Crow Shields Bailey PC
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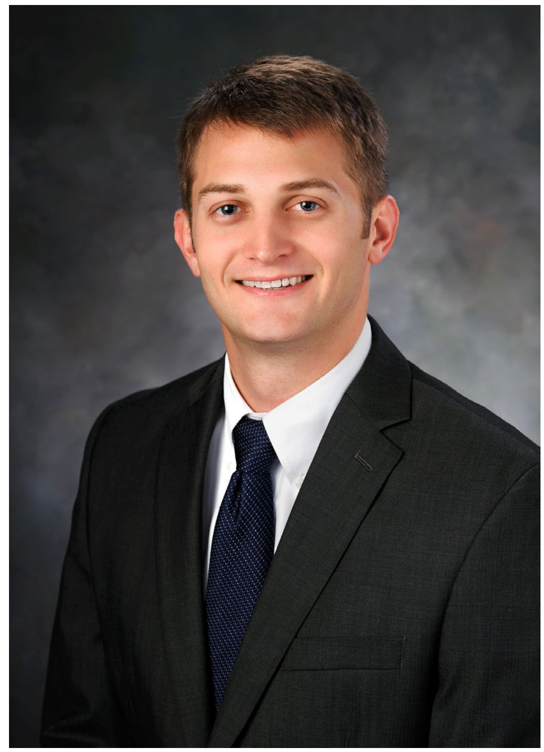
Accounting | Consulting

Winter 2020

Beyond the Numbers

A Crow Shields Bailey PC News Publication

CAAS SPOTLIGHT



Kristi Daughtery, CPA and John Gafford, CPA

Working to Build

Everyone has felt the effects of this difficult year in some way, but we would like to share something exciting that our firm has been working on over the last year. Our Client Accounting & Advisory Services (CAAS) Team has been hard at work building our outsourced accounting and advisory practice. Shareholder Kristi Daughtery, CPA, and Supervisor John Gafford, CPA, have been leading the charge to implement Sage Intacct™, an award-winning, cloud-based accounting and financial management solution.

As the exclusive Gulf Coast service provider of Sage Intacct, we collaborate with our clients by offering CFO-level advisory services to future-proof our clients' businesses. Sage Intacct's comprehensive dashboard provides a user-friendly interface that leverages instant, on-demand data not only housing robust reporting but also specialized project insights all in one place. With unlimited storage, our innovative, cloud-based software ensures the data is reliable, accurate, and readily accessible anytime and anywhere.

Kristi Daughtery is a Shareholder at CSB and is the Line of Business Leader for our CAAS Team. Kristi has over 20 years of experience in tax and accounting services. John Gafford is a Supervisor and has over 6 years of experience in tax, audit, and accounting services. Both Kristi and John participated in a one-year rigorous certification program through Intacct and they, along with the rest of the team, are committed to finding solutions that allow our clients

Newsletter Contributors

Sherri Deighton

Deborah Fisher

Gina McKellar

John Shields

Emilee Shuler

to work *on* their businesses rather than *in* them.

A Word From Our Clients

We spoke with Michon Trent, Executive Director of The Family Center, about her experience with our outsourced accounting services. The Family Center's main focuses are prevention of child neglect and abuse and stressing the importance of both parents in children's lives. They provide parenting classes and parental support through supervised visitation.

Michon has been working with us since July, and she says that Intacct reduced a lot of work for her, and it has also helped them have a better look at their financial standing as an agency because of how the software is laid out. As a nonprofit, the software mirrors grants they are funded with, and they are able to perform reporting very easily. Michon says the Board of Directors likes it because they have a real understanding of how the agency is financially structured, and where there are opportunities for financial growth.

Since The Family Center is a smaller company, Ms. Trent says they also appreciate how affordable these services are and how much time it saves. "What used to take 4-5 hours to reconcile monthly, I am now able to reconcile within an hour. I can look at it and see real-time input from John [Gafford], who I work closely with. He quickly brings any discrepancies to my attention. All the financials are being entered in a timely manner. This allows it to be very streamlined. I'm not having to deal with ongoing issues. Kristi and John are very supportive when I have financial questions, like building my budget. They answered my questions and helped me build a budget that really works well, and informed me of what to look out for, and it is a really good budget."

We also spoke with Keith Nolan, co-owner of Big Daddy's Grill. Big Daddy's is a full-service restaurant located on Fish River with an amazing view, plenty of outside seating, and a diverse menu with a little something for everyone. Big Daddy's has been utilizing our outsourced accounting services for a few months now, and Mr. Nolan had the following to say about their experience: "Crow Shields Bailey is very trustworthy and reliable with the capabilities of using innovative programs to ensure your business records are accurate and easy to access."

