**2020 YEAR END LETTER**

As we near the end of another year it is time for our annual income tax planning reminder letter. In the last two years we have seen many individual tax changes that may have reduced some deductions, increased others and dramatically changed your tax return. There are still a number of tax planning tools available and in this letter, we will remind you of a few.

As always, we are happy to sit down with you and go over your tax return, but we need you to make an appointment so we will be available when you come in to sign your return. If you don’t want to sit down and go over your return, you don’t have to make an appointment when coming in to sign your e-file forms and pick up your copies.

Immediate *AND* long-lasting planning tips:

* If your employer offers a 401-k plan, America’s #1 tax shelter continues to be deferring the maximum amount the IRS allows to your 401-k this and every year. Because employers are required by law to match a portion of your own deferral, this is a tax deduction with free money!
* The Kaiser Family Foundation reports this year that 41% of American W-2 employees will be covered by a health savings account at work. If your employer does not deposit the maximum amount allowable into this plan, you have until April 15,2020 to add the remaining amount (up to the 2019 maximum) to this, the 2nd best tax planning move of all time.
  + Some employers allow you to deposit your health savings account amounts through a cafeteria or 125 plan. If available to you, this is the best way to put your own money in because of the additional tax savings available by avoiding Social Security tax. You are probably too late to do much for this year but make this your 2020 New Year’s resolution.

* Fewer Americans are now able to itemize deductions because of the huge benefit received from the increased standard deduction. That doesn’t mean that you still can’t do anything though. One simple tool to get the best “bang for your buck” would be to practice what we call bunching of charitable contributions. This trick guides you to make charitable contributions every other year so that you double up and get a deduction in some years without giving it up in others. Simply make your 2020 contributions as early as possible in 2020, and then make your 2021 contributions at the very end of 2020 so that you “bunch” all your amounts in one year to potentially get the best itemized deduction amount.
* Because there is no longer any deduction for work related expenses you must carefully read your employer’s handbook to see if they offer a reimbursement program for job-related expenses like licenses, dues, uniforms, supplies, etc.
* If you are considering selling some old stock investments you might want to consider giving them directly to charity and avoiding writing checks to charity because you are able to deduct the full fair market value of the stock you give away in most cases.
* While we are at it, if you are over 70 and ½ and have an IRA you should not be writing checks to charity, instead you should be using the “Direct IRA to charity” tool to avoid tax issues while qualifying for the required distribution rule.
* One of our annual overall planning tools is to advise “debt free at 65”. This life-long goal is a basic element of financial and tax planning that is constantly overlooked in today’s era of 30-year mortgages and cheap re-financing options. With the greatly reduced itemized deduction availability of home mortgages it is more powerful than ever!
* We continue to worry about unreported foreign investments, and we suggest you very carefully consider whether you have control over a foreign checking account or hold stock outside the United States. These must be reported or they essentially face 50% penalties each year.
* Additionally, this year the IRS and Congress have become very concerned about crypto-currency (like Bitcoin) and you must be certain to report any of these transactions-there is even a new question on every tax return asking about it.
* While we are talking about it, remind yourself that your Social Security benefit is based on your highest 35 years of earnings, so taking some time away from the workforce, or aggressively writing off business expenses can really have a long-term negative effect on retirement.

If you are considering retirement, starting a small business, selling an investment or business, or a college savings program we strongly suggest you contact us for a planning meeting for these items, as well as for any of the ideas discussed in this year end letter. We do appreciate your business.

Thank You;

Mona F. Frayer CPA MBA