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With the Georgia Senatorial election outcome not to be determined until January, year-end tax planning for Americans will be more challenging than ever in 2020. Should Democrats win both Senate seats, they would be able to act unilaterally for the first time since 2010, setting the stage for major tax increases on businesses and high-income, high-net worth households.

However, if the Republicans win one of the two runoffs and retain control of the Senate, legislative gridlock will likely prevail for another two years, lessening the need for planning in 2020. Regardless, some bipartisan policy agreement is expected in a number of areas such as whether to extend certain CARES Act relief provisions that expire at the end of 2020. Following are a few of the tax planning issues

management strategies for times of rising tax rates, such as to accelerate income into 2020 by converting traditional IRAs to Roth IRAs, exercising stock options and taking bonuses early if possible.

Limits on Itemized Deductions

A Biden administration would also limit the value of itemized deductions. Under the Biden proposal, a tax deduction would save a taxpayer with more than $400,000 of income no more than 28 cents on the dollar, even if that person's top tax bracket is higher. In addition, itemized deductions for those with income over $400,000 would be reduced by 3 percent of AGI over a certain threshold—up to 80 percent of itemized deductions.

Affected taxpayers should consider accelerated deductions into 2020, especially large charitable donations, to take advantage of increased limits currently in place as part of the CARES Act. However, if Biden removes the $10,000 cap on state and local tax deductions, itemizers should plan to defer payments of these taxes until after the law change.

Higher Capital Gains and Investment Income Taxes

As part of Biden's proposal, individuals earning over $1 million would be subject to ordinary income tax rates on their long-term capital gains and qualified dividends. Investors with incomes over $1 million should seriously consider selling appreciated assets in 2020 as the 20 percent preferential rate for long-term capital gains and qualified dividends would very likely be eliminated. Conversely, any capital loss harvesting should be delayed until 2021 as capital gains rates would be expected to go up.

Estate and Gift Tax Changes

The current estate tax exemption threshold is $11.58 million per individual with a top

problems with establishing the tax basis of long-held assets such as appreciated securities or a family business. Combined with the possibility that the estate tax exemption could be cut in half or more, taxpayers with estates worth in excess of several million dollars and with significantly appreciated assets should seriously consider a wealth-transfer plan prior to year-end.

Planning for a Republican-controlled Senate

Among the more likely developments in the event of continued split of government control are an infrastructure bill and further relief packages such as have been enacted under the CARES Act. There are several year-end planning strategies to consider under this scenario.

Income Tax Planning

Traditional year-end tax planning in a normal year would include postponing income into the following year combined with accelerating deductions into the current year. With the current TCJA itemized standard deduction amounts, a bunching strategy for itemized deductions may be effective. This strategy consists of taking the standard deduction every other year and bunching itemized deductions such as charitable contributions or perhaps medical deductions into the itemized year. This year may be a good year to bunch itemized deductions with higher limits on charitable contributions and a lower 7.5 percent threshold for medical expenses only available for 2020.

Health and Education Savings

Taxpayers with self-only coverage can deduct up to $3,550 ($7,100 with family coverage) for 2020. An additional $1,000 contribution is permitted if the eligible taxpayer is at least age 55. After age 65, withdrawals can be used for non-medical expenses as well. Consider HSAs as a form of long-term care insurance, which grow

There are many other considerations that a year-end tax plan should address. To better understand them and those presented here, meet with your financial professional.

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