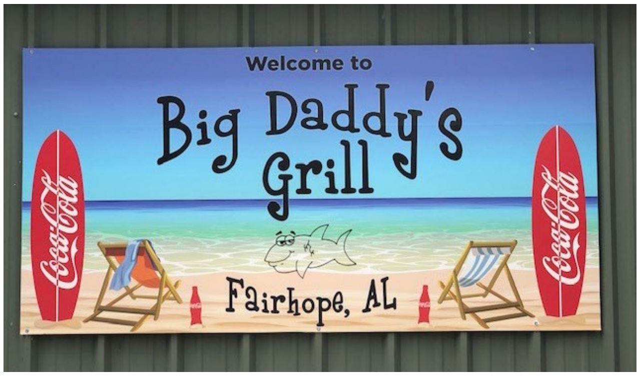
Frequently Asked Questions

Maybe you have not heard of outsourced accounting, maybe you have heard of it but you don't understand what it means, or maybe you just have some questions about how everything works. Hopefully the following Frequently Asked Questions and answers can address any of the questions you may have.

What is outsourced accounting? I keep seeing client accounting and advisory services or outsourced CFO terminology, but don't quite understand what this looks like. Will you give me an overview?

CSB's outsourced accounting and advisory practice is a leading solution that allows our team to handle our clients' back office through process automation while effectively collaborating and consulting with clients to help them achieve their vision through every stage of their business evolution. By implementing a cloud-based technology platform, CSB provides a real-time accounting solution to guide clients in making more efficient and proactive business decisions. The back office (accounting, finance, tax, and payroll) supports the front office and stabilizes the vision to create a platform of growth. CSB will be your back office and perform all

The Family Center
Strengthening families for a better tomorrow.



functions related to: cash management, accounts receivable, accounts payable processing, financial statement and analysis, customizable dashboards, budgeting, forecasting, performance monitoring (KPIs), payroll services, and consulting.

I am nervous about letting go of the control of my books. Why should I outsource instead of hiring in house?

We often remind our clients that the most successful business owners spend time working *on* their business, not *in* their business. Our technology platform is cloud-based, allowing you to have access to all functions of your accounting data as you wish. You can log on anywhere, any time to see where you stand financially. Outsourcing your back office functions will eliminate oversight, decrease the cost of turnover (we are not going anywhere), reduce fraud, decrease costs in the back office, and increase firm/client collaboration. We can provide more valuable insight to your business with knowledge and skills that most often, internal staff do not offer.

How does outsourcing decrease my back office expenses?

We will gain an understanding of your overall organization by assessing your current processes and procedures and find ways to be more efficient through implementing a technology package that fits your needs. Together, we will walk through your current situation and discuss your priorities. Using CSB as your outsourced accounting solution/outsourced CFO, you will eliminate the internal cost of a CFO, including salary, PTO, benefits, etc.

How much does this cost?

It depends. We can tailor a package to fit your needs. Through collaboration, we will determine a solution to the following:

• What are some of your priorities around financial management? What's keeping you up at night? If something does not change, what does this space look like?

• What's at the top of your priority list that we could solve to get your attention?

• Let's evaluate where your time as well as your team's time is best spent in order to provide your organization the best value.

What's our next step in moving forward?

Let's look at your current situation and define a list of issues and determine the impact on your organization if these continue. We will collaborate to come up with an ideal situation and see what the benefits look like.

If you would like to find out how our Client Accounting and Advisory Services solutions can benefit your company, just give us a call at 251-343-1012!

Tax Time Reminder

With the end of 2020 approaching, it's time to get a jump on collecting your tax information to maximize your year-end planning. For your convenience, CSB will e-mail tax organizers around the first of January to help with organizing important information.

Have your income or expenses significantly changed?
Please call our office right away to maximize year-end tax planning.

Want to gauge your 2020 tax situation and prepare a tax savings strategy?
Make an appointment with us today!

Our Vision

Our firm's objective is to maximize our clients' wealth. We strive to be the premier accounting and consulting firm in our area by offering a complete range of quality services to our clients. We will employ only the best people and ensure outstanding training and long-term career opportunities.

