

# THE 11TH HOUR: TAX PLANNING FOR THE FINAL DAYS OF 2020

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Tag: [Andrew W. Blackwell](#)



If there is one word that can describe tax planning for a broad cross-section of America this year, it would be “hesitant.” Let me assure you it’s completely understandable - tax planning can mean spending money now to take advantage of a deduction, credit, or exclusion for the current tax year. Considering many businesses and families are struggling with liquidity, spending already limited funds now can be a disfavored proposition. Let me also assure you that there is still time to act here in the last days of 2020 to take advantage of a few tax breaks.

**While only two days remain in 2020, you may still be able to take advantage of some great tax deductions by year-end:**

## **(1) Charitable Deductions**

Tax planning for charitable deductions has historically been a “bunching” strategy: the taxpayer can pick the year in which to try to itemize deductions and drop two years of donations into either December or January accordingly. The CARES Act, however, added a new deduction for taxpayers that take the standard deduction (i.e., don’t itemize). Under the new law, for 2020 (and now also 2021 under the 2021 Omnibus Bill), individuals may take up to a \$300 (\$600 for married couple filing jointly) deduction for cash contributions made to charitable organizations—even if the individual

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doesn't itemize their deductions.

**Thus, if you do plan to “push” charitable giving to 2021, consider making at least a \$300 to \$600 charitable donation by the end of 2020 to take advantage of this deduction.**

I regularly advise clients to consider making a charitable giving plan before considering a “bunching” strategy. I'm a big advocate of planning in general, but especially with charitable giving. You need a forecast of how much you generally spend each year on giving so you know how much you could comfortably consider “pushing” out to the next tax year or “pulling” into this year.

Most taxpayers usually give gifts commensurate with their income, so taxpayers may be uneasy about “pulling” donations into an earlier year because this disconnects giving from the income. A budget can give a taxpayer some comfort that any donations “pulled” into 2020 are in keeping with what they might have given in the next tax year anyway.

The CARES Act also modified (in a good way) the amount of charitable contributions that can be deducted on an itemized return. Prior to the CARES Act, taxpayers who itemized their deductions were limited to taking only 60% of their Adjusted Gross Income as a charitable contribution deduction in cash (e.g. a taxpayer having \$100,000 AGI could only deduct \$60,000 of charitable contributions made in cash).

This limitation could be problematic for high-wealth, low-income taxpayers wanting to make charitable contributions representing a high proportion of their income in any given year.

**Now, in 2020 and 2021, 100% of AGI can be deducted for charitable contributions made in cash.**

I strongly encourage clients to **avoid making charitable contributions by check late in December**, use a credit card or cash (with receipt) instead.

While mailing a check post-marked by year-end generally enables the contribution to be deducted on the return for that year, problems can arise if a check gets returned/lost and then deposited by the recipient in 2021.

## **(2) Student Loan Interest Deduction**

Student loan forgiveness has been a hot topic lately—which is great for me because I have been fascinated with the tax and bankruptcy issues surrounding student loans. What hasn't been discussed nearly as much is how fantastic the student loan interest deduction can be for students and young graduates.

**Up to \$2,500 of interest can be deducted each year for interest paid on student loans as long as the taxpayer's income is low enough to qualify for the deduction<sup>1</sup>.**

(1) Phase-out begins at \$70,000 Single / \$140,000 Married; Phase-out ends at \$85,000 Single / \$170,000 Married.

What's even better is that you can deduct student loan interest without itemizing your deductions. Now, I know what you may be thinking—student loans have been deferred for most of 2020 at a 0% interest rate, so why would someone make a voluntary student loan payment, and how can there be

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any interest deduction? Let me answer that with an illustration.

## **Illustration:**

Student takes out student loans between 2017 and 2020 for school. Student graduates in 2020 with \$5,000 of accumulated interest. Student is not required to make any student loan payments in 2020 - but makes a voluntary \$2,500 payment in December 2020. Student's income is low enough in 2020 to deduct student loan interest, but not low enough in 2021 to take that deduction.

## **Result:**

**Student gets a \$2,500 tax deduction for 2020 which would have otherwise been completely lost. How? The \$2,500 payment student made will be applied first to accumulated interest on the student loans before paying down the principle.**

This article assumes no new legislation to forgive student loans or make student loans more easily discharged in bankruptcy.

## **Conclusion:**

My favorite tax adage is that "man (or woman) does not live on deduction alone"—and right now, I think that rings true for a lot of people, especially those just trying to keep their heads above water until the pandemic passes.

**But if you are in a position where an expense needs to be incurred, you may as well spend your hard-earned dollars efficiently from a tax perspective if you are able to do so.**

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