WELLS FARGO Advisors

2020 Year-End Planning Guide

Bring planning back into focus after such an unusual year.

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No one could have predicted the unusual events that would unfold in 2020. For many, these events have caused us to lose focus on planning opportunities. Now is the time to regain that focus. The deadline for implementing most investment-related strategies that could reduce your 2020 tax bill is December 31, 2020.

We have assembled a number of valuable tips you may be able to implement before the year ends to help reduce the amount you send the IRS and improve your overall financial picture.

Keep an eye out for items in red. These strategies are new this year as a result of recent legislation and some may only be available during 2020.

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Portfolio review

Manage your capital gains and losses tax-efficiently:

- Obtain an estimate of your taxable income and determine if you can take advantage of the 0% long-term capital gain tax rate.
- Include year-end, long-term capital gain distributions from mutual funds when estimating your 2020 gains.
- Sell investments by year-end to realize losses. If you want to repurchase the position, talk with your financial advisor about how to avoid a wash sale (the purchase of a "substantially identical" security within 30 days of the loss sale). Wash sales reduce the amount of loss you are able to claim in the current tax year. Also, pay attention to potential dividend or capital gain distribution reinvestment purchases that could create a wash sale.
- One way to avoid a wash sale while continuing to hold the position is to use the double-up strategy. This involves buying additional shares of the security you wish to sell for a loss. You must then wait until the 31st day after the new purchase to sell the original position to realize the loss. The last day to double up and still claim a 2020 tax loss is Monday, November 30, 2020.
- If your capital losses exceed your capital gains, you may use up to $3,000 to reduce other types of taxable income and carry over the remainder.

Ask your financial advisor for a copy of our "Managing Capital Gains and Losses" report.

Charitable gifts

Give gifts to help increase tax savings:

- Generally, contributions to charities must arrive by calendar year-end.
- For gift fund contributions, the account must be open and deposit completed before calendar year-end to qualify as a 2020 gift.
- Review your itemized deductions. If your itemized deductions are less than the standard deduction, your charitable contributions are not reducing your tax bill. Evaluate "bunching" a couple years' worth of charitable contributions into the current year. This may increase your itemized deductions above the standard deduction threshold so you can receive a tax benefit for those gifts. Consider utilizing a donor advised fund for "bunching" your charitable gifts.
- Evaluate the tax benefits of gifting long-term appreciated stock versus cash.
- If you are age 70½ or older, consider the potential benefits of a qualified charitable distribution (QCD). A QCD allows you to make a tax-free gift directly from your IRA up to $100,000 per year to qualifying charities. QCDs count toward satisfying your required minimum distribution (RMD) without the Federal tax consequences of being included in your adjusted gross income (AGI). **Note:** QCDs are still allowed in 2020 even though RMDs are not required this year.
- Two new charitable opportunities are available in 2020 as a result of the CARES Act. These apply only to cash gifts made to qualifying charities (i.e., excludes a donor advised fund).
  – You may deduct up to $300 in addition to your standard deduction, or
  – You may deduct up to 100% of your AGI if you itemize your deductions.
- If you expect to realize significant gains this year from investment transactions or a sale of a business or real estate, consider implementing a charitable strategy to reduce your tax bill on these gains. Your financial advisor could discuss a variety of strategies to consider.

Ask your financial advisor for a copy of our "Charitable Giving Strategies" flyer and our "What you need to know about qualified charitable distributions" factsheet.

Gifting to individuals

Incorporate tax planning when gifting to individuals:

- Gifts to individuals must be completed by calendar year-end to be considered a current year gift for gift tax purposes. You may need to consider the additional time needed if you will be setting up an account or trust to receive gifts this year.
- Evaluate the tax benefits of gifting long-term appreciated stock versus cash. Your cost basis and holding period will transfer to the recipient. If the recipient is in a lower capital gains bracket than you, some tax savings may result when the recipient sells the stock. If the recipient is under age 24 make sure you are familiar with the "kiddie tax" rules.
- If you gift stock that is in a loss position, the recipient cannot claim your loss as a deduction. However, any appreciation in the stock from the value on the date of the gift up to your original basis will not be taxable to the recipient. Instead, consider selling the stock so that you can use the loss yourself, then gift the cash.
- Be aware of the 5-year gift rule when gifting to a 529 plan. You may elect to gift five years of annual exclusion gifts in one year without using your lifetime gift exclusion. This year the annual exclusion amount is $15,000. This 5-year rule would allow a $75,000 gift to a 529 plan for each beneficiary. A married couple could transfer up to $150,000 out of their estate in one year. You might consider gifting just $15,000 by year-end, then use the 5-year rule at the beginning of the next year to further increase your gifting in a short amount of time to $90,000 ($180,000 for a married couple).
- Special rules apply for certain gifts. You can pay school tuition or medical expenses for someone else without limitation. If the expenses are paid directly to the school or medical provider for the benefit of someone else, they do not count against the annual exclusion or lifetime gift exclusion.
- Gifts to individuals are not considered taxable income to the recipient and are not deductible by the giver for federal income tax purposes. Some states will allow deductions for contributions to a 529 plan.