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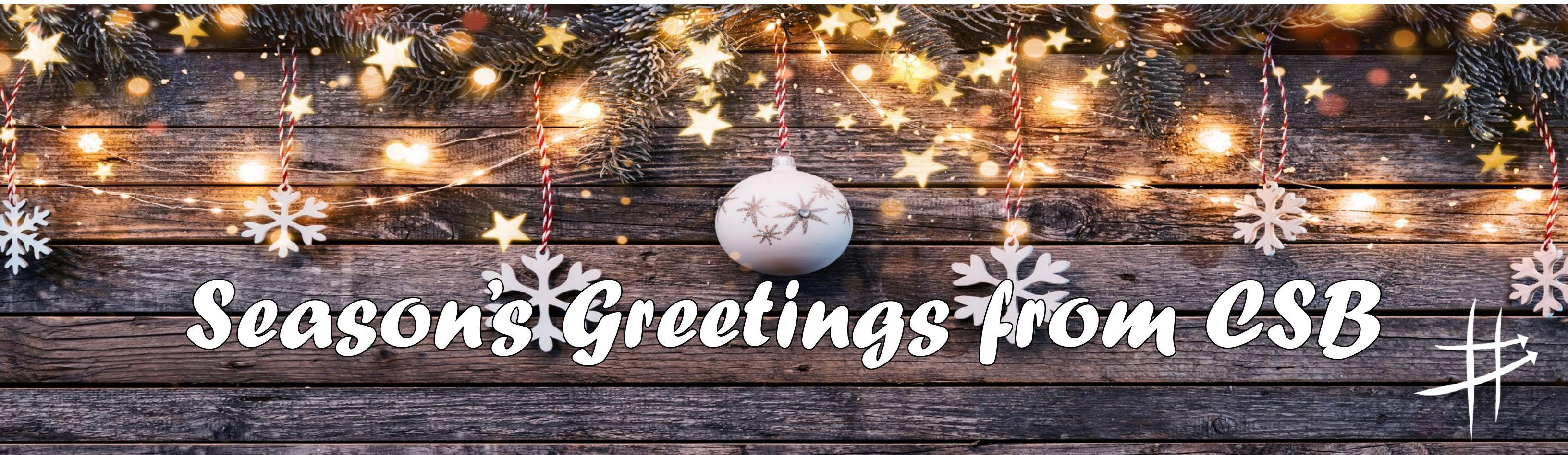
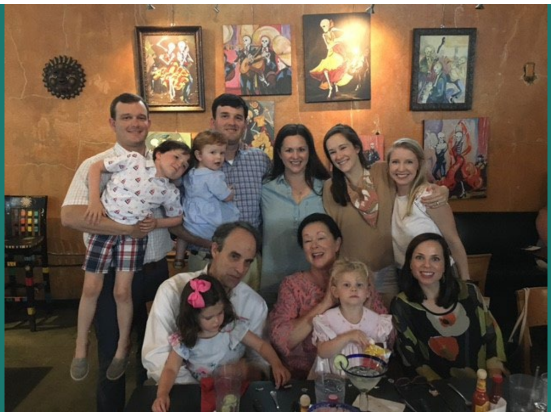


Happy Retirement, John!



To use a few clichés, all good things must come to an end and every ending is a new beginning. CSB will experience both of these in 2021. Shareholder John Shields is retiring December 31 after 44 years in practice and 29 years at CSB.

John has had a stellar career as a CPA and helped many clients along the way. Additionally, he obtained his ABV certification recently and has completed numerous business valuations. John attended the University of Alabama and started his career at Ernst & Young. He specializes in individual and business tax, estate and gift tax, estate and succession planning, litigation support and business consulting. His community involvement has included the Mobile Estate Planning Council, Past President; Alabama Federal Tax Clinic Board of Directors; Rotary Club of Mobile – Sunrise, Past President; Former Board Member of numerous organizations including Mobile Botanical Gardens and Edith Murphy Foundation.

Kenny Crow affectionately refers to John as our in-house legal counsel because of his expertise and attention to detail in complex tax and litigation matters. Because of this, John has served as an expert witness on many high profile litigation cases and managed our most difficult tax audits and engagements. He has helped many team members throughout the years by serving as a mentor and coach to help them achieve their professional goals.

John is married to Therese Shields. They have four children, Laura Brangle (James), Marshall Shields (Allison), Henry Shields and Anna Mary Hollis (Harper); and six grandchildren. He is an avid hunter and fisherman and has hunted in very remote areas of Alaska and been fly fishing in the Bahamas and Mexico.

Here's what a few of our team members say about working with John:

With so many great memories of John over the years from playing the harmonica at our tax season party on the river, to speaking to groups on highly technical tax topics, to adding his quick wit to a team meeting, John will be greatly missed. For me personally, John's technical expertise is second to none and I have enjoyed working with him on some of the most complex tax engagements our firm has seen. In the litigation arena, his ability to analyze a case and create an approach to present the best scenario for our client is amazing. I credit my development of a focus in litigation to the coaching I received from John. From my perspective, John has always been a great resource for problem solving and I will dearly miss him.
Gina McKellar, CSB Managing Shareholder

Early in my business career, I learned that in order to be successful, I had to surround myself with like-minded partners who balanced strengths and were passionate about other areas of the business that challenged and pushed them to think differently.

