RSG Retirement *Solutions* Group
Trusted Guidance

5 HELPFUL TAX PLANNING TIPS

Navigating the Tax Rates, Brackets and Standard Deduction Amounts for 2020

INTRODUCTION

The tax code underwent significant changes thanks to the 2017 Tax Cuts and Jobs Act. You may be wondering how the rewritten code will impact exemptions, credits and individual tax rates for 2020. There are many factors that can impact whether your taxes will increase under the overhauled tax code. In addition to changes to your tax bracket and deductions (such as the number of dependents), there are other aspects of your overall tax strategy to address.

It's important that you look to employ tax diversity in your retirement plan. Different types of investments impact your taxes differently. Having accounts that receive varying tax treatments is a key strategy. You should work with a qualified professional to help determine exactly how much you should have in each tax "bucket" to help minimize your overall tax burden in retirement.

While there are lots of changes with the new tax laws, you still need to stick to the basics when it comes to filing and preparing your tax returns. So, here are our 5 tips to help you better prepare for tax filing this year, and steps you can take to make the most out of the new tax laws as they relate to your overall retirement strategy.

5 HELPFUL TAX PLANNING TIPS

1. Get Organized and Prepare Your 2019 Taxes
2. Understand the Changes to the Tax Brackets
3. Know How Standard & Itemized Deductions Have Changed
4. Learn the Strategies to Help Lower Your Tax Bill
5. Avoid Tax Traps on Your Retirement Plans

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GET ORGANIZED AND PREPARE YOUR 2019 TAXES

This may seem like a no brainer, but the sooner you get your W-2, receipts and other information together, the better off you'll be in April. Make sure you take into account home improvements, charitable donations, business expenses, etc. A Certified Public Accountant (CPA) will be able to help you with your individual tax situation.

KNOW YOUR TAX TERMS

First, you'll want to make sure you understand what some of the basic tax terms mean such as tax credit, tax deduction, tax deferrals, and tax-free. A tax credit is a dollar for dollar benefit. A tax deduction is worth your highest marginal tax bracket, for instance 28 cents on the dollar. In this instance if you spend $100, then you would get $28 back. Tax deferrals are those that you see with accounts like a 401(k) where you pay taxes at a later date. Tax-free means you owe no tax.

BE SAFE AND SECURE

The last part of the organization process includes certain precautionary safety measures. Tax identity theft is a significant threat and has been at the forefront of our minds given the recent security breaches and cyberattacks of major commercial organizations. Online tax filings allow for greater convenience, but also leave us more vulnerable to Cybersecurity threats if we're not careful. Be sure you're using a secure browser if you're going to file online. Beware if you receive a notice or letter regarding a tax return, tax bill or income that does not apply to you; or if you get an unsolicited e-mail or other contact asking for your bank account number, Social Security number, or other personal information/documents. Also, be cautious if you receive a spam robocall insisting that you must call back and settle your tax bill. The IRS does not demand immediate payment over the phone, threaten to arrest you, or demand your personal information including credit/debit or bank account numbers.

2 UNDERSTAND THE CHANGES TO THE TAX BRACKETS

There are no structural changes to the tax brackets for 2020. There are still seven tax brackets, and the seven marginal tax rates -- 10%, 12%, 22%, 24%, 32%, 35%, and 37% -- remain unchanged.

However, the income ranges for each bracket have been adjusted for inflation. So with that in mind, here's a guide for the 2020 tax brackets for the four major tax filing statuses:[1]:

Marginal Tax Rate	Single	Married Filing Jointly	Head of Household
10%	*0 - $9875*	*0 - $19,750*	*0 - $14,100*
12%	*$9876 - $40,125*	*$19,751 - $80,250*	*$14,101 - $53,700*
22%	*$40,126 - $85,525*	*$80,251 - $171,050*	*$53,701 - $85,500*
24%	*$85,526 - $163,300*	*$171,051 - $326,600*	*$85,501 - $163,300*
32%	*$163,301 - $207,350*	*$326,601 - $414,700*	*$163,301 - $207,350*
35%	*$207,351 - $518,400*	*$414,701 - $622,050*	*$207,351 - $518,400*
37%	*$518,401 and up*	*$622,051 and up*	*$518,401 and up*

Finally, a few types of income, particularly qualified dividends and long-term capital gains, are taxed according to different rates. Talk to your financial advisor for more information.