Company stock benefits

Develop a strategy early for managing company stock benefits:

- Exercising incentive stock options (ISOs), nonqualified stock options (NSOs), or restricted stock grants could have significant tax consequences, including alternative minimum tax (AMT) implications.

Ask your financial advisor for a copy of our "Understanding Employer-Granted Stock Options" report.

- The current income tax rates are set to expire at the end of 2025. This may be an opportunity to exercise your options at a lower rate. Review the expiration period on your employer stock options and work with your tax advisor before year-end to develop a tax-efficient near-term and long-term strategy.

Retirement accounts

Consider the tax benefits of retirement plan strategies:

- In 2020, you can defer $19,500 ($26,000 if you're age 50 or older) of your compensation by the calendar year-end deadline for many employer-sponsored retirement plan accounts.
- Consider your current and future tax rates, then evaluate whether contributions to a Traditional 401(k) or Roth 401(k), if available, will provide more tax benefits.
- If available, consider starting or increasing contributions to your employer's nonqualified deferred compensation (NQDC) plan.
- Evaluate converting a Traditional IRA to a Roth IRA if you think future tax rates may be higher, you are interested in lowering future RMDs, or you want to create tax-free income for your heirs. Remember, you no longer have the ability to recharacterize (undo) a Roth conversion.
- You may now contribute to a Traditional IRA beyond age 70½. If eligible to make a deductible IRA contribution, consider your current and future tax rates along with your time horizon and evaluate whether it may be more beneficial to contribute to a Roth IRA instead. You have until the tax filing date of April 15, 2021 to make a 2020 contribution.
- If you are working but do not have access to an employer plan, talk with your financial advisor about your IRA contribution options. If self-employed, consider setting up a retirement plan to help reduce your taxable income.
- You are not required to take a required minimum distribution (RMD) in 2020 from an IRA or employer-sponsored retirement plan (other than a defined benefit plan). However, if you expect to be in a higher tax bracket in the future it may make sense to do so.
- If you or your family have been impacted by COVID19, you may be able to access up to $100,000 penalty-free from your IRA or employer-sponsored retirement plan to help meet cash flow needs. These coronavirus-related distributions may be taxed over a three year period. You also have the option to recontribute the funds within three years to avoid taxation. Talk with your tax advisor to determine your eligibility for these special rules which are available for 2020 distributions only.
- Retirement plan distributions up to $5,000 are now allowed penalty free for birth or adoption expenses.

Ask your financial advisor for a copy of our "Retirement Plan Contributions At-a-Glance, 2020" and "What You Should Know About Roth IRA Conversions" reports.

Benefits savings accounts

Take advantage of employer-provided tax-advantaged benefit programs:

- If you have not fully funded your Health Savings Account (HSA) in 2020, you may still be able to do so. Talk with your health plan administrator about your eligibility to make additional contributions.
- Flexible Spending Accounts (FSAs) and HSAs typically require annual re-enrollment. Check with your benefits area for the deadline.
- Review 2020 out-of-pocket expenses and adjust 2021 contribution amounts accordingly.
- Consider funding an FSA for dependent care expenses if you have a child in day care.
- Generally, FSA funds must be used within the same plan year unless your employer offers a grace period or carryover. If you find yourself with FSA funds near year-end and do not anticipate needing them, see IRS publication 502 for permitted medical expenses, such as first aid kits, bandages, contact lenses and solutions, etc. You may find some qualifying expenses that will help you use up the remaining FSA dollars. Discuss your situation with your tax advisor prior to taking FSA distributions.
- Starting in 2020, funds in an HSA or FSA may be used in a tax-free manner to pay for over-the-counter medications purchased without a prescription.

Talk with your human resources or benefits administrator at your employer.

Tax payments

Review your withholding and/or quarterly tax payments:

- A new online IRS Tax Withholding Estimator is now available to help employees, self-employed individuals, and retirees project their tax bill. Review the information below as to why you may want to utilize this calculator.
- For employees, review the calculator to determine if you need to make any adjustments to how much money your employer withholds from your paycheck.
- For business owners, review the calculator and work with your tax advisor to estimate your taxable income and determine the proper amount of quarterly tax payments to make. This process can also start conversations about other tax planning opportunities for your business.
- For retirees, you may no longer be subject to income tax withholding but still be required to make quarterly tax payments based on your Social Security benefits, pensions, or other investment income. Review the calculator and/or work with your tax advisor to estimate your required quarterly payments and determine if it would make sense to have income tax withheld from your retirement income.
- Don't forget about your state income tax payments. Many states require quarterly tax payments if your withholding will not cover your tax bill.