John is a masterful technician and certainly one of the brightest people I ever met. Our partnership has been a "match made in heaven" allowing him to actively lead our tax practice and me to focus on business development and client management.

The long range success of our firm is attributable to John's example of putting our team first. Although John can never be replaced, his trusted successors have been set up for success thanks to the strong foundation he has built at Crow Shields Bailey. ***Kenny Crow, CSB Founder***

It has been a pleasure working with John the last 29 years. He has been very loyal and has always treated me with respect. I am going to miss John's wit! Thanks for the memories! ***Barb Frerman, Gulf Shores Office Manager***

I have worked with John for 12 years and he has played a big part in where I am today. He was always available for my questions and used great examples to help me understand what he was explaining. He was my "go to guy" for Estate and Trust questions and was always patient during our discussions. I will miss John when he retires! ***Sherri Deighton, CSB Tax Manager***

John has helped me grow in my role and career in many ways. Obviously, John is technical and has helped me become more technically sound, but he has really given me confidence in networking. He took me under his wing and introduced me to many movers and shakers in the area since I was raised outside of the Mobile area. He allowed me to present alongside him to 10-20 different groups when the new tax law came out in 2017. This networking and public speaking experience is invaluable and I'll be forever thankful to him for trusting in me early on in my career at CSB. ***Andrew Bailey, CSB Tax Manager***

We asked John a few questions about his career and upcoming retirement.

What kind of engagements did you enjoy most? Why?
I enjoyed interacting with clients every year and helping them with their tax matters. Aside from the regular annual tax planning and returns, working on estates and serving as an expert witness on various legal matters was always interesting and different.

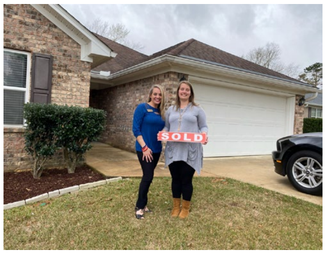
What advice would you give those entering the profession today?
Learn all you can and become an expert in some area. Make yourself indispensable to the firm. And listen to the old guys; sometimes you might pick up something useful.

What do you look forward to most after retirement?
Getting a sun tan in March.

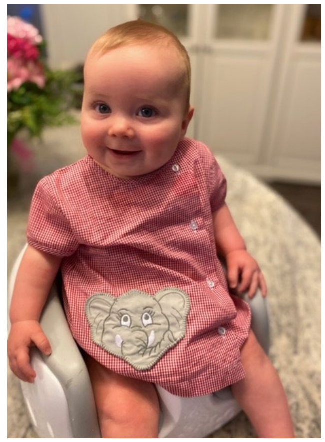
What would you like to say to your clients, team members and professional network?
What I will miss most is the regular interaction with clients and team members who have become good friends over the years. We have a great team of talented people in our organization and I'm sure they will continue to make our firm successful.

John's tenure at CSB is coming to an end and we will miss him, but we are excited for his new beginning. We hope to see photos of that sun tan in March, or an award winning fish he caught. Whatever he does with this new-found free time, we hope it is enjoyable. No one deserves it more!

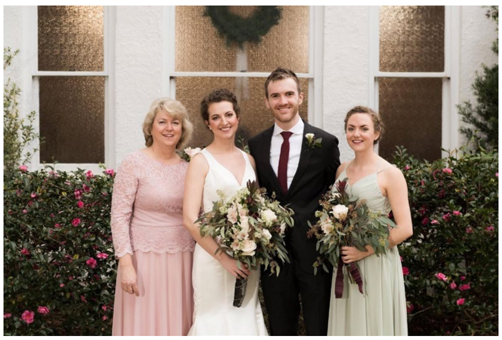
TEAM MEMBER NEWS



Britney Lister closed on her first home in February.

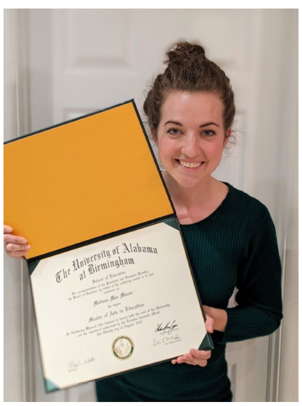


Kenny and Marty Crow welcomed their first grandson, Andrew Reed Oliver, the first child of Louise and Steven Oliver. He was born on April 30th and was 9 lbs and 21.5” long.

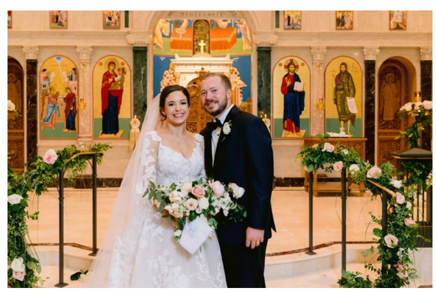


Melissa Moore, daughter of Diana Moore, married David Rice on December 28, 2019. Also included in the photo is Diana’s daughter Amanda.

