TAX PLANNING INSIGHTS

MidYear 2020

dunlapSLK

Certified Public Accountants & Business Advisors

Dear Clients and Friends,

We started 2020 with a record-high stock market. Four months later, more than 30 million of our friends and neighbors have been laid off or furloughed while investment and retirement accounts have dropped in value. While the world is grappling with the coronavirus pandemic, you need to focus on your health and financial situation.

This Tax Planning Insights newsletter will help you mitigate risks, navigate new tax laws and provide helpful tips for trying to minimize your tax burden going forward.

Tax and financial news continues to change, and you may need help to decipher how these changes will impact your financial picture. Call today to schedule an appointment or if you need assistance.

As always, feel free to share this newsletter with friends and associates who need it.

1300 Horizon Drive, Suite 106, Chalfont, PA 18914
267.594.DSLK (3755) | www.dunlapslk.com

Tax savvy moves to consider now

Within the coronavirus pandemic are tax planning opportunities. Here are a few to consider.

Who would ever have foreseen a time when petroleum companies would pay you to take their oil? This phenomena underscores the concept that within every problem there is opportunity. Here are some tax strategies to think about during the coronavirus pandemic.

Look into Roth rollovers

If you have high balances in tax-deferred retirement accounts, consider rolling them into tax-free Roth accounts. Since you have to pay tax on the funds you convert, the lower value of the accounts means less tax is due. Plus if your income is lower, the tax hit will also be lower. The good news here is that growth in these funds when the economy recovers will now be tax-free!

Consider removing a dependent

Stimulus payments help most families with kids, except if they are over age 16. By removing them as a dependent and them filing their own tax return, they may be eligible for a $1,200 stimulus payment from the federal government.

Capture capital losses, then reinvest

Have a stock you like long-term, but it took a hit? Consider selling it, then repurchasing after 30 days. This will avoid the wash sale rules in the tax code. This technique can raise your cost basis and it can also be used to offset other investments you sell at a gain.

Time to buy or sell?

The value of real property of all kinds will be moving. Some will move up, some down. So now is a time to think about buying or selling. If you currently own property, don't forget to look into the like-kind exchange rules to help defer any tax bite!

Should you skip minimum distributions?

New law lets you forgo distributions in 2020

The stock market boomed in 2019 – the Dow Jones increased 22%; the S&P 500 jumped 28%; NASDAQ skyrocketed, coming in just shy of 35%. By March 23, 2020, the Dow plummeted 35%; the S&P dropped 31%; NASDAQ was down 24%.

(As of press time, each market has rebounded to a less catastrophic decline.)

The stock market rollercoaster did not bode well for retirement accounts, as required minimum distributions (RMDs) are normally calculated by dividing an account's December 31 balance by an IRS life expectancy factor. Enormous account balances on December 31, 2019 meant large RMDs for 2020 after the markets crashed.

The IRS recognized this problem, allowing withdrawals to be skipped for 2020. There are situations, however, where you may want to still take a distribution from your retirement account. Here are some tips for deciding whether you should forgo a distribution.

Why you should skip distributions

- **Delaying distributions means more assets producing money in the future.** If you take distributions from retirement accounts during 2020, consider that you'll be liquidating securities after your portfolio's value has fallen. If you refrain from distributions during 2020, that will mean more assets will remain and eventually recover when the market does rebound.
- **You'll cut your tax bill.** Skipping a distribution for some may mean fewer taxes you'll need to pay to Uncle Sam on your 2020 tax return. If minimizing your tax liability is a primary goal for 2020, then forgoing distributions should be strongly considered.

Why you should consider taking distributions

- **Take out money if your income will be low in 2020.** If 2020 looks to be a year where your income may be lower, consider taking a withdrawal in 2020 as you'll pay lower income taxes on your distributions.

Leverage penalty-free withdrawals

You can now take up to $100,000 out of a retirement account and avoid the 10% early withdrawal penalty. Even better, the income tax on these withdrawals can be paid over three years and you can always repay the money over that same time period. There may be planning opportunities around this added flexibility, but only if you review your options and correctly use the funds.

> **"If you currently own property, don't forget to look into the like-kind exchange rules to help defer any tax bite!"**

It is more important than ever to keep up with rule changes and be on the lookout for tax planning opportunities. ❑

- **You need the money.** You may not have a choice if you need your retirement funds to pay for monthly living expenses. Consider asking your financial advisor if you can liquidate securities that have held up relatively well during the downturn while leaving alone any securities that have lost significant value. ❑

Tax savings can be found in the elections you make!

