BNY MELLON
WEALTH MANAGEMENT

2020 Year-End Planning Checklist

As 2020 draws to a close, now is the time to ensure your wealth plan reflects any changes in your circumstances or goals, the economic landscape and the current tax environment. Recent legislation such as the Setting Every Community Up for Retirement Enhancement (SECURE) Act and the Coronavirus Aid, Relief, and Economic Security (CARES) Act present new opportunities that may require adjustments to your plan before the end of the year.

Review the checklist below for potential strategies to consider and work with your wealth management team to take action prior to the December 31 deadline.

Income Tax

- [ ] Accelerate income into 2020 to avoid potential tax rate increases in 2021.
- [ ] Defer net investment income or reduce modified adjusted gross income (MAGI) to minimize or avoid the 3.8% surtax on net investment income, which applies to MAGI over $200,000 (single taxpayers), $250,000 (married filing jointly) and $125,000 (married filing separately).
- [ ] Consider structuring the sale of investment property as an installment sale to defer the gain to later years.
- [ ] Accelerate itemized deductions into 2020 if in the 32%, 35% and 37% tax brackets, as itemized deductions may be capped at a 28% tax benefit in the future.
- [ ] Review income tax withholding and estimated payments.

Year-End Gifting Opportunities

- [ ] Take advantage of the 2020 annual gift exclusion to transfer wealth to future generations or to make tax-free transfers on behalf of another individual directly. The 2020 annual gift exclusion allows for tax-free gifts up to $15,000 per person without it counting toward your lifetime gifting exemption.

Charitable Giving Considerations

- [ ] Take advantage of the CARES Act, which allows cash gifts to public charities to be deducted up to 100% of adjusted gross income (AGI) for 2020 only.
- [ ] Use a donor-advised fund, foundation or charitable trust to:
    - Gift qualified, appreciated securities (held longer than one year).
    - Bunch multiple years of charitable contributions into a single year in order to exceed the standard deduction threshold required to fully deduct contributions.
    - Claim an immediate tax deduction while recommending grants to qualified charities over time.

- [ ] If over 70 1/2 years old, consider a charitable IRA rollover.
- [ ] Convert a traditional IRA to a Roth IRA and simultaneously gift cash to a public charity, thus offsetting the income tax liability of the Roth Conversion (unique to 2020).
- [ ] Act soon:
  - **December 1, 2020**: Recommended date to initiate gifts of qualified, appreciated stock or wire transfers.
  - **December 4, 2020**: Recommended date to initiate an IRA Charitable Rollover.
  - **December 31, 2020**: The last day charitable contributions can be made and be tax deductible for 2020.

Retirement Plans

- [ ] Maximize contributions to retirement accounts, such as 401(k), traditional IRA, Roth IRA, SEP and Simple. If age 50 or older, make "catch-up" contribution to eligible retirement accounts.
- [ ] Consider converting a traditional IRA to a Roth IRA. While this will result in taxable income in 2020, assets will accumulate tax-free in the Roth IRA and allow for tax-free distributions in the future when income tax rates may be higher. Note, however, that a Roth IRA conversion will increase AGI and possibly reduce tax breaks tied to AGI or MAGI.
- [ ] Review retirement account beneficiary designations given the drastic changes in the mandatory distribution period made by the SECURE Act.
- [ ] Consider when to report as income or rollover any penalty-free COVID-19 related distributions from retirement plans allowed under the CARES Act.

Interest Rates

- [ ] Consider strategic borrowing to support tax planning given interest rates at historic lows.
- [ ] Take advantage of the current low interest rate environment by reviewing outstanding debt or existing contracts tied to interest rates and consider whether refinancing or swapping out of an adjustable-rate loan for a fixed rate would be beneficial.

Estate Plan Updates

- [ ] Review wills, trusts and other estate planning documents to ensure that they reflect any changes in your personal or financial situations that occurred in 2020.
- [ ] Leverage the current federal estate and gift exemptions in the Tax Cuts and Jobs Act ($11.58 million per individual or $23.16 million for married couples) before it sunsets in 2026, or is reduced by earlier legislative action, to transfer wealth and potentially mitigate some of the estate and/or gift tax burden.
- [ ] Take advantage of the current low interest rate environment, coupled with an increased exemption, to deploy techniques like intra-family loans, installment sales to intentionally defective grantor trusts, grantor retained annuity trusts (GRATs), spousal lifetime access trusts (SLATs) and charitable lead annuity trusts.
- [ ] Evaluate allocating increased generation-skipping tax exemption to trusts that are not fully exempt from the generation skipping tax.

Investment Considerations

- [ ] Rebalance to keep your portfolio on track to meet its intended goals, whether by selling assets that are overweighted in the portfolio, purchasing securities in asset classes that are underweight or simply adjusting future investments to compensate.
- [ ] Offset the tax impact of any realized gains taken this year by harvesting losses in the portfolio or, in some circumstances, realizing gains to offset losses (for example, to reduce concentrated stock positions).
- [ ] Sell mutual fund shares, and delay buying new shares, before dividend record date to avoid year-end capital gain distributions or “buying the distribution.”
- [ ] Consider investing in an Opportunity Zone fund to defer the capital gain tax on direct 2020 gains.
- [ ] When selling securities, chose the tax lot that will yield the most favorable tax benefit.
- [ ] Confirm that your investment policy statement is up to date and accurately reflects your investment objectives.
- [ ] Talk to your wealth, tax and legal advisors about any 2020 changes to your net worth statement for additional tax-saving strategies