



YEAR-END TAX PLANNING MOVES FOR INDIVIDUALS

High Basic Standard Deductions

Many taxpayers won't be able to itemize because of the high basic standard deduction amounts that apply for 2020 (\$24,800 for joint filers, \$12,400 for singles and for marrieds filing separately, \$18,650 for heads of household), and because many itemized deductions have been reduced or abolished. Like last year, no more than \$10,000 of state and local taxes may be deducted; miscellaneous itemized deductions (e.g., tax preparation fees and unreimbursed employee expenses) are not deductible; and personal casualty and theft losses are deductible only if they're attributable to a federally declared disaster and only to the extent the \$100-per-casualty and 10%-of-AGI limits are met. You can still itemize medical expenses but only to the extent they exceed 7.5% of your adjusted gross income, state and local taxes up to \$10,000, your charitable contributions, plus interest deductions on a restricted amount of qualifying residence debt, but payments of those items won't save taxes if they don't cumulatively exceed the standard deduction for your filing status. Two COVID-related changes for 2020 may be relevant here: (1) Individuals may claim a \$300 above-the-line deduction for cash charitable contributions on top of their standard deduction; and the percentage limit on charitable contributions has been raised from 60% of modified adjusted gross income (MAGI) to 100%.

Some taxpayers may be able to work around these deduction restrictions by applying a bunching strategy to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, a taxpayer who will be able to itemize deductions this year but not next will benefit by making two years' worth of charitable contributions this year, instead of spreading out donations over 2020 and 2021. The COVID-related increase for 2020 in the income-based charitable deduction limit for cash contributions from 60% to 100% of MAGI assists in this bunching strategy, especially for higher income individuals with the means and disposition to make large charitable contributions.