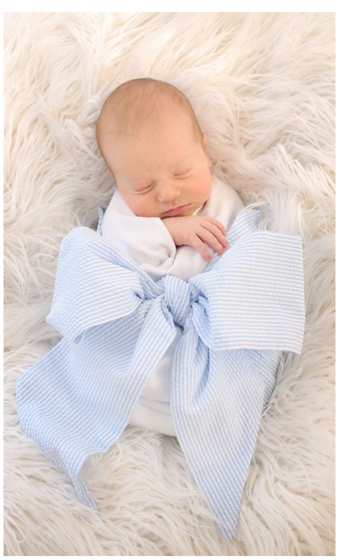
Misty Cutshall’s daughter Olivia turned 18 and is attending Austin Peay State University.



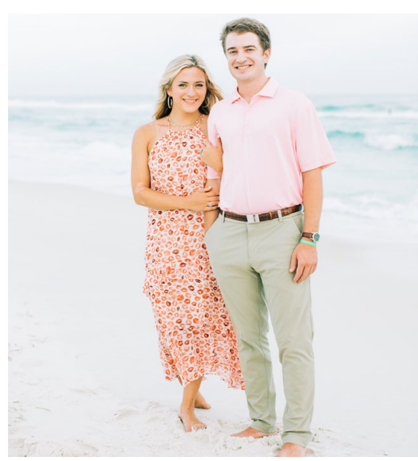
On August 15, 2020, Melissa Moore Rice, daughter of Diana Moore received the degree in Master of Arts in Education from the University of Alabama in Birmingham.



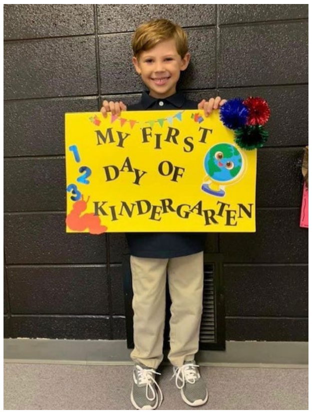
Bradley Russell, son of Gina and Pudgy McKellar, and Elizabeth Casten were married on February 1, 2020.



Brian and Ellie Russell welcome their son, Rayford, on June 30, 2020. Gina and Pudgy McKellar are proud grandparents!

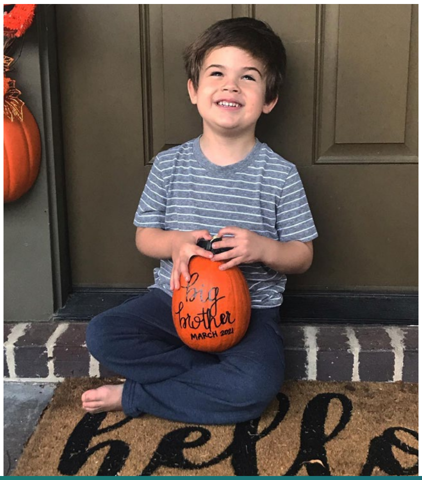


Thomas Russell, son of Gina and Pudgy McKellar, and his college sweetheart, Everette Dawkins are engaged to be married October 30, 2021 in Birmingham.



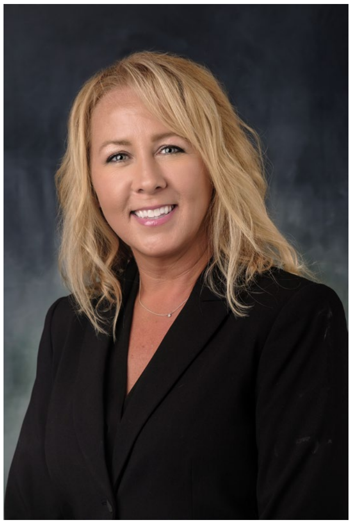
Emilee Shuler’s son Finn on his first day of Kindergarten.

Caitlyn and Preston Grimme welcomed their son Declan at 1:24 PM on June 24th. He was 21 inches long and weighed 8.5 lbs. Congratulations, Caitlyn and Preston!

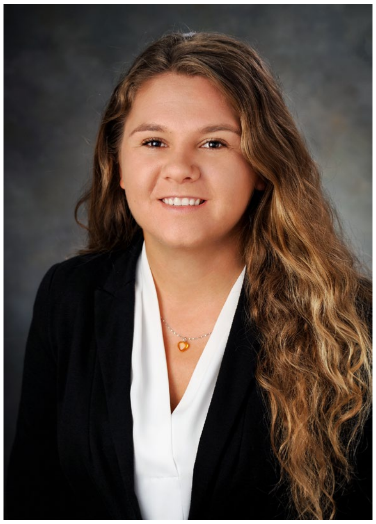


Abby and David Roveda are expecting Baby #2 in March of 2021! Baby’s older brother George is clearly excited!

