CPA Practice Advisor

these moves before it's too late, CPA financial planners with the ...

Nov. 17, 2020

The window of opportunity to trim that 2020 tax bill, save for retirement and leverage strategies to secure your financial future is closing. To help Americans make these moves before it's too late, CPA financial planners with the American Institute of CPAs (AICPA) share the following 2020 year-end tips.

1. ***Prepay 2021 Residence Real Estate Taxes For a 2020 Discount*** Deadline: December 31, 2020 Quote: "In the past, prepaying real estate taxes could trigger the alternative minimum tax (AMT), but with a generous AMT exemption and a cap on deducting state and local taxes, AMT concerns are minimal. While this benefit can be reduced by the $10,000 overall cap on state and local taxes, by prepaying real estate taxes in 2020 that are otherwise due before the end of 2021, taxpayers

can get a discount on their 2020 taxes." – Jason Uetrecht, CPA/PFS member of the

Personal Financial Specialist (PFS) Credential Committee

3. ***Pay Home Business Expenses Now to Lower Taxable Income*** Deadline: December 31, 2020 Quote: "If you have a home business or a side gig, take this time to look at your Profit and Loss Statement so you won't be surprised by lower expenses and higher taxable income (and taxes) than expected come Tax Day 2021. Now may be the right time to squeeze in any large business expenses you have been considering. By paying for qualified business expenses before the calendar flips to 2021, you will lower your overall 2020 taxable income." – Brooke Salvini, CPA/PFS member of the AICPA PFP Executive Committee
4. ***Self-Employed? Establish a Retirement Plan for Your Future & Get Tax Benefits Today*** Deadline: December 31, 2020 setup for certain plans, return due date for others Quote: "If you're self-employed, it's never too late or too soon to set up a retirement plan. Some plans must be established before December 31, but you can postpone funding until 2021 and still claim the tax benefit on your 2020 tax return. A CPA financial planner can help you evaluate your options and select the right retirement plan for your business." – Brooke Salvini, CPA/PFS member of the AICPA PFP Executive Committee
5. ***Make Up Estimated Tax Shortfall with Increased Withholding*** Deadline: Final 2020 company payroll submission by human resources (varies by company) Quote: "If you find that your estimated tax payments throughout the year are coming up short of what you expect to pay for 2020 taxes, you are in danger of incurring penalties. Reach out to your human resources department to request an increase to the withholdings from your remaining 2020 paychecks to make up the difference ASAP. After you catch up, you can complete and submit a new Form W-4 to make your withholding more accurate so it is even throughout the year." – Paula McMillan, CPA/PFS member of the AICPA PFS Credential Committee
6. ***Pandemic Loan Opportunity Coming to an End*** Deadline: December 31, 2020 Quote: "For those impacted by the pandemic who need liquidity, there is a special

opportunity expiring at the end of the year. Distributions made prior to December

creates tax free income during retirement and provides greater flexibility than a Traditional IRA does. In the current environment where asset values may still be low, and with the potential that tax rates may increase in future, the Roth IRA conversion is even more attractive between now and the end of 2020.” – Dave Cherill, CPA member of the AICPA PFP Executive Committee

8. ***Maximize Health Savings Account (HSA) Contributions*** Deadline: April 15, 2021 Quote: “If you have an HSA qualified health insurance plan, one way to lower your taxes is to contribute the maximum allowed in your HSA (generally $3,550 for individual coverage or $7,100 for family, $1,000 additional catch-up contribution allowed if age 55 or older). HSA contributions can be deducted through payroll, but you can also make contributions directly to ensure the maximum is made. In addition to providing a tax deduction, HSA dollars carry over indefinitely and are yours even if you switch jobs or retire. They can also be distributed without penalty once the account owner is on Medicare, so if you have the funds, it would be a shame to miss out on this tax savings opportunity while also saving for future healthcare costs.” – Matt Rosenberg, CPA/PFS member of the AICPA Financial Literacy Commission
9. ***Leverage Your Losses to Protect Your Income from Taxes*** Deadline: December 31, 2020 Quote: “This has been a year to remember for stock portfolios. The market downturn caused by the pandemic produced losses not seen since 2008/2009. And the rebound since the low has been equally surprising. Now is a great time to review your investment portfolio to realize any additional capital gains and losses for the year. If you find yourself with net realized capital losses for the year, it is important to know that you can only reduce your ordinary income by $3,000. The remaining capital loss would then be carried forward into the next year. Remember to coordinate your capital gain/loss harvesting strategy with your tax planning. If you expect to be in a higher tax bracket next year, it may be better to carry the capital loss into next year to help offset capital gains in 2021 instead of

incurring capital gains in 2020." – Oscar Vives Ortiz, CPA/PFS member of the

money." – Matt Rosenberg, CPA/PFS member of the AICPA Financial Literacy Commission

11. ***Maximize Roth Contribution Opportunities*** Deadline: April 15, 2021 Quote: "If you haven't reached your Roth IRA contribution limit for the year, it might make sense to increase your contributions in order to take full advantage of this year's opportunity to put away retirement savings dollars. Keep in mind, you pay taxes at the time of contribution to a Roth IRA and then 100% of the Roth contribution remains in the account growing tax-free for the benefit of the taxpayer." – Robert Westley, CPA/PFS member of the AICPA Financial Literacy Commission
12. ***Review Beneficiary Designations*** Deadline: Make it routine. Quote: "Due to the end of 'stretch-IRAs,' check whether any designated beneficiaries are 'eligible' to be exempt from the 10-year rule. Determine whether current designations align with original intent (e.g., an initial designation for a child may be outdated if the adult child no longer needs the income but another beneficiary would). Additionally, if you are post-divorce, be sure to review all designations and make changes where necessary." – Sidney Kess, CPA member of the AICPA PFP Executive Committee
13. ***Gift Today to Reduce Future Estate Tax*** Deadline: December 31, 2020 Quote: "If you are looking for ways to gift your wealth while reducing your estate tax exposure, don't forget that you can give up to $15,000 to as many beneficences as you would like each year without paying a gift tax or decreasing your lifetime estate tax exclusion amount. This is a great way to gift your wealth without triggering a tax impact. Review this 2020 tax planning opportunity now because once the year ends it is lost." – Mark J. Alaimo, CPA/PFS member of the AICPA PFS Credential Committee
14. ***Revisit Risk Tolerance and Portfolio Diversification*** Deadline: Make it routine. Quote: "Though the stock market's record performance is encouraging, 2020 has served as a reminder of the volatile nature of markets. As the impact of COVID-19 continues to play out across the country, investors should weigh their risk tolerance and ensure they have ample cash on hand. Further, a tax-efficient

financial plan that includes a diversified portfolio can give confidence that long-