3 STANDARD AND ITEMIZED DEDUCTIONS HAVE CHANGED

The standard deduction amount almost doubled for most taxpayers under the Tax Cuts and Jobs Act. The increase means that more taxpayers are expected to opt for the standard deduction over claiming itemized deductions. With inflation, those amounts will edge up slightly. Here are the standard deduction amounts for 2020.[2]:

FILING STATUS	STANDARD DEDUCTION RATE
Single	*$12,400*
Married Filing Jointly & Surviving Spouse	*$24,800*
Married Filing Separately	*$12,400*
Head of Household	*$18,650*

- The additional standard deduction amount for the aged or the blind will be $1,300. The additional standard deduction amount will increase to $1,650 if the individual is also unmarried and not a surviving spouse.
- For those high-income taxpayer who itemize their deductions, there are no longer Pease limitations.
- A number of important retirement savings incentives were increased, including deductions for 401(k)s and health savings accounts (HSA).

In December of 2019, President Trump signed the Taxpayer Certainty and Disaster Tax Relief Act into law. This legislation retroactively resurrects and extends several tax breaks. Here are some popular deductions saved as well as updates for other deductions and credits.

STATE AND LOCAL TAXES	*Capped at $10,000 of expenses (property and sales or income tax, regardless of filing status)*
MORTGAGE INTEREST	*Limited to interest on $750,000 of debt on primary or secondary home (no change for existing mortgages)*
HOME EQUITY LOAN INTEREST DEDUCTION	*Eliminated (does not apply to home equity loans for substantial home improvements that comply with debt limit)*
COLLEGE TUITION WRITE-OFF	*Worth up to $4,000 or $2,000 depending on income level. Has been retroactively resurrected for 2018 through 2020 for qualifying taxpayers.*
MEDICAL EXPENSE DEDUCTION	*7.5% of AGI threshold extended through 2020*
CASUALTY AND THEFT	*Eliminated (except in the case of federally recognized natural disaster)*
ALIMONY	*The deduction for the payer is eliminated; the recipient is no longer taxed*
INVESTMENT INTEREST	*Unchanged*

