



Ronald D. Myers, CPA

Margaret S. Hesse, CPA

Cynthia K. Bayless, CPA

Julie A. Fischer, CPA

Claudia L. Freitas, CPA

Year-End Tax Planning for Individuals

As we wrap up 2020, year-end tax planning has never been more crucial or difficult. This year brought challenges and disruptions that significantly impacted our personal and financial situations - COVID-19, economic relief measures, new tax laws and political shifts. The traditional year-end tax planning strategies may not make sense this year. Now is the time to take a closer look at your current tax strategies to make sure they are still meeting your needs and take any last-minute steps that could save you money. Here's a look at some issues to consider as we approach year-end:

Key Tax Considerations Related to COVID-19

Many tax provisions were implemented under the Coronavirus Aid, Relief and Economic Security (CARES) Act aimed to help individuals and businesses deal with the COVID-19 pandemic and its ongoing economic disruption.

Economic Impact Payment (EIP)

Eligible individuals received a payment of \$1,200 (\$2,400 for joint filers) plus \$500 for each qualifying child, with payments phased out based on adjusted gross income. The payments are treated as advance refunds of a 2020 tax credit. Taxpayers will reduce the amount of the credit available on their 2020 tax return by the amount of the advance refund payment they received. This means individuals who did not receive the full amount they were entitled to can claim the difference as a credit on their 2020 return. If you received an EIP, you should have received IRS Notice 1444. Please keep this with your tax records. The EIP is not includible in your gross income for 2020.

Charitable Deductions

Unique to 2020, individuals who do not itemize their deductions can take an above-the-line charitable deduction of up to \$300. Such contributions must be made in cash and made to qualified organizations. The CARES Act also modified the AGI limitations on charitable contributions for 2020 to 100% of AGI when itemizing. Please remember to continue to track **all** your itemized deductions as there can be situations where you do not itemize for federal purposes, but do so for California purposes.

Retirement Accounts

You can take up to \$100,000 in COVID-19 related distributions from retirement plans through the end of the year without being subject to the 10% penalty for early distributions. Additionally, required minimum distributions (RMDs) are temporarily suspended for 2020. If your retirement assets have taken a hit, not having to take a RMD may allow those assets to recover some value before you liquidate them.

Paycheck Protection Program (PPP) and Economic Injury Disaster Loans (EIDL)

The federal government has provided relief in various forms for self-employed individuals with small businesses. There is still uncertainty as to the taxability of such relief, but we will continue to keep you advised on such. If you haven't already started the forgiveness process for any PPP loans, now is a good time to start as most banks have started accepting those.

General Tax planning Strategies

In a normal year, general tax planning strategies for individuals can include postponing income and accelerating deductions. However, depending on your circumstances the opposite may hold true for this year depending on your expected tax brackets for 2021. In addition, careful consideration of timing-related tax planning strategies with regard to investments, charitable gifts, and retirement planning should be made.

Year-End Gifts

Now is a good time to evaluate whether you should be making year-end gifts. Taxpayers can make gifts to any number of donees before year end, and, as long as each gift does not exceed \$15,000 (\$30,000 for married taxpayers), the gifts will not be taxable or count against your unified estate and gift tax exemption. Gifts are not considered a tax-deductible expense. All gifts must be made by December 31st.

Don't Miss Out.

Many of the year-end tax planning strategies must be implemented before the end of the year. Please contact the office for assistance with implementing any year-end planning strategies that might be suitable for your particular situation.

Sincerely,



Lapp Fatch Myers & Gallagher | ACCOUNTANTS

2401 Professional Parkway | Santa Maria, CA 93455

Direct: 805.934.0015 | Fax: 805.934.4627

www.lfmgepas.com