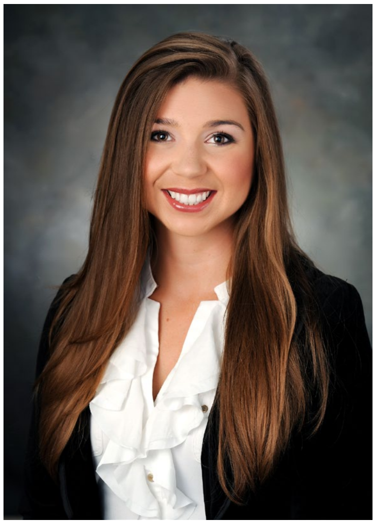
NEW TEAM MEMBERS



Misty Cutshall is a graduate of Austin Peay State University in Tennessee, and she is the Office Manager of our Gulf Shores office. Misty has been playing golf for over 10 years, and she has one daughter, Olivia, who Misty says is her life. We are so glad to have Misty on our team!



Georgiana Patrasc received her undergraduate degree from Mississippi State University and her Masters in Industrial/Organizational Psychology from Valdosta State University. She volunteers at several animal shelters, and she loves going to the beach, traveling, and reading.



Carianne Wright is a graduate of The University of South Alabama, and is currently pursuing her Masters of Accounting, scheduled to graduate in May of 2021. She is engaged to be married in the summer of 2021. Carianne is also an avid golfer; she even went to USA on a golf scholarship!

2020 Year-End Individual Income Tax Planning

Introduction

With year-end approaching, this is the time of year we suggest possible year-end tax strategies for our clients. However, there has never been a year quite like 2020. We think it is safe to say that year-end tax planning for 2020 is proving to be the trickiest in recent memory. In response to the Coronavirus, Congress and the IRS have been exceedingly busy enacting and issuing never-seen-before tax relief. Many of these new tax relief provisions are temporary, and expire after 2020. Moreover, for well over a decade, we have been faced with the off-and-on expiration of a long list of popular tax breaks. Historically, Congress has temporarily extended the majority of these tax breaks every few years. Unfortunately, several of these traditional tax breaks are currently scheduled to expire after the end of 2020.

This letter is designed to bring you up-to-date on the most significant tax provisions that could impact your year-end planning. We start this letter with a listing of selected historic tax breaks scheduled to expire at the end of 2020. We then discuss selected legislative changes (including COVID-related tax provisions) that are most likely to impact your year-end tax planning. We conclude this letter by highlighting certain time-honored, year-end tax planning techniques that remain relevant notwithstanding the recent COVID-related tax changes.

Caution! It is entirely possible that Congress could enact additional COVID-related tax legislation before the end of this year. In addition, the IRS continues releasing guidance on various important tax provisions (particularly on COVID-related tax provisions that have already been enacted). We closely monitor new tax legislation and IRS releases on an ongoing basis. Please call our firm if you want an update on the latest tax legislation, IRS notifications, announcements, and guidance or if you need additional information concerning any item discussed in this letter.

Be Careful! We suggest you call our firm before implementing any tax planning technique discussed in this letter. You cannot properly evaluate a particular planning strategy without calculating your overall tax liability with and without that strategy. This letter contains ideas for Federal income tax planning only. State income tax issues are not addressed.

2020 MAY BE OUR LAST CHANCE TO TAKE ADVANTAGE OF THESE TRADITIONAL TAX BREAKS

For well over a decade, we have been faced with the off-and-on expiration of a long list of popular tax breaks. Historically, Congress has temporarily extended the majority of these tax breaks every few years. However, several popular tax breaks for individuals **are scheduled to expire at the end of 2020**, and Congress has yet to extend them. Some of the more popular tax breaks scheduled to expire at the end of 2020 include: Deduction (up to $4,000) for Qualified Higher Education Expenses; Deduction for Mortgage Insurance Premiums as Qualified Residence Interest; Income Exclusion For Discharge Of Qualified Principal Residence Indebtedness; and the 10% Credit (with a lifetime cap of $500) for Qualified Energy-Efficient Home Improvements (e.g., qualified energy-efficient windows, storm doors, roofing). As we send this letter, it has been reported that some members of Congress are still pushing for these tax breaks to be extended beyond 2020. However, only time will tell whether these tax breaks will be extended. Please call our office if you would like a status report on any of these expiring provisions. **Planning Alert!** Although not expiring, the credit for "Qualified Fuel Cell Property," "Qualified Small Wind Energy Property," "Qualified Solar Electric Property," "Qualified Solar Water Heating Property," and "Qualified Geothermal Heat Pump Property" is to be reduced from 26% to 22% for property installed after 2020. Also, for "**2020 only**," volunteer firefighters and volunteer EMS personnel may exclude from income up to $50 per month of expense reimbursements made by the State or political subdivision.