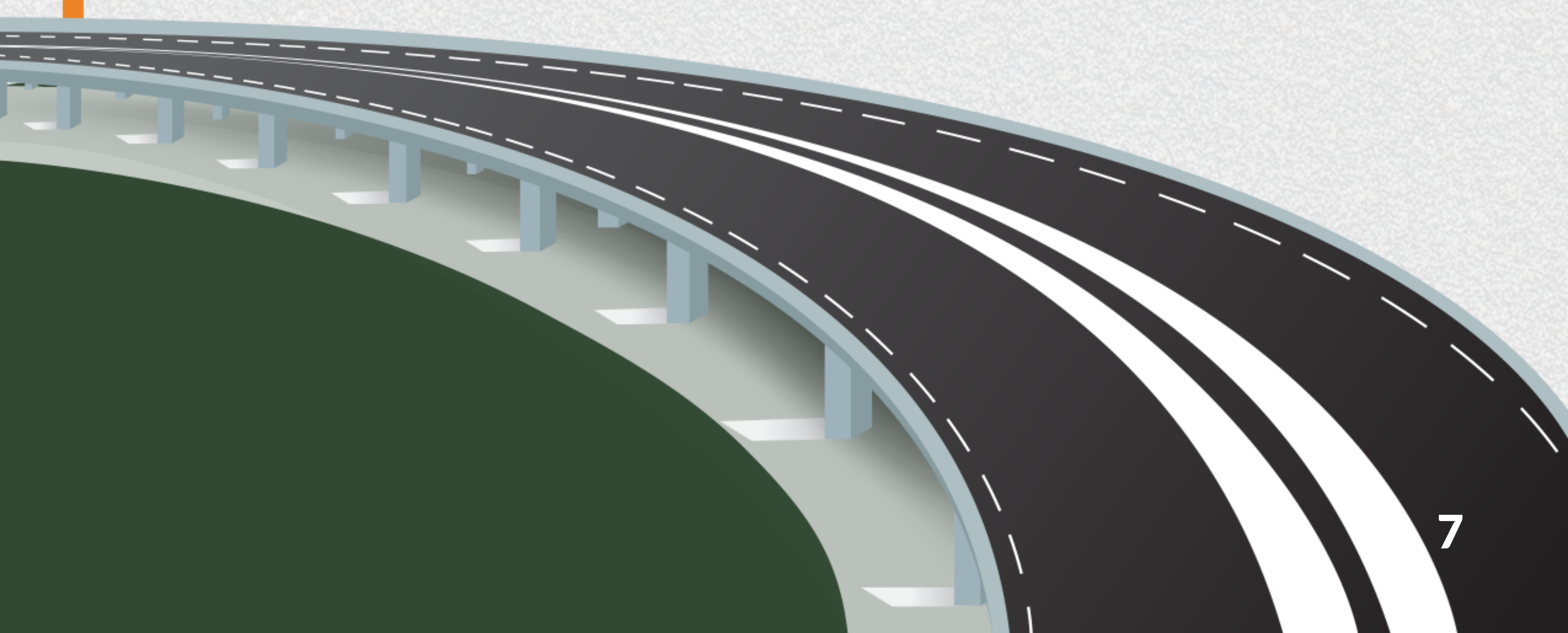
MISC EXPENSES, (INCLUDING:)

- *Unreimbursed employee expenses*
- *Certain investment-related expenses*
- *Personal tax preparation fees*
- *Job search expenses*

CHARITABLE GIFTS OF CASH	*Raised to 60% of AGI*

NEW 20% DEDUCTION FOR SELF-EMPLOYED WORKERS

One of the key tax reform measures provides a 20% deduction beginning in Tax Year 2018 on pass-through income from self-employed, sole proprietors (Schedule C on Form 1040), limited liability companies, partnerships and S corporations. This deduction allows the self-employed to keep more earnings tax-free and helps curb high tax rates and the 15.3% self-employment tax.[3]



The IRS has several loopholes and complications that make it easy for them to tax the retirement savings of people who aren't paying close attention. There are several common mistakes that could force you to pay out a larger part of your nest egg to the government.

RMDS OR REQUIRED MINIMUM DISTRIBUTIONS

Tax-deferred retirement saving is one of the best tools at investors' disposal, but you can't simply let your money grow forever -- at some point, you have to start withdrawing it. This is known as required minimum distributions (RMDs), which is an IRS rule that says you need to start taking distributions from certain retirement accounts beginning at age 72. An RMD is a certain amount of money that the government requires you to withdraw from a 403(b), SEP IRA, 457(b), or traditional IRA every year. Even if you don't want or need the money, you need to take it, or else the IRS can take 50% of what you didn't withdraw.

The IRS provides an IRA RMD table that gives older IRA holders the distribution factor they'll need to take out the right amount.

Until recently, RMDs were required starting at age 70 ½, but the Setting Every Community Up for Retirement Enhancement (SECURE) Act changed the age to 72. Starting at age 72, the pre-tax money you put away over the course of your career will now be subject to tax, and the government has a specific method of calculating how much you must withdraw every year based on your account balance and life expectancy.

