Planning for the 2020 Election – Tax Tips for High Net Worth Individuals

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Depending on which candidate wins office, the 2020 presidential election may radically alter the tax landscape for high net worth individuals. If Biden wins, he plans to increase income tax rates and to lower gift and estate tax exemptions.

In addition, regardless of which candidate wins, the continuing economic fallout from the COVID-19 pandemic will likely require Congress and the President to consider substantial revenue generation in 2021 and beyond – meaning, potential new or increased taxes on high net worth individuals.

We describe below several techniques to consider now that may reduce your tax burden going forward.

1. Make Gifts Now that Use your Gift Tax Exemption

Large exemption amounts remain the law, and currently any person can give away up to $11.58 million ($23.16 million for a married couple) without incurring any gift tax. Candidate Biden has proposed reducing the exemption amount to 2009 levels, meaning $3.5 million per person ($7 million for a married couple). If this change is enacted, a married couple that has failed to use their exemptions will lose the ability to give $16 million before incurring gift tax– the difference between today's $23 million exemption and Biden's proposed $7 million exemption.

To plan for this possible change, consider making large gifts of assets that lock in the present exemption amounts. By making gifts now, you will pass to your family not only the present value of the gifted assets, but also their future growth, entirely gift-tax-free. Further, the gifted assets and the future appreciation will be out of your own taxable estate, potentially saving significant estate taxes in the future.

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This recommendation is most relevant for clients who can give more than Biden's proposed exemption; that is, for clients who can give the full $11.58 million per person ($23.16 million per couple) that is now available. If you intend to give $3.5 million ($7 million per couple) or less, then you have more time to plan, as those exemption amounts will still be available under Biden's proposals.

In sum, for those clients who can give their full $11.58 million per-person exemptions in 2020, we strongly recommend that you begin the gift planning process now, before you lose the opportunity.

2. Consider Accelerating Income into 2020

Candidate Biden has proposed increasing personal income tax rates for the highest earners (those making more than $400,000) from the current 37% rate to 39.6% (the top tax rate before the 2017 tax reform). He has also proposed taxing long-term capital gains and qualified dividends at the same rate as ordinary income – that is, 39.6% – rather than the current favorable tax rate of 20%.

Although it's difficult to predict whether these proposed income tax changes will become law, if you are contemplating a large income event – particularly a capital gain event, such as the sale of stock – that could be realized in either 2020 or 2021, consider accelerating that income event so that it occurs in 2020, to lock in this year's lower tax rates.

Similarly, if you are contemplating converting part or all of a regular IRA to a Roth IRA – which is an income realization event – consider undertaking it in 2020 when the tax bill is likely to be lower.

3. Consider Pushing Charitable Donations into 2021

The flip side of potentially higher tax rates in 2021 and beyond is that charitable income tax deductions will be relatively more valuable in 2021 than they are in 2020. Therefore, if you are contemplating a large charitable donation in either 2020 or 2021, consider waiting to make the donation until 2021, when the deduction may save more on your income tax bill. Of course, there are many factors other than merely tax rates that drive charitable giving, and your specific tax situation may make donations in 2020 more valuable – for example, if you expect to have higher ordinary income in 2020 than in future years, then a charitable donation in 2020 could be more valuable to you.

We recognize that your own income realization events and the needs of your favorite charitable organizations can be difficult to control or predict, such that tips #2 and #3 may not be practical to follow in your particular circumstances.

Happily, tip #1 remains a highly effective recommendation and is entirely within your control. We advise that you act soon to use your gift tax exemptions before the opportunity is lost.

To talk further about any of these tax savings techniques, please contact a member of your Choate Wealth Management team.

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