END-OF-YEAR TAX PLANNING TIPS AND WHAT YOU SHOULD KNOW FOR 2020

As we approach the end of 2019, taxpayers need to be mindful to position themselves to minimize their state and federal income tax liability, which is due by April 15 of 2020.This is accomplished by accelerating deductions and deferring income. To accelerate deductions, an individual taxpayer should make sure all property tax payments for the entire calendar year up to the $10,000 limit are completed before December 31st, even if your city or town allows you to pay in installments into the next year. Another option is to make an extra mortgage payment and deduct the mortgage interest. For business taxpayers, consider purchasing a new piece of equipment or other capital asset. Completing that purchase now may qualify the business for a deduction of 100% of the purchase price if the asset is placed in service this year. On the income deferral side, you may want to avoid trying to collect delinquent accounts until January to push some income into next year or ask for smaller up-front payments for projects that span this year and next. Also, consider sending out December invoices after the first of the year.

If you have established an irrevocable trust that is subject to income tax, year-end tax planning is particularly important. This type of trust reaches the highest rates of income tax on earned income at very low levels of income. Distributing the income out of the trust to a beneficiary will create a deduction at the trust level and cause the income to be taxed at the beneficiary's level where it is likely to be taxed at a lower rate. If you miss the December 31st deadline, there is a safe harbor rule known as the "65-day rule." This rule provides that distributions from a trust within 65 days after the close of the calendar year can be treated as having been made in the prior year. Trustees who use this method may get flak from their beneficiaries who have already filed their return as the beneficiaries will now have to amend their returns.

The 2018 Tax Cut and Jobs Act brought us something known as the Opportunity Zone. The new law is designed to encouraged investment in specific designated areas of each state in exchange for a bundle of tax benefits. Simply put, a taxpayer can sell a capital asset such as stock held for investment or a rental property and if the proceeds are invested directly or indirectly through a fund in a property located within an opportunity zone within 180 days, the taxpayer can defer the recognition of the gain on the asset sold for seven years. Under the law, if the investment in the opportunity zone is completed before January 1, 2020, the taxpayer will not have to pay any tax on 15% of the deferred capital gain in year seven.

Heading Into 2020

The IRS has recently issued new proposed life expectancy tables. These tables were last revised in 2002. As you might expect, the new tables recognize that people are now living longer. This will translate into lowering the amount that must be distributed each year from your IRA and reported as income. The bad news is the proposed regulations are not likely to be final and effective until 2021.

Many individuals have decided to put off estate tax planning given what they consider are extraordinarily high exemption levels. For 2019, an individual can pass on $11,400,000.00 without incurring an estate tax and a married couple can pass on twice that much. The law sunsets on January 1, 2026 and the exemption returns to the $5,000,000.00 level (adjusted for inflation). Clients currently sitting below the $5.0 million dollar mark should not be lulled into complacency by the $11.4 million dollar exemption level. It is very reasonable to assume that assets that are slightly below the lower threshold will appreciate in value beyond that mark by the time the law sunsets in 2026. This will expose their estates to an estate tax at 40%. The IRS has recently issued guidance that those that do plan now can do so without concern that they will lose the tax benefit of the higher exclusion level once it decreases after 2025.

If you have questions about the information presented here or need assistance to consider the best tax strategies for you, your family or your business or about estate and trust planning, please contact PLDO Partner Gene M. Carlino in Rhode Island at 401-824-5100 or in our Florida office at 561-362-2030 or email gcarlino@pldolaw.com.

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