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Last Chance to Cut Your Taxes: Covid-19 Breaks Lapse at Year-End

By Laura Davison
December 10, 2020, 2:00 AM EST

It's a good year to log losses for tax purposes, experts say

Potential tax hikes under Biden also drive tips from advisers

The twin dynamics of expiring Covid-19 relief and a transition to a new presidential administration are making the end of this year a turbo-charged version of the usual rush by businesses and households alike to lock in tax reductions.

With President-elect Joe Biden aiming to raise a number of levies, now is the time to take steps that could lower tax bills not just for 2020 but for years to come, tax professionals said.

"We are running the gamut of tax planning: Covid-19 has had significant impacts, a new administration. There are a lot of things to consider," said Michael D'Addio, a principal at accounting firm Marcum LLP.

Meantime, the window for claiming one-time breaks provided by March's Cares Act stimulus package is closing quickly, putting pressure on filers to ensure they meet the qualifications by Dec. 31.

Following are some last-minute strategies advisers are highlighting to reduce tax payments as 2021 approaches.

Maximizing Losses

Two provisions in the Cares Act make it easier to use losses to cut tax bills. One allows taxpayers to apply losses incurred in 2018, 2019 and 2020 to other years over the past five in which profits were logged -- allowing offsets that can reduce tax payments through re-filings.

Congress also removed a cap on individuals' businesses-loss deductions for 2020. Those are typically limited to $250,000 -- or twice that for someone filing jointly with a spouse.

"These provisions are really generous," Grethell Anasagasti, a principal at accounting firm MBAF, said. Paying out employee bonuses and buying equipment that can be depreciated would be steps to take by year-end, while putting off invoices until 2021 would be another aggressive way to maximize losses, she said.

Asset Sales

Biden has proposed boosting tax rates on both capital gains and income, which could increase the cost of selling a business or stock if the transaction occurs in 2021 -- making it more advantageous to make that move now.

It's far from certain that Biden will have enough support in Congress to enact his plan, which would raise the top income tax rate to 39.6% from 37% for those earning at least $400,000 and the rate on capital gains to 39.6% from 23.8% for over $1 million income.

But for people who are already planning a sale in the near future, it's safer to complete the deal this year than risk higher rates in 2021, said Chris Boyett, the co-chair of law firm Holland & Knight LLP's national private wealth unit.

Some strategies, such as installment sales, give taxpayers more time to determine the year in which they report the income.

"With all the uncertainty, anything you can do to give yourself more decision time is good," D'Addio said.

Estate Planning

President Donald Trump's signature 2017 tax cut doubled the exemption from duties on estates, allowing wealthy individuals to pass on more to their heirs tax-free. The exemption for this year is nearly $11.6 million for an individual or twice that for a married couple. Biden has proposed lowering the exemption to $3.5 million.

Given Internal Revenue Service guidance that it won't apply any lower, future exemption retroactively to gifts made under the current limit, taxpayers should set up estate plans now to lock themselves in, Boyett said.

"Anybody we've talked to about estate tax planning in the past 10 years, they've called in the past two months," he said. Boyett also noted, "With values being temporarily low because of the pandemic and interest rates being low, this is a valuable time to transfer assets."

Retirement Accounts

Taxpayers could also consider converting traditional individual retirement accounts to a Roth IRA as a way to protect against potential higher tax rates, Anasagasti said.

A conversion would trigger a tax bill this year, but any appreciation would grow tax free in the coming years, she said. "Triggering the tax this year could mean ultimately paying less," she said.

More Charity

The Cares Act included a one-time deduction for charitable gifts for taxpayers taking the standard deduction. Typically, such write-offs are limited to those who itemize -- which is less than 10% of filers.

For 2020, taxpayers can write-off up to $300 of donations even if they don't itemize. And for those who do, the deduction cap on charitable donations -- usually at 50% of income -- was suspended for 2020.

Stimulus Checks

Eligible people who have yet to receive full $1,200 stimulus-check payments authorized by the Cares Act should note that on their 2020 tax returns. Taxpayers who think they are eligible for more, such as the $500 payments for children, can also record that on their forms. The IRS will then add those sums to tax refunds. Those earning up to $99,000 as an individual or $198,000 as a couple were eligible for the stimulus payments.