NOVEMBER 2020

Giving Thanks

As our November tradition of Thanksgiving approaches, we want to join in the tradition and express our gratitude to all of our clients and partners. It has been a uniquely challenging year, but we all have much to be thankful for—health, wealth, freedom, perseverance, the memory of departed loved ones, and the comfort of loved ones still with us.

The arrival of Thanksgiving also signals the approach of the end of the year—a time to close the books on another chapter of your financial life and get ready to write the story in IRS-friendly format.

Want to end the fiscal year in an organized way that will benefit you at tax time? Here are some ducks to get in a row to make your (and your tax preparer's) life easier.

Tax-Loss Harvesting

Tax-loss harvesting is a strategy whereby you can reduce your capital gains liability on certain assets by selling other assets at a loss. This only applies to taxable investments, not investments held in tax-exempt entities like IRAs and 401ks.

How does it work? Let's say you own four securities (stocks, EFT, mutual funds, etc.) that have gained value, and one that has lost value. You want to sell your up shares, but you will owe capital gains taxes on the profit when you sell.

Tax-loss harvesting means you can also sell the stock that is down in value to realize a loss. The loss can be used to offset the gain … meaning you owe fewer capital gains taxes.

Isn't it bad to sell at a loss? When should you consider tax-loss harvesting? Consider it if:

1. You sold investments for a profit, on which you will owe capital gains taxes.
2. You have another investment that has lost value, and which you don't want to keep and/or don't expect to see it rally. You are willing to sell it at a loss to reduce your capital gains taxes on your profits from the other security.

If you suspect that you could benefit from tax-loss harvesting, you will need to make the trade before the end of the calendar year to realize the loss. Note that this is only applicable to investments held for one year or longer. Shorter-term gains are taxed as ordinary income at higher rates and not candidates for tax-loss harvesting.

Charitable Giving

In a difficult year, the inner mandate to give back is more important than ever. Charitable giving can also be advantageous at tax time, but it presents a conundrum. To know how much to give to maximize your tax benefits, you have to have some idea of your tax liability—which may not become clear for many of us until after the New Year, when it is too late. Donations made on or after January 1, 2021, will count toward 2021's taxes.

Consider any changes in earned or unearned income you might have experienced this year, try to get an early estimate of your tax liability, and zero in on a quantity of charitable donation that will make the most difference in April.

Other considerations for charitable giving include:

- **Consider giving stock or mutual funds.** Stocks or mutual funds that have appreciated make great donations, because they can be written off at the current value instead of the basis, protecting you from capital gains taxes. Don't donate stocks that have decreased in value, however—these are more valuable for tax-loss harvesting. You can always donate the proceeds after the tax-loss trade.
- **Check your Charities.** Make sure the objects of your philanthropy are qualified 501(c)3 charities. Only donations to qualified charities are tax-deductible.
- **Not Sure What Charities to Patronize?** You can trick the clock and lock in your donation by putting your gift into a donor-advised fund. Your deposits into the fund will count as 2020 donations, but you can decide which charity to benefit from the funds later. Note, however, that this doesn't let you adjust the size of your donation after the fact—you still have to lock in the size of your gift by December 31, 2020, for it to count towards your 2020 taxes. Call us for help with your donor-advised fund.
- **Over 70? Consider Donating from your IRA.** If your IRA is generously funded, you can pass that generosity on to the charity of your choice. Past the age of 70½, donations of up to $100,000 are exempt from being taxed as income distributions.

Tax Write-Offs

As you ponder your tax write-off strategy, consider the fact that for at least another year (and probably several more years to come) the standard deduction is higher than ever:Executive compensation, perks, and bonuses.

- $12,200 for individuals.
- $18,350 for heads of the household.
- $24,400 for married couples.

To do better with a Schedule A, you will have to be a scrupulous record keeper and catch tax deductions that others miss. Common places to look include:

- Mortgage Interest and PMI. Done away with in 2017, the deductibility of private mortgage insurance is back. Mortgages taken out after December 15, 2017, are eligible for deductibility of interest on loan balances up to $750,000. For older loans, interest on loan balances up to $1 million is deductible.

Note that a variety of formerly-deductible expenses are no longer deductible, including but not limited to unreimbursed job expenses, unreimbursed moving expenses, tax preparation fees, hobby expenses, investment expenses, and personal casualty or theft losses if incurred outside a Federal Disaster Area.

Need help figuring out what is deductible and what isn't? Don't hesitate to reach out to us!

From all of us and our families to all of you and yours, we wish you a Happy Thanksgiving and a joyous kickoff to the Holiday Season!