The Legal Intelligencer

NOT FOR REPRINT

Click to print or Select '**Print**' in your browser menu to print this document.

Page printed from: *https://www.law.com/thelegalintelligencer/2019/10/31/year-end-tax-planning-tips-get-a-head-start-now/*

Year-End Tax Planning Tips—Get a Head Start Now

November is a great time to start thinking about year-end tax planning. Getting a head start on planning unquestionably improves your chances of concluding matters by Dec. 31. Here are some options that we suggest you consider before the end of 2019 to enable you to start 2020 in the best wealth planning shape possible.

By **Rebecca Rosenberger Smolen and Amy Neifeld Shkedy** | October 31, 2019

Rebecca Rosenberger Smolen, left, and Amy Neifeld Shkedy, right, of Bala Law Group.

November is a great time to start thinking about year-end tax planning. Getting a

head start on planning unquestionably improves your chances of concluding matters by Dec. 31. Here are some options that we suggest you consider before the end of 2019 to enable you to start 2020 in the best wealth planning shape possible.

Annual Exclusion Gifts

Each individual can make a cumulative annual gift tax exclusion gift of $15,000 per donee during 2019 and 2020 (or $30,000 for a married couple electing to split gifts), without using any portion of his federal estate and gift tax exemption. The federal estate and gift tax exemption for 2019 is $11.4 million per individual (allowing a married couple to shield up to $22.8 million from federal estate and gift taxes), and is projected to increase for inflation in 2020 to $11.58 million per individual (or $23.16 million for a married couple). Annual exclusion gifts can be made outright, through 529 Plan benefits (education savings accounts), or in special qualifying trust structures. For those still considering such gifts, it may be worthwhile to plan for 2019 and 2020 at the same time, keeping in mind that gifts for 2020 can be made effective as of Jan 1.

Accelerate Deductions

Prepay deductible expenses due in January (including state and local income tax estimated payments that may not be due until January). However, because of the new (as of 2018) $5,000 per person cap (i.e., $10,000 for a married couple) for deductions for all state and local taxes, it's important to ascertain whether the limit has been reached before accelerating a payment of such taxes which may be deferred until 2020.

Loss Harvesting

Harvest tax deductible losses to offset taxable gains for 2019. However, be mindful of the 30-day wash sale rule of Internal Revenue Code Section 1091, which could disqualify a deduction of the capital loss if the same, or substantially identical, security is purchased within 30 days after selling at a loss.

Required Minimum Distributions

For those who have reached their required beginning date or who hold inherited IRA accounts, be sure to take your required minimum distribution for 2019 from your

traditional IRA or qualified plan account by Dec. 31. Note that taxpayers who are 70 ½ or older are able to transfer up to $100,000 from an IRA (other than an inherited IRA) directly to a qualifying charity (a charitable rollover) in partial or full satisfaction of their required minimum distribution for 2019.

Qualified Retirement Plan Establishment

Business owners who are considering funding a new retirement plan have the opportunity to establish a qualified retirement plan by the end of the year but defer the decision about the funding amount (and the actual contribution) until later during 2020 (contributions can generally be delayed until at least Sept. 15). The limitation for tax deductible contributions for 2019 is $56,000 per participant for defined contribution plans (or up to $62,000 when including the $6,000 catch-up contribution for a participant who has reached the age of 50). Next year this cap will be increased to $57,000 (or $63,500 when including the increased $6,500 catch-up for 2020).

Roth IRA Conversion

Convert a traditional IRA to a Roth IRA to take advantage of lower brackets or absorb excess deductions. By converting a traditional IRA to a Roth IRA, any untaxed amounts that are rolled over to the Roth IRA are subject to income taxation. The conversion must take place by Dec. 31. Under current law, for 2018 and beyond, Roth IRA conversions can no longer be reversed. Under the prior law, you had until Oct. 15 of the year after conversion to reverse it by re-characterizing the conversion back to a traditional IRA to avoid the tax hit.

Basis Step-Up Planning

For individuals who have funded “grantor” trusts for their families, year-end is a good time to consider swapping back low basis assets (e.g., appreciated stock) for high basis assets (e.g., cash) to help make tax reporting after the swap cleaner (rather than switch tax identification numbers in the middle of a tax year). It’s better to own the lower basis assets at death because of the opportunity for a basis step-up to fair market value under Internal Revenue Code Section 1014.

Charitable Giving

If you are in a high-income year, consider “prepaying” future charitable contributions

to generate current income tax deductions. This is also something to consider given the new higher standard deduction (for 2019, $12,200 for individuals and $24,400 for married couples) that might make bunching of charitable deductions worthwhile so you can benefit from the standard deduction in a year where your charitable deductions are reduced due to the prior year bunching/prepayment. This can be accomplished simply by increasing the contributions to your favorite charities, in general, or you can defer the receipt by the charitable organizations you wish to benefit (or even defer the decision as to which ones to benefit) by contributing to a donor advised fund, a private foundation, charitable lead trust or charitable remainder trust or purchasing a charitable gift annuity. Both the charitable gift annuity and charitable remainder trust options allow you to retain an income stream for life and defer the transfer of the remaining funds to the charity until after your death.

IRAs and HSAs

While you technically have until April 15, 2020, to fund your individual retirement account and health savings account for 2019, it is always a good idea to start planning for such funding at year end. Consider helping your children (to the extent that they have earned income) to fund tax favored Roth IRAs if at all possible. The maximum contributions for IRAs for 2019 and 2020 is $6,000 (plus an extra $1,000 catch-up for those who have reached the age of 50). The maximum family contribution for an HSA in 2019 is $7,000 (or $3,500 for individuals), with an extra $1,000 available for those who have reached the age of 55. For 2020, the maximum family contribution for an HSA will increase to $7,100 (or $3,550 for individuals).

Trust Income Tax Planning

While a trustee will generally have until 65 days after the end of the tax year to shift trust taxable income to a beneficiary, it's worthwhile to monitor the issue at year end to get a jump start on evaluating the issue. This is becoming a more consequential issue with the Medicare tax imposed at 3.8% and the extra 5% tax that is imposed on dividends and capital gains at the higher brackets (which are reached pretty quickly for a trust).

Estate Plan Review

Last, but not least, although it's not necessarily year-end sensitive, the end of the year is a great time to review your estate plan to see if changes might be in order (whether because of changes in the tax law, your wealth, your chosen fiduciaries or objects of your bounty). If you don't review it at year end, you might never review it before it's too late, since you may not have any advance notice of the actual deadline.

Rebecca Rosenberger Smolen *and* **Amy Neifeld Shkedy** *are members and co-founders of Bala Law Group. They focus their practices on tax and estate planning.*

Copyright 2019. ALM Media Properties, LLC. All rights reserved.