Visit the IRS website or ask your tax advisor for a tax projection to get a better idea of how much you may owe at tax time. IRS Publication 505 also provides some helpful information.

Education savings

Save on taxes while saving for education:

- Contributions to Education Savings Accounts (ESAs) or 529 plan accounts can grow tax-deferred.
- 529 plan contributions must be invested with the vendor in time to be reportable on a 2020 account statement to be considered a 2020 contribution for gifting purposes. A limited number of states allow contributions through the tax filing deadline to claim a prior year state tax deduction.
- ESA contributions for 2020 can be made up to April 15, 2021.
- 529 or ESA distributions must occur in the same tax year as the payment of qualified education expenses to be eligible for tax-free treatment.
- Qualified expenses for 529 plan purposes now include student loan payments. There is a lifetime limit of up to $10,000 for the beneficiary and an additional $10,000 for each sibling of the beneficiary. Qualified expenses were also expanded to include expenses for registered apprenticeship programs.
- For students attending college in the 2021–2022 school year, the financial aid application period opens October 1, 2020. Note this date since early applications typically receive better financial aid offers.
- If you're planning to make some changes to your child's custodial account, estimate your child's income and talk with your tax advisor to understand the impact of the "kiddie tax" rules.
- Balances in 529 college savings plans may be rolled to an ABLE account in an amount up to the annual contribution limit. ABLE accounts are tax-advantaged savings accounts for individuals with disabilities where the onset of the disability occurred prior to age 26.

Ask your financial advisor for a copy of one of our reports listed below to learn more:

"Saving for College"

"An Introduction to College Financial Aid"

"Tax Rules for Children"

"Able Accounts"

Cash flow management

Review your options if you've suffered a loss of compensation this year:

- Prioritize expenses. Your financial advisor can provide resources to help create a budget.
- Review your ability to access retirement plan assets. This year provided more flexibility in accessing retirement plans through expanded loan provisions and special distributions. Your employer plan administrator and financial advisor can help you determine what options are available to you.
- Put savings on hold—temporarily. You may choose to postpone your contributions for retirement or college savings for a while to meet temporary cash flow needs. Look for opportunities to catch up later.
- Communicate with lenders about whether they might offer temporary payment relief or adjustments for any outstanding loans.
- Talk with your financial advisor about available options to help meet cash flow needs.
- Review your income tax withholding or quarterly payments. If your income will be lower than expected this year, you may be able to reduce any remaining tax payments.
- If the events this year left you considering an earlier retirement, talk with your financial advisor about creating or updating your Envision® plan along with a review of the Income Center feature. This can help provide a clearer view into how you can generate income throughout your retirement.
- Don't miss an opportunity. If you expect to be in a lower tax bracket temporarily, consider generating additional income by realizing capital gains or completing a Roth conversion at a potentially lower tax rate.

Business income and expenses

Be aware of the how 2020 tax law changes could benefit your business:

- You may now carryback losses from 2018, 2019, and 2020 to five previous tax years to claim refunds of tax paid in those carry back years. Also, loss limitations in place for those years have been suspended meaning more of the loss is now deductible.
- New refundable tax credits are now available related to family leave and/or employee retention.
- Payroll tax deferral is available through 2020 to be paid in 2021 and 2022.
- The taxable income limitation for 2020 charitable contributions made by corporations is increased to 25%, if the contributions are made in cash and are not made to donor advised funds or other supporting organizations. The limitation on contributions of food inventory is also increased to 25%.
- Review your income tax withholding or quarterly payments. If your income will be lower than expected this year, you may be able to reduce any remaining tax payments.
- Consider setting up a retirement plan for your business to help reduce your taxable income.
- If you expect to be in a lower tax bracket temporarily due to business losses, this may be an opportunity to offset those losses with additional income by realizing capital gains or completing a Roth conversion at a lower tax rate.
- These opportunities require complex analysis to determine what action to take. If you have not done so already, meet with your tax advisor soon to discuss your situation.

Tax legislation

Keep an eye out for possible tax law changes:

Effective tax planning considers not only what we know today, but what might lie ahead. At press time, we are seeing record highs for government spending and election campaign proposals for raising future income tax rates, limiting deductions for some taxpayers, and increasing the tax burden on transferring wealth at death. This creates a lot of uncertainty about how to choose the best tax planning strategies.

As you evaluate tax planning strategies in light of this uncertainty, here are some considerations to keep in mind:

- The likelihood of tax increases hinges not only on the Presidential vote, but also on which party controls the House of Representatives and the Senate.
- Not all campaign proposals end up becoming laws. Priorities can change after elections and some proposals could be pushed aside.
- Tax laws are only permanent until they change. Future elections may result in a change in political control and taxes could trend in a different direction.