Your first RMD is due by April 1st of the year after you turn 72. So, if you turn 72 in 2022, you won't need to take your first RMD until April 1st, 2023. Keep in mind that by pushing back the first RMD, you could end up having to take two RMDs in one year, since all RMDs after the first are due by December 31st. This could mean you'll have to withdraw more than you want, potentially resulting in a higher tax burden. When it comes to RMDs, planning is key.

Don't forget because you could be hit with an unnecessary 50% penalty tax. Also, keep in mind that you're allowed to donate up to $100,000 of your RMD to a 501(c)(3) organization to help lower your tax burden. The good news is that the IRS tends to be pretty forgiving when it comes to RMDs. You can ask them to waive the penalty if you had "reasonable cause" for missing the deadline, and they typically will oblige. But not if you have a habit of missing your RMDs every year.[4]

SOCIAL SECURITY CHECKS

We tend to think of Social Security as being simple: it's a check that you get in the mail every month from the government. Did you know that your Social Security benefit is taxable – up to 85% of it, in fact. These laws are confusing, and they depend on your age, income, and other factors. You can avoid a lot of these taxes by just adjusting your income and your cash flow. If you don't know, "income" refers to any money that you receive, and "cash flow" is your money after taxes. If you change your tax filing status and adjust the kinds of assets that you own, it can help you to avoid a lot of these taxes and still get a full Social Security check.

CONVERTING A TRADITIONAL IRA TO ROTH IRA

Roth IRAs are a unique and powerful way to save for retirement. You pay taxes up front on a Roth IRA. After that, all growth and withdrawals are tax-free. This is most beneficial when your taxes are lower now than you expect they will be in the future.

THE PROBLEM

People who earn over a certain amount aren't allowed to open Roth IRAs—under the regular rules, anyway. If you think tax-free income in retirement would be important to you, but you make too much to open a Roth, you might want to consider the back door. In a backdoor Roth, you first make a contribution to a Traditional IRA, then convert it to a Roth IRA.

You can do a backdoor Roth IRA in one of two ways. The first method is to contribute money to an existing Traditional IRA, sell shares, and then roll over the money to a Roth IRA account. Or, you can convert an entire Traditional IRA account to a Roth IRA account.

ROTH IRA INCOME LIMITS:

In 2020, if your modified adjusted gross income is $137,000 (single) or $206,000 (married filing jointly or qualifying widow[er]), you may not contribute to a Roth IRA.[5] These limits have increased from the 2019 tax year. These limits do not apply to Roth IRA backdoor conversions.

ROTH IRA CONTRIBUTION LIMITS:

In 2020, you can contribute up to $6,000 to a Roth IRA if you are under 50. If you are over 50, you can contribute an additional $1,000 for a total of $7,000.[6] With a backdoor Roth IRA conversion, these limits do not apply.

The conversion cap was removed in 2018 as older and higher-income investors asked for the benefit of tax-free withdrawals in retirement. Also, since there are no required minimum distributions (RMDs) for Roth IRAs during the lifetime of the account owner, the entire amount of money saved in a Roth can be passed down to your beneficiaries after your death.[7]

5 STRATEGIES TO HELP LOWER YOUR TAX BILL

Taxes are one of the biggest expenses facing retirees today. There are investment options that won't minimize your gains, or minimize your withdrawal or distribution come tax time.

MAX OUT YOUR RETIREMENT ACCOUNTS

Maxing out your 401(k) with your employer, or if you're self-employed, contributing to a defined-benefit or defined-contribution plan will not only help to grow your investments, but will also help to reduce your tax burden. This is because your 401(k) is funded with pre-tax dollars that in turn decrease your taxable income. But, be careful not to withdraw early from your account as the amount you withdraw will become part of your taxable income, and there could be additional taxes to pay if you withdraw early. At age 72, you are required to take minimum withdrawals (RMDs) from your IRAs each year.

CHARITABLE GIVING STRATEGIES

If there's a charitable cause you feel strongly about, then you can gift your stock in the short or long-term. But first, make sure you check up on the charity's effectiveness to know what percentage of their revenues go to actual programming versus administrative and fundraising expenses. For the short-term, where you're holding the stock in question for less than a year, you can receive a full deductible credit for your cost basis, but you'll give up the ability to deduct your additional investment gains. Note that the holding period starts on the day after you buy a stock and ends on the day you sell it. However, if you hold for a full year, you can deduct the fair market value as of the date the gift was made. But you must be able to itemize deductions to use these giving strategies.

Another opportunity you have here is to consider using RMDs for charitable contributions. If you don't need the money and you take RMDs from your IRA, you can put up to $100K from your RMD directly into a charity. This is known as a Qualified Charitable Distribution or QCD. This is beneficial because you won't owe taxes on the amount of the RMD you contributed to charity.

Or, another opportunity is to make a charity the beneficiary of your IRA if you want to make charitable giving part of your estate plan. The charity will receive the assets tax-free and your estate will also be eligible for a charitable deduction. If you plan on giving part of your estate to charity, the rest of your beneficiaries are probably better off inheriting non-IRA assets and letting the charity benefit from the IRA.

TAX LOSS HARVESTING

An investment typically only impacts your taxes once it is sold. Tax loss harvesting allows you to take your losses earlier, delay payment on the gains, and - as a result - pay a similar total tax bill, but at a later date. The result is you can earn a return on the money you would have paid in tax as you keep it for longer. In essence, you delay paying your tax bill by making sure you realize your investment losses quickly, but your gains more slowly.

With this approach, you can help reduce your income tax liability from your investment losses. If you have more capital losses than you have gains for a given year, then you can claim up to $3,000 of those losses and deduct them against other types of income, such as wage or salary income. If you have still more capital losses than that, then you're allowed to carry the excess forward for use in future years. There's no time limit for using the capital loss deductions that you've carried forward.[8]

ESTATE TAX PLANNING

For 2020, the estate and gift tax exemption limits increase $11.58 million per individual, and $23.16 million per couple. Keep in mind that these limits will expire in 2026 along with the Tax Cuts and Jobs Act. The annual gift exclusion amount remains at $15,000.[9]

CONCLUSION

Consider managing your overall financial situation as if you are the CEO of "YOU Corporation." This doesn't mean that you will be acting as a financial advisor or CPA, but you should be active in the decision-making process. Solidifying your involvement in your own wealth is the first step in taking control over your financial situation.

In the end, one of the biggest expenses retirees face is taxes. No matter what lies ahead of you in retirement, make sure you discuss specific tax strategies with your financial professional. There may be serious implications for your financial health if not understood or planned properly.

At Retirement Solutions Group, we know that taxes can be confusing. That's why we help you uncover long-term strategies for tax minimization in regard to your social security benefits, retirement, investments, and your overall financial plan.

Click to Request Your Complimentary, No Obligation Review!

We'll work with you to help you better understand the new tax laws and how they may impact your individual situation. Call us today at **615-467-6300**.

Additional IRS Website Links, Charts, Calculators, etc.

* ***"IRS Withholding Calculator"*** https://www.irs.gov/individuals/irs-withholding-calculator

* ***"2020 Federal Tax Rates, Personal Exemptions, & Standard Deductions"*** https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2020

* ***"Retirement Topics - Required Minimum Distributions (RMDs)"*** https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds

****"Estate and Gift Tax FAQs"*** https://www.irs.gov/newsroom/estate-and-gift-tax-faqs

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CITE SOURCES

1 https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2020

2 https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2020

3 https://www.irs.gov/newsroom/qualified-business-income-deduction

4 https://www.irs.gov/retirement-plans/correcting-required-minimum-distribution-failures

5 https://www.irs.gov/retirement-plans/plan-participant-employee/amount-of-roth-ira-contributions-that-you-can-make-for-2020

6 https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-contributions

7 https://www.irs.gov/retirement-plans/roth-iras

8 https://www.irs.gov/taxtopics/tc409

9 https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-estate-taxes