



TRAPHAGEN

CPAs & WEALTH ADVISORS



Year-End Tax Planning Strategies For Individuals & Businesses

Year-end tax planning, executed timely, is the best opportunity to minimize taxes. Tax planning strategies can defer some of your current year's tax liability to a future year, thereby freeing up cash for investment, business or personal use. Tax planning also allows you to take advantage of tax rate differentials between tax years; therefore, you must review both the current tax year and the following tax year to properly plan out the best strategy.

Tax Planning Objectives & Goals

We have compiled a list of actions based on current tax rules that will help you save tax dollars if you act before this year ends. Not all will apply to your particular situation; but you (or a family member) will likely benefit from many of them.

Year-end planning for 2020 takes place against the backdrop of the COVID -19 pandemic and the government efforts to help individuals and businesses by enacting the Families First Coronavirus Response Act and the Coronavirus Aide, Relief and Economic Security (Cares) Act.

This year tax planning is impacted by the uncertainty of the election results of 2020 which may affect both individual and business tax strategies. We will keep you informed if there are any significant changes in tax policy. Using our tax strategies you can effectively:

- Reduce current year tax
- Defer current year tax
- Reduce future year's tax
- Maximize savings from allowable deductions
- Maximize tax credits
- Minimize Capital Gains
- Minimize tax on net investment income
- Avoid penalties for underpayment of estimated taxes

Individuals

Tax Planning Strategies

- Maximize your health flexible spending account
- Maximize health savings account contributions
- Realize losses on stock while substantially preserving your investment position
- Postpone income and accelerate deductions this year if you expect to be in the same or a lower tax bracket next year
- Accelerate income and defer deductions if you expect to be in a higher tax bracket next year
- Defer your bonus, if possible, until 2021
- Use a credit card to prepay expenses to generate deductions for this year including medical expenses
- If you expect to owe state and local income taxes for 2020, increase your withholding of state taxes or pay state estimated taxes before year-end if your total state and local taxes don't exceed \$10,000
- Election to capitalize real estate taxes on investment property
- Make gifts of up to \$15,000 to an unlimited number of individuals before year-end; this can save you gift and estate taxes
- Contribute to charities directly from IRA (RMD)
- Consider skipping RMD
- Contribute appreciated stock to charities
- Maximize 401K/IRA contribution
- Review for energy saver home improvements
- Consider giving appreciated stock to lower tax paying family members
- Use of Installment Method to defer taxable gain

Maximize Standard Deductions

If total itemized deductions will be close to the standard deduction, consider making additional expenditures before year-end to **bunch** your deductible expenses in one year to exceed your standard deduction then, you can claim the standard deduction in the following year- consider:

- Making an additional mortgage payment
- Review state and local taxes - can't exceed \$10,000
- Larger charitable contributions in 2020, then smaller in 2021
- Donor advised funds
- Accelerate medical payments (credit card)

Businesses

Tax Planning Strategies

- Businesses should consider making expenditures that qualify for the business property expensing option (Section 179). For the tax year 2020, the expensing limit is \$1,040,000 and the investment ceiling limit is \$2,590,000

- If you are self-employed consider setting up, before year-end, a self-employed retirement plan to maximize deductions
- If you own an interest in a Partnership, LLC or S Corporation, you may need to increase your basis in the entity so you can deduct a loss from it for this year
- Postpone income and accelerate deductions this year if you expect to be in the same or a lower tax bracket next year
- Accelerate income and defer deductions if you expect to be in a higher tax bracket next year
- Consider employing your children in the business
- Bonus depreciation - Consider making expenditures that qualify for the 100% bonus first year depreciation. There is no limitation on the investment; and can be **NEW** or **USED**
- Maximize the 20% deduction for business pass through income in 2020
- Review and consider changing **current accounting method** and/or **entity structure**

Please visit our website which includes our Annual Tax & Financial Planning Guide, [CLICK HERE](#) for the link.

This letter only covers some of the year-end tax planning strategies that could potentially benefit you and your business. If you have any questions about how these regulations apply to your particular situation, please contact our office so we can assist you.

**We wish all of you the very best in this difficult time.
Stay Strong & Safe!**

Traphagen CPAs & Wealth Advisors

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201-262-1040
www.tfgllc.com

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Traphagen CPAs & Wealth Advisors, 234 Kinderkamack Road, Oradell, NJ 07649

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