Every year is an election year when it comes to making decisions on your annual income tax return. Here are four common examples that can create tax savings opportunities if you elect the correct option.

✔ ***Tax filing status.*** Typically, filing a joint tax return instead of filing separately is beneficial to a married couple, but not always! For instance, if one spouse has a high amount of medical expenses and the other doesn't, your total medical deduction may be greater filing separately due to the 7.5% of adjusted gross income (AGI) threshold before you can deduct these expenses.

✔ ***Higher education expenses.*** Thanks to new legislation, many parents of college students again face a decision: Whether to take one of the two credits for higher education expenses or the tuition and fees deduction. The tuition and fees deduction, once expired, is now extended through 2020. To complicate matters, the credits and the deduction are all phased out based on different modified adjusted gross income (AGI) levels. Before you elect which tax benefit makes the most sense, you will need to evaluate all options.

✔ ***Investment interest.*** Investment interest expenses can be deducted up to the amount of net investment income for the year. This income does not usually include capital gains, because of favorable tax treatment of this type of gain. However, you can elect to include capital gains to help you deduct your interest expense. You can even cherry-pick which capital gains to use for this deduction. If you take this election you forego the favorable tax rate for long-term gains.

✔ ***Installment sales.*** If you sell real estate or other assets in installments over two or more years, the tax liability is spread over the years that payments are received. Thus, you may be able to postpone the tax due. This technique can reduce the total tax paid depending on your effective tax rate each year. However, you can also elect out of installment sale treatment by paying the entire tax in the year of the sale. You may wish to take this election if your income is lower in the year of the sale. ❑

Tax changes that can help you in 2020

Staying current with your taxes may be challenging this year. The IRS has made several changes to help as you finish your 2019 tax return and begin tax planning for next year. Here is a summary of these tax-related changes.

▶ IRS installment agreement suspension

The IRS is suspending payments of all amounts due from April 1 through July 15, 2020. If you do not pay your IRS installment payment during this time your installment agreement will not be in default. Interest will continue to accrue on these installment agreements.

Action: *Being on the bad side of the IRS is never fun. If you currently have an IRS installment agreement, look to take advantage of this delay.*

▶ Offers-in-compromise

The IRS will allow you until July 15, 2020 to provide additional requested information for any pending offers-in-compromise (OIC) and will not close out the OIC during this time without your consent. The IRS is also suspending any payments due under an OIC until July 15, 2020.

▶ Most enforcement activities suspended

The filing and enforcement of liens and levies will generally be suspended. However, IRS Revenue Officers will continue to pursue high income non-filers and initiate other actions when warranted.

▶ No new audits

The IRS will not initiate new audits during this time, but will act to protect the statute of limitations. ❑

Thieves get creative with COVID-19 scams

Thieves are getting creative with different ways to gain access to your checking account and personal information during the COVID-19 pandemic. Here are some of the reported schemes:

Mandatory online COVID-19 test. Individuals posing as workers from the U.S. Department of Health and Human Services or other federal departments use text messages to instruct the recipients to click on a link to complete a mandatory online COVID-19 test.

You've been in contact with COVID-19. This scam sends an e-mail to warn recipients that they came into contact with a colleague/friend/family member who has COVID-19. The e-mail instructs the recipient to download and print an Excel spreadsheet and bring it to the nearest COVID-19 testing site. After opening the spreadsheet, recipients are told they need to enable the content in order to view the spreadsheet's details. Malicious macros are then activated when the recipient clicks on the "Enable Content" button, infecting the computer.

SBA loan applications. Fraudulent e-mails are sent out as correspondence from the U.S. Small Business Administration telling recipients that they can apply for a small business disaster assistance grant. The recipient is instructed to sign an attached document and upload it to the SBA's website. When the attachment is downloaded, a remote access trojan is installed on the device.

Fake pop-up testing sites. Hands down the most brazen attempt to steal personal information are pop-up COVID-19 testing sites. The thieves tell passersby that they can be tested for COVID-19 for a $240 fee. They then pocket the cash and use the personal information gathered from individuals to make fraudulent Medicare and Medicaid claims. ❑
