Chilton Trust

Tax Bulletin: 2020 Year-End Tax Planning Considerations

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With the end of 2020 in sight, we encourage you to review your financial affairs for the year so far and consider whether any tax or estate planning actions should be taken before December 31st or deferred into 2021. Over the course of this year, a wide variety of tax-related laws have been changed, adjusted, introduced, or suspended, and as such 2020 deserves more review than usual. To help you get started, we would like to highlight a few select issues and opportunities. Please know that we are here to partner with you and would welcome the opportunity to discuss these topics at your convenience.

2020 Specific Considerations

Election Uncertainty

First and foremost, we believe that broad election uncertainty clouds any planning confidence at this time but as we get closer to December 31st, we hope that the visibility on myriad issues will increase. Therefore, we believe that clients are well-advised to consider their 2020 circumstances right away, but perhaps delay implementation until we all get closer to year-end.

Current consensus favors former Vice President Joe Biden winning the Presidency, Republicans retaining a majority in the Senate, and Democrats retaining a majority in the House. With the result being a largely divided government, we do not expect significant changes in tax law in the near-term. That said, many tax provisions that were changed, removed or introduced in 2020 apply only to 2020 and the 2017 changes to the tax code under the Tax Cuts and Jobs Act (TCJA) were implemented in such a way that reversals or adjustments could be relatively simple to enact (even before the scheduled sunsets at the end of 2025). Therefore, tax law changes are certainly possible.

The Coronavirus Aid, Relief, and Economic Security Act (The CARES Act)

Required Minimum Distributions (RMDs) are suspended for 2020. Individual taxpayers ordinarily required to take RMDs in 2020 from a qualified retirement account are not required to do so for 2020.

- The suspension provides a convenient opportunity for a taxpayer to fine-tune their tax bracket management by withdrawing perhaps some but not all of the year's expected RMDs before December 31st, if additional taxable income is desirable in 2020.

Charitable contribution deduction limitations have been increased for 2020.

Cash charitable contributions can now be deducted up to 100% of adjusted gross income ("AGI"), increased from 60% under the otherwise applicable current law.

- In order to qualify for the higher limitation, donations must be made in cash (not property) and go directly to a public charity (not to or through a donor-advised fund or a private foundation).

- Taxpayers with carryover charitable contributions from a prior year may see a faster than expected utilization of those carryforwards in 2020. This could entice taxpayers to execute additional charitable contributions earlier than originally planned.

The 10% early withdrawal penalty is waived for coronavirus-related withdrawals from retirement accounts.

Taxpayers under age 59 1/2 who have been adversely affected by coronavirus have been granted penalty-free access to savings held in qualified retirement plans and accounts (up to $100,000).

- Affected taxpayers have also been granted flexibility with respect to these withdrawals: the taxable income stemming from such withdrawals can be recognized over a time period of three years or the withdrawals can be considered a loan if returned in subsequent years (up to six).
- The generous flexibility to take distributions and either (1) spread out the taxable income or (2) elect repayment creates a unique and potentially powerful opportunity for coronavirus-affected taxpayers to manage their income and resulting income tax brackets across 2020 and subsequent years.
- Fairly narrow requirements must be met in order to be deemed to be sufficiently "affected" by coronavirus and take advantage of this opportunity.

The Setting Every Community Up for Retirement Enhancement Act (The SECURE Act)

The SECURE Act was signed into law in December 2019 in an effort to encourage additional retirement saving by taxpayers. Most of its provisions were prospective.

Inherited retirement account distribution requirements have changed.

To accelerate the receipt of income tax revenue, Congress removed the availability for certain beneficiaries to "stretch" distributions over their expected lifetimes.

- Non-spouse inheritors who were previously allowed to stretch withdrawals are now required to deplete those accounts within ten years.
- Surviving spouses are not affected.
- Interestingly, required minimum distributions ("RMDs") for these inheritors can be taken in any amounts and at any times during those ten years. This flexibility offers affected inheritors a very powerful tool for year-by-year tax bracket management.

RMD Age Change – taxpayers can now wait until age 72 (as opposed to 70 1/2) to begin withdrawing funds from most retirement plans and accounts. This change is primarily an update in order to recognize the longer life expectancies and longer careers of taxpayers (i.e. deferred retirement).

- Taxpayers who continue to work past this deemed retirement age are typically afforded continued deferral until their actual retirement from employer retirement plans.

IRA Contributions – taxpayers may now contribute to a traditional IRA regardless of their age. This change is also primarily an update to recognize the frequent deferral of retirement for many taxpayers.

- Contributions are still limited in many ways, including a requirement that contributions are limited to earned income.
- This change offers working taxpayers the opportunity to offset RMDs at their election and manage their tax brackets actively.

Standard Year-End Considerations:

A selection of tax planning topics that taxpayers should consider in 2020, just as in most years, are outlined below:

Consider annual exclusion gifts.

- Each taxpayer can give up to $15,000 to any recipients they choose, each year, without triggering gift tax.

Consider taxable gifts in light of the current lifetime gift and estate tax exclusion.

