Your 2020 Tax Plan: Three Steps To Position Yourself and Your Business for Success in the Year Ahead

The month of December is a time for reflection but also for looking ahead. Why not kick off the new year with a thoughtful tax and financial plan that sets you and your business up for success in the coming year?

**Step 1: Conduct a 2019 Review and Map Out Your January 1 Action Items**

Start by reviewing your 2019 tax plan to determine what was accomplished and what was not. If you didn’t accomplish certain objectives, why not? Were there structural or other issues that need to be addressed? With a better understanding of how 2019 unfolded, you’ll have a stronger basis for creating your 2020 tax plan. Even if you did not have a 2019 tax plan a review of the past year’s results will help inform your 2020 plan.

While 2019 ends in a few weeks there may still be time to reduce your tax bill. Consider the following:

**General Business Considerations**

**Net business income**

- Do you qualify for the 20% deduction from net business income?
- Do you understand the restrictions and limits and have you consulted with your advisors to see (a) if you qualify and (b) if there are any steps that must be taken now to either obtain or maintain qualification?

**Equipment purchases**

- There are new larger deductions for purchases of new or used equipment by small businesses (up to $1 million).
Is this the year to take advantage of the larger deduction?

**Bonus depreciation**

- Bonus depreciation is still possible in 2019 – business can depreciate 30 percent of the adjusted basis of certain qualified property placed in service during 2019.
- This provision disappears in 2020.
- Does it make sense for your business to acquire, before year end, property that qualifies for bonus depreciation?

**Section 179 accelerated depreciation**

- Do you need to buy equipment subject to section 179 accelerated depreciation? Talk to your tax adviser to see if you should buy that property in 2019.
- Note that to qualify for 179 expensing, bonus depreciation and credits, you will need to pay for (not just order) equipment and place the equipment into service in 2019.

**Uncollectible debt**

- Review your un-collectible debt and write it off before year end.

**Obsolete equipment and inventory**

- Consider whether it may be time to write off any obsolete equipment and inventory.

**Qualified dividend**

- If your business is incorporated, consider taking excess funds out of the business in 2019 through a qualified dividend.

**Prepayment of expenses**

- Prepay expenses (such as insurance, rent, subscriptions and other business expenses) before year end.

**Benefits and Retirement Considerations**

**Maxing out**
Are you maxing out your own 401(k), other retirement accounts, HSA?

Year-end bonuses

Are year-end bonuses in order?

Section 125 Cafeteria Plans

If you sponsor a Section 125 cafeteria plan with health or dependent care savings accounts for your employees, have you confirmed the plan passes discrimination testing to avoid refunds to highly compensated employees?

401(k) plan testing

If there is a risk your 401(k) plan will not pass discrimination testing, have you notified affected highly compensated employee so they can minimize the potential for a refund by reducing their contributions for the last quarter of the year?

Individual Considerations

Income postponement

Can you postpone recognition of income until 2020? For example, for cash-basis taxpayers waiting until year end to send out invoices may defer income into the next year.

Selling assets to offset income or capital gains

On the income side, can you recognize ordinary or capital tax losses by selling assets or investments in December to offset 2019 ordinary income or capital gains?

Note that if you sell a stock or security, you will need to wait at least 31 days to buy back the same stock or security.

Withholding

Check your withholding to make sure it’s adequate; if not make an estimated tax payment by January 15, 2020.

Qualified Opportunity Funds

Rollover capital gains into a Qualified Opportunity Fund (QOF) before year end to take full advantage of the 15% step up in basis resulting in reduction of deferred gain that is not recognized until the end
Any deferred capital gains rolled over into a QOF after 12/31/2019, will only qualify for a 10% step up in basis, not 15%, for the gain that is deferred until the end of 2026. In addition, any appreciation in the QOF investment held for more than 10 years is then not subject to tax.

Check with your tax advisor to see if an investment in a QOF makes sense for you.

Charitable Giving, Gift and Estate Tax and Estate Planning Considerations

Annual gifts

- For gifting, maximize the value of annual exclusion gifts ($15,000 per donee for 2019, $30,000 combined if gift splitting with spouse).
- Note the annual exclusion is per recipient, not the aggregate total of all gifts during the year. For example, you can give up to $15,000 to child 1, another $15,000 to child 2, $15,000 to a grandchild or friend, and so on all in the same year without having to file a gift tax return or use your lifetime gift and estate tax exclusion and generation skipping tax exclusion amounts.
- Also note that you cannot carry over any unused annual exclusions from 2019 to 2020.

Charitable gifts

- Charitable gifts of cash, appreciated stock or other assets are still tax-deductible under the TCJA for those taxpayers who itemize their deductions.
- The TCJA also temporarily increased the limit on cash contributions to public charities and certain private foundations from 50 percent to 60 percent of adjusted gross income.

Lifetime gifts

- In addition to annual exclusion gifts, taxpayers may want to consider larger lifetime gifts to take advantage of the increased federal gift and estate tax exemption, currently $11.4 million per individual ($22.8 million per couple).
- The increased federal gift and estate tax exemption provided by the TCJA is slated to revert back to 2012 levels in 2026 ($5 million per persons, indexed for inflation) and is also subject to adjustment by Congress prior to 2026.

Gift and estate tax exemptions

- Given the current low interest rate environment (the December mid-term applicable federal rate is 1.69%) and the increased federal gift and estate tax exemption amounts, now is a great time for high
net worth individuals to consider more sophisticated transfer tax planning options (GRATs, sales to intentionally defective grantor trusts, etc.).

**Step 2: Check in with Your Advisors**

Engage your legal, tax and/or financial advisors to review your January 1 action items and goals for the year ahead. By including your advisors in setting up your goals, they are in a better position to keep you apprised of local, state or federal rulemaking that may impact your situation or be of value to your plan throughout the course of the year. In addition, don’t set it and forget it, check in with your advisors periodically to help you review and update your plan.

**Step 3: Revisit Your Plan Regularly**

Changes in your business, financial or personal situation, including market or regulatory changes may impact your business in the year ahead. Be open to reviewing and revising your plan on a periodic basis – quarterly, if not monthly.

*If you have questions or would like to discuss the items highlighted above please feel free to contact a member of the Hirschler tax team.*

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