When considering whether or not to take action based on campaign proposals, keep this in mind:

- Tax decisions should be in line with your investment planning goals rather than driven solely by an unpredictable political climate.
- Everyone's situation is different. Tax planning for someone with an upcoming retirement will look different than planning for someone who may be starting RMDs soon or someone with high earnings for many more years.

If you believe the future could result in a larger tax bill for you and your family, evaluate these strategies:

- **Accelerate income into years when you expect taxes to be lower.** This could include strategies like converting part or all of your retirement plan to a Roth IRA, realizing gains sooner than later (especially if you have a concentrated position in one stock or have other reasons to reposition your portfolio), or determining the best timing for deferred compensation elections or employer-granted stock option exercises.
- **Defer expenses into years when you expect taxes to be higher.** This could include deferring the use of losses, depreciating business assets over multiple years rather than choosing immediate expensing, or determining the best timing for the use of charitable deductions.
- **Review your wealth transfer plan.** If you have reason to be concerned about estate taxes, evaluate strategies to increase or accelerate gifts. If you expect that the applicable exclusion ($11,580,000 per person in 2020) may be reduced, would you be comfortable using it in the near future? Don't think only in terms of taxes—your own financial comfort and the impact of large gifts on future generations also deserve careful thought.

With the ongoing activity in tax legislation, it will be important to communicate throughout the year with your tax and legal advisors as well as your financial advisor in order to be prepared to take advantage of whatever opportunities may arise.

Take action: Review these year-end planning activities

Now

- ☐ Ask your financial advisor for a realized and unrealized gain/loss report to assess the income and/or capital gains you should expect this year.
- ☐ Review your portfolio with your financial advisor to help ensure your allocation still aligns with your goals.
- ☐ Determine whether the 0% capital gains rate will apply to your situation this year.
- ☐ Meet with your tax advisor to prepare preliminary tax projections and evaluate whether to accelerate or defer income and expenses.
- ☐ Review tax-loss selling strategies if you have capital gains but wish to keep exposure to a depreciated sector or security. Remember, the last day to double up a position to help avoid a wash sale is November 30, 2020.
- ☐ Determine if any adjustments are needed to tax withholding or estimated payments.

Soon

- ☐ Create or add to your education savings program.
- ☐ Develop a plan to complete charitable and family member gifts by year-end.
- ☐ If you are on Medicare, review your Medicare Part D choices; the open window for enrolling or changing plans is October 15 to December 7.
- ☐ Consider funding an FSA and/or HSA during your employer's annual benefits enrollment period.
- ☐ If you have children going to college next year, be sure to file financial aid forms as early as October 1, 2020.
- ☐ Review your beneficiary designations and make any necessary adjustments due to life changes (i.e., marriage, divorce, birth of child/grandchild, death, etc.).
- ☐ Review your insurance coverage to make sure it is adequate for your needs.

	Before December 31
☐	Make maximum contributions to your employer retirement accounts; if contributing to your IRA, the deadline is April 15, 2021.
☐	When selling securities you own, remember the trade date, not the settlement date, determines the year of the sale and recognition of any gain or loss in most situations. Trades executed on or before December 31, 2020 will be taxable events in 2020.
☐	You are not required to take a required minimum distribution (RMD) in 2020 from an IRA or employer-sponsored retirement plan (other than a defined benefit plan). However, if you expect to be in a higher tax bracket in the future it may make sense to do so before December 31, 2020, to reduce future RMDs.
☐	Discuss with your tax advisor whether qualified charitable distributions (QCDs) are appropriate for you.
☐	Complete any Roth IRA conversions.
☐	Make gifts to individuals or charities. The annual gift tax exclusion amount for 2020 gifts to individuals is $15,000.
☐	If you own company-granted stock options, determine whether now is the time to exercise or disqualify them.
☐	Take precautions now to avoid tax-related identity theft; ask your financial advisor for a copy of our "Help Avoid Tax-Related Identity Theft" report.
☐	Prepare for filing tax returns by organizing records or receipts for income and expenses.

Not sure where to start? Turn to your advisors today.

Schedule an appointment with your tax professional to discuss your situation and review your tax projection.

Follow up with your financial advisor to evaluate your portfolio strategies and any investment changes that may help lessen your tax bill. If it appears you'll be in one of the upper tax brackets, review some of the potential strategies presented in our report, "*Tax Strategies for Higher-Income Taxpayers*."

Go beyond tax planning and create or update your *Envision* investment plan profile. With an *Envision* plan, you can easily make adjustments to account for tax planning considerations or changes in your life (births, deaths, marriages, divorces, etc.). If you're nearing retirement, your financial advisor can also include income projections using the Income Center.

Wells Fargo Advisors is not engaged in rendering legal, accounting or tax advice. If legal, accounting or tax assistance is required, the services of a competent professional should be sought.

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