- The current federal lifetime gift and estate tax exclusion for each taxpayer is $11.58 million. Taxpayers can consider gifting strategies that utilize the current high lifetime gift and estate exclusion while in effect.
- These amounts are scheduled to decrease after 2025 (to $5 million adjusted for inflation) but could be reduced by Congress earlier.

Consider creating trusts that perform well when established in a low interest rate environment.

- Such trusts include Grantor Retained Annuity Trusts (GRATs), Intentionally Defective Grantor Trusts (IDGTs), Charitable Lead Trusts (CLTs).

Consider a Qualified Charitable Contribution Distribution (“QCD”).

- Although RMDs are suspended for 2020, charitably inclined taxpayers otherwise subject to RMDs are still able to make QCDs directly to charities up to $100,000.
- A QCD is a charitable donation made directly from a taxpayer’s IRA, by the IRA custodian, to a qualified charity.
- QCDs are not considered income to the taxpayer and therefore will not increase a taxpayer’s AGI (but are also not available to the taxpayer as a charitable contribution deduction on Schedule A).
- QCDs are attractive strategies for individuals who do not expect to need those assets during retirement, are subject to RMDs, are charitably inclined, and want to avoid increasing their adjusted gross income (“AGI”).

Evaluate the benefit of 2020 tax loss harvesting.

- If a taxpayer is projected to have lower than usual taxable income in 2020, it may be appealing to defer harvesting capital losses until January.
- If a taxpayer is projected to have higher than usual taxable income in 2020, it may also be appealing to defer harvesting capital losses until January if that taxpayer expects tax rates to be higher in future years .

Consider making a Roth conversion of a pre-tax retirement assets.

- If you are projected to have a low income year in

2020, now may be a great time to trigger the additional income required to be recognized upon conversion.

- Roth assets not only grow income tax-free, but elected qualified distributions out of them are tax-free.
- Roth assets held at death will pass to your heirs and beneficiaries and withdrawals by those taxpayers will be income tax free.

Time your charitable contributions so that you receive the greatest benefit possible.

- If 2020 is projected to be a low income year for you, it may be advantageous to wait until 2021 to make charitable contributions. By stacking or consolidating donations into a higher income year, taxpayers may increase the after-tax value of those donations.
- If 2020 is projected to be a high tax year, or at least higher than what you project for 2021, it may make sense to accelerate planned 2021 contributions and make those donations before December 31.

Utilize tax-deferred accounts to save for future expenses.

- Education savings accounts are a powerful and often tax-advantaged vehicles to handle expected education expenses.
    - 529 Plans grab the headlines but other education savings vehicles exist and should receive some consideration. It may be the case that options such Coverdell ESAs, custodial accounts, or prepaid tuition plans are appropriate for certain individuals.
- Pre-tax healthcare savings accounts are powerful vehicles for handling healthcare expenses.
    - Flexible spending accounts (FSAs) are tax -advantaged vehicles for saving on an annual basis for expected medical expenses. However, watch out for oversaving in any year as savings not spent on reimbursable expenses are forfeited.
    - Health savings accounts (HSAs) are a very highly tax-advantaged vehicle for handling medical expenses if you are covered by a high-deductible health insurance plan when contributions are made. HSAs allows you to contribute money pre-tax, grow the money on a pre-tax basis, and withdraw the money free of tax so long as dollars withdrawn are used for qualified medical expenses (even if you are covered by Medicare at the time the expense is incurred).

If you have any questions regarding the topics mentioned above, or would like to discuss related topics, please don't hesitate to contact your relationship team to set up a call with our Tax and Fiduciary teams. We are always available and happy to assist you.

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Kevin A. Wells joined Chilton Trust in November 2020 as Senior Vice President, Head of Tax Services. Prior to joining Chilton, Mr. Wells was a client manager at Sapere Wealth Management in Charlottesville, VA where he advised clients on all areas of their financial matters, including taxation. Before Sapere, Mr. Wells was the manager of the tax group at Silvercrest Asset Management Group, where he handled tax compliance and planning for individuals, trusts, partnerships and foundations. Mr. Wells joined Silvercrest after earning his MBA from NYU Stern School of Business where he focused on investment management and business law. Prior to attending business school, Mr. Wells was an auditor with Deloitte & Touche in their financial services group, auditing public & private investment vehicles in New York City. Mr. Wells earned his B.S. in Accounting from Virginia Tech in Blacksburg, VA. Mr. Wells is a Certified Public Accountant (CPA) and a Personal Financial Specialist (PFS).

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Gina M. Nelson is a Senior Vice President – Head of Fiduciary Services with over 15 years of experience in various trust and estate roles. Prior to joining Chilton Trust, Ms. Nelson served as Executive Director/ Global Head of Trusts and Estates Risk at J.P. Morgan where she was responsible for Risk Management of all of J.P. Morgan's trust companies, which include the U.S., Delaware, Bahamas, and other international entities. Prior to J.P.Morgan, Ms. Nelson has over 10 years of trust company experience, serving as a resource on complex fiduciary matters, reviewing and approving new business, and developing and enhancing fiduciary processes and procedures. Ms. Nelson received her B.A. in French and European Studies from Vanderbilt University and her J.D. from the University of Minnesota School of Law. Ms. Nelson also devotes her time to organizations focused on ocean conservation.

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