvesting is when you sell certain investments at a loss to reduce your tax liability at the end of the year. You can use tax-loss harvesting to offset capital gains that result from selling securities at a gain. To the extent you have more losses than gains, you can use tax-loss harvesting to offset up to $3,000 of non-investment income this year. As well, capital losses in excess of $3,000 can be carried forward indefinitely until the amount is exhausted.

   We actively harvested losses in our client accounts this year as we do every year. However, you may want to review your other accounts and assets and assess whether there are any other losses that should be recognized before year-end.

6. **Conduct a Review of your Estate Plan and Evaluate Planning Strategies —** We recommend that our clients conduct a thorough review of their estate plan (including a review of their retirement plan and life insurance beneficiary designations) at least every three to five years. The goal is to determine if you need to evolve your estate plan to account for changes in tax law, your wealth or your beneficiaries. With interest rates at historically low levels, now is a great time to also consider transferring wealth to the next generation through an intra-family loan (or refinancing an existing intra-family loan), a Grantor Retained Annuity Trust ("GRAT"), a sale to an Intentionally Defective Grantor Trust ("IDGT") or a Charitable Lead Annuity Trust ("CLAT").

7. **Evaluate Converting Your Traditional IRA to a Roth IRA —** Now is a great time to think about converting your traditional IRA into a Roth IRA. When you convert from a traditional IRA to a Roth IRA, you pay taxes on the money that you convert but you will be able to make tax-free withdrawals from the Roth account in the future. Because current tax rates could rise as soon as next year, it may make sense to convert now when taxes are lower. In addition, if your 2020 income is lower than normal and/or you have excess tax deductions that may be lost or cannot be used without additional income in 2020, now may be a good time to make the conversion.

8. **Consider Making Charitable Contributions —** Charitable contributions not only benefit the organizations and causes you care about, they also are tax-deductible expenses that can reduce your taxable income if you itemize your deductions and therefore do not take the standard deduction ($12,400 for single filers and $24,800 for married couples in 2020).

   We generally recommend gifting long-term highly appreciated securities as charitable gifts to maximize the impact of your gift and to avoid paying tax on the gain. However, there are limitations on the deductibility of charitable gifts subject to your Adjusted Gross Income ("AGI") depending on the type of gift (cash vs. other assets such as securities) and the charitable beneficiary (public charity vs. private foundation). The CARES Act increased the AGI cap on cash contributions to public charities (not including donor advised funds) from 60% to 100% for 2020.

9. **Trust Income Tax Planning —** Many irrevocable trusts give trustees unfettered discretion to either distribute the income to the beneficiaries each year or accumulate the income. Trustees should consider whether an income distribution should be made, and if so, if it can be made in a tax efficient manner. Income distributions make more sense when a beneficiary's marginal tax rate is lower than the trust's marginal tax rate and the distribution may also avoid the imposition of the 3.8% Net Investment Income Tax ("NIIT").

   While trustees have 65 days after the end of the tax year to shift trust taxable income to a beneficiary, it is a good idea to get a head start at the end of 2020. In 2020, trusts pay the highest marginal income tax rate of 37% and the 3.8% NIIT on income more than $12,950.

10. **Maximize your Health Savings Accounts ("HSA") —** An HSA is a tax-advantaged way to save and pay for medical expenses if you have a high deductible medical plan. The IRS defines a high deductible as any plan with a deductible of at least $1,350 for an individual and $2,700 for a family. Contributions to an HSA are tax deductible and distributions to pay for qualified medical expenses are tax-free. The maximum family contribution in 2020 for an HSA is $7,100 (or $3,500 for individuals) with an extra $1,000 for those who have reached age 55.

    You technically have until April 15, 2021 to fund your HSA for 2020 but you should start planning now to ensure that you maximize your 2020 contribution to your HSA.

Year-end tax planning can be incredibly complex, particularly this year when the election could have a significant impact on future tax and estate planning rules. While we have provided you with some strategies for tax and philanthropic planning, there is no one-size-fits-all solution. Everyone's tax situation and estate plan are unique. As your OCIO, we are here to help you evaluate your taxes in the context of your overall portfolio and goals for your estate and charitable contributions. For more information, please reach out to your Investment Officer or Portfolio Manager.

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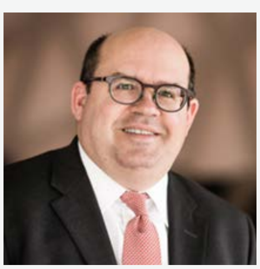

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