Highlights of Recent Legislative Changes

In late December, 2019, Congress passed the Consolidated Appropriations Act of 2020 (the "Appropriations Act") which pre-dated the more recent flurry of COVID-related legislation. The Appropriations Act included significant changes to various IRA and qualified retirement plan rules. Most of these changes are first effective in 2020. In addition, the more recently-enacted "CARES Act" provided temporary relief relating to Required Minimum Distributions from IRAs and qualified retirement plans. The following are highlights of selected changes from both of those pieces of legislation that we feel will have the greatest impact on tax planning for individuals:

Required Beginning Date For Required Minimum Distributions (RMDs) Delayed To Age 72. Before this change, you were required to begin taking "Required Minimum Distributions" (RMDs) from your IRA or qualified retirement plan account no later than the April 1st following the year you reached age 70½ (i.e., the required beginning date). For individuals who **reach age 70½ after 2019**, the Appropriations Act changed the age of the required beginning date for RMDs from 70½ to age 72. So, if you reach age 70½ **after 2019**, you will not be required to take your first RMD until April 1st following the year in which you reach age 72. **Planning Alert!** Individuals who reached age 70½ during 2019 were still generally required to take their first RMD no later than April 1st of 2020, and were also required to take their second RMD no later than December 31, 2020. However, the Coronavirus Aid, Relief And Economic Security Act (the "CARES Act") **suspended all RMDs** from an IRA or employer-sponsored defined contribution retirement plan **that are otherwise required in 2020.** This suspension applies to owners of IRAs and beneficiaries of inherited IRAs. **Tax Tip!** An RMD generally may not be rolled over into another IRA or qualified retirement plan. However, the IRS says that an individual who actually received an RMD during 2020, may roll over that RMD into an IRA or qualified retirement plan provided the rollover occurred by the **later of**: **1)** August 31, 2020, or **2)** 60 days after the receipt of the RMD.

Age Limit On Contributing To An IRA Removed. Before 2020, an individual who reached age 70½ during the year could not contribute to a traditional IRA for that year, or any later year. For contributions made for tax years beginning **after 2019**, the Appropriations Act removed all age limits for contributing to an IRA. Stated more simply, for contributions made for tax years beginning **after 2019**, there is **no age limit** on contributions to a traditional or Roth IRA. **Planning Alert!** Regardless of your age, you must have "earned income" (e.g., W-2 wages; Income subject to self-employment tax) at least equal to the amount of your contribution to a traditional or Roth IRA. **Caution!** As discussed in the immediately-following segment, making a deductible contribution to your IRA after reaching age 70½ could have a negative tax impact on any "Qualified Charitable Distributions" you are planning to make from your IRA.

Changes To "Qualified Charitable Distributions" (QCDs) For IRA Owners. If you have reached **age 70½** and you are planning to make charitable contributions before the end of 2020, there is a long-standing tax break known as a "Qualified Charitable Distribution" (QCD) that could apply to you. This popular provision generally allows taxpayers, who **have reached age 70½**, to have their IRA trustee transfer **up to $100,000** from **their IRAs "directly"to a qualified charity**, and **exclude the IRA transfer from income**. The IRA transfer to the charity also counts toward the IRA owner's "Required Minimum Distributions" (RMDs) for the year. **Changes Under The Appropriations Act.** Although the Appropriations Act increased the required beginning date for RMDs from age 70½ to age 72, the minimum age for making a QCD remains at age 70½. **But beware, starting in 2020**, the Appropriations Act generally reduces the tax-free portion of a QCD by the amount of any deductible contributions made to an IRA after reaching age 70½. If you are planning to make a QCD for 2020 and you also plan to make a deductible IRA contribution for 2020, please call our firm first. We will gladly advise you on the impact of this new rule on your decision.

New 10-Year Pay-Out Requirement For Those Who Inherit An IRA Or Qualified Plan Account. If an individual died before 2020 and someone other than the surviving spouse was named as the beneficiary of the decedent's IRA or qualified plan account, RMDs to the named beneficiary were required to begin by December 31 of the year following the year of death, and could be paid over the life expectancy of the named beneficiary. For example, if an individual died in 2019 and a child (regardless of age) was the beneficiary of the individual's IRA, the child could take RMDs over the child's life expectancy. **Planning Alert!** Effective for individuals **dying after 2019**, the Appropriations Act generally requires a decedent's entire remaining IRA or qualified account balance to be distributed to a named beneficiary **by December 31 of the 10th year following** the year of the decedent's death. This required 10-year pay out does not apply if the named beneficiary is the decedent's spouse, has a qualified disability, is chronically ill, or is no more than 10 years younger than the decedent. If the named beneficiary is a minor, the 10-year pay-out requirement does not kick in until the beneficiary reaches majority (age 18 in many jurisdictions).

- **Planning For Rollovers By Surviving Spouses.** The new 10-year payout requirement does not apply to a surviving spouse who is the named beneficiary of the decedent's IRA or qualified retirement plan. In that event, the surviving spouse would generally treat the IRA as an "inherited" IRA and be required to take RMDs over the surviving spouse's "single life expectancy" (with no 10-year pay out requirement). However, it is generally advisable for the surviving spouse to convert the decedent's IRA into the name of the surviving spouse (i.e., convert it into a "spousal IRA"). This is generally advisable because, once the decedent's IRA is converted to a spousal IRA: **1)** The surviving spouse will not be required to begin taking RMDs until the April 1st following the year the surviving spouse reaches age 72, and **2)** When the RMDs begin, the surviving spouse's RMDs will be determined using the "Uniform Lifetime Distributions Table" (with no 10-year pay out requirement), which will result in a smaller annual required payout than under the "single life expectancy" computation that would otherwise be required had the surviving spouse not converted the decedent's IRA into a spousal IRA.

For Some - 2020 May Be A Good Year To Consider A Roth Conversion. If you have been considering converting your traditional IRA into a Roth IRA, it is best to convert in a low income year so your Roth conversion income is taxed at the lower tax rates. Therefore, if you are in a situation where, due to COVID (or for any other reason), your 2020 income is significantly lower than the income you expect in 2021 and later years, it may be a good idea to consider converting all or a portion of your traditional IRA into a Roth IRA before the end of 2020. **Planning Alert!** If you want a Roth conversion to be **effective for 2020**, you must transfer the amount from the regular IRA to the Roth IRA **no later than December 31, 2020** (you do not have until the due date of your 2020 tax return). **Caution!** Whether you should convert your traditional IRA to a Roth IRA can be an exceedingly complicated issue. Your tax rate in the year of conversion is just one of many factors that you should consider. **Please call our Firm** if you need help in deciding whether to convert to a Roth IRA.

Economic Impact Payments. By now, the vast majority of individuals qualifying for an "economic impact payment" (EIP) under the CARES Act of up to $1,200 per qualifying individual (and $500 per qualifying dependent) have received the payment. If you haven't received the payment (or you think your payment was less than it should have been), you can obtain detailed information on economic impact payments at www.irs.gov by accessing the link - **"Economic Impact Payment Information Center: EIP Eligibility and General Information."** **Planning Alert!** Technically, the EIP is an advance payment of a 2020 refundable tax credit. A "**refundable**" credit generally means to the extent the credit exceeds the taxes you would otherwise owe with your individual income tax return without the credit, the IRS will send you a check for the excess. If for some reason you did not get the EIP (or the amount you received was too low), the credit will be re-computed when you file your 2020 income tax return based on your 2020 AGI. You will be entitled to a refundable credit for the amount of the credit computed on your 2020 income tax return in excess (if any) of the advance payment you previously received. If the credit computed on your 2020 return is less than the EIP you received, generally you will not have to pay back the excess.

Temporary "Above-The-Line" Deduction Of Up To $300 For Charitable Contributions For Individuals Who Do Not Itemize Deductions. For the ***2020 tax year only***, the CARES Act allows individuals who do not elect to itemize their deductions, to take a so-called "above-the-line" deduction of up to $300 for **cash contributions** to a qualifying charity. Therefore, an individual may deduct this $300 amount in addition to the standard deduction for 2020. **Caution!** Contributions to a donor advised fund do not qualify for this special "above-the-line" deduction.

Temporary Increase In Charitable Contribution Limit For Individuals Who Do Itemized Deductions. Traditionally, for those who itemize their deductions, the deduction for charitable contributions made in cash to qualifying charities has been limited to 60% (through 2025) of an individual's adjusted gross income (AGI), and to 30% of AGI for certain "property"contributions. ***For the 2020 tax year only***, the CARES Act allows an individual to deduct "cash" contributions to qualifying charities up to **100% of the individual's AGI** (as reduced by the amount of all other charitable contributions allowed to the individual under the traditional charitable contribution limits). **Caution!** A qualifying charity does not include a donor-advised fund.

Highlights of Traditional Year-End Tax Planning Techniques

Pay Special Attention To "Timing" