2020 YEAR-END PLANNING

Best Planning Ideas for 2020

*By Lyle K. Benson, Jr.**

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In light of the challenges facing clients at the end of 2020, Lyle K. Benson, Jr. touches upon income tax, estate tax, retirement and financial, and investment planning ideas that can benefit your clients. Although some issues are out of our control, many clients can benefit from one or more planning ideas.

Income Tax Planning

As 2020 closes, the best overall strategy may no longer be to defer taxes to the future. It is very possible that tax rates will be higher in the future, and even sooner than we may have currently planned.

If a client did not take a retired minimum distribution (RMD) based on the exception for 2020, clients may find it beneficial to take the RMD before year end. Clients want to avoid higher tax rates on themselves or their heirs in the future.

In a year without RMDs, a client might be in a lower tax bracket. Consider bringing the income into the current year at the lower rates by doing a Roth conversion.

Capital losses might be worth more in future years if capital gains rates are higher. Clients should evaluate their capital loss/gain picture this year. For example, a client might have harvested losses in March, but now wants to take gains as the market has rallied.

If clients are planning to make charitable contributions this year, consider making a cash gift. With no adjusted gross income (AGI) limit on cash contributions in 2020, a client might want to sell stock and give cash rather than a gift of appreciated stock that is still subject to a 30-percent-of-AGI limit. Another charitable donation consideration is the charitable gift annuity. This strategy might be a way to boost income and receive a charitable deduction in the current low-yield environment.

Estate Planning

The $10 million inflation-adjusted exclusion amount is scheduled to expire in 2026 but could be modified sooner. Clients can take advantage of this now with current year gifts.

If clients created spousal lifetime access trusts (SLATs) in 2012 or later, they can add assets to those trusts. This removes assets from the gross estate but allows potential access by the spouse, if necessary.

Clients can also take advantage of "upstream gifting." This strategy involves the gifting of appreciated stock to elderly parents who will be subject to the estate tax. Upon the parent's death, the stock would get a stepped-up basis.

Year end is a great time to take inventory of estate planning documents. Clients need to know where their documents are and how to access them. In reviewing documents, clients should examine their health care power of attorney and address the use of a ventilator as life support in the event of treatment for COVID-19.

Retirement and Financial Planning

During the COVID-19 pandemic, many people are rethinking what is most important to them. Some people may not be spending as much as they normally would. On the other hand, others might be spending more. Changes in spending habits need to be integrated into the client's financial plan.

In addition to changes in spending, advisors should ask clients if their goals have changed. If they have changed, is there an impact on the overall financial plan?

Some clients may be facing early retirement, either voluntary or not. Clients need to evaluate if they are financially and emotionally ready.

If clients received a refund from a 529 plan, the money should be put back in. Otherwise, clients could be subject to tax and penalties.

The pandemic has also caused people to take a close look at where they are living. Some are moving out of crowded cities, moving to be near family, or downsizing to a simpler lifestyle. Changes in home ownership and residence should be factored into the overall plan.

In addition to the pandemic and resulting economic uncertainties, 2020 has brought several types of natural disasters, hurricanes, fires, and severe weather. Now is a good time to evaluate property and casualty policies to verify that coverage is appropriate.

Investment Planning

With increased volatility in the markets in 2020, it is a good time to reassess overall asset allocation. Focus on what can be controlled and understand what cannot be controlled. Our clients seem to either be all in the markets or all out of the markets—not much middle ground these days. How are clients responding to the volatility?

Advisors should be aware of the divergence in performance of growth vs. value. A well-diversified portfolio should have exposure to all areas. How will the election impact this?

The Federal Reserve has indicated that low interest rates are here until at least 2023. The impact on fixed income markets should be analyzed. Helping clients focus on the reasons they hold fixed income is important now (reducing volatility of the portfolio, uncorrelated returns with stocks, etc.).

Advisors should be prepared to help clients understand the 2020 performance of cap-weighted indices. This has impacted performance in 2020 due to the strong returns from a small handful of large cap U.S. stocks.

Real estate investment trusts (REITs) should be examined. What property does the REIT own? What types of real estate may struggle now in a post-pandemic world?

Alternative strategies have worked in theory, but not in reality this year. They often come with high expenses and adverse tax consequences. This is a good time to re-evaluate your holdings.

Everyone is looking for yield. How can investors get it without taking on more risk than is advisable?

Clients may want to stop reinvesting dividends so they do not get further out of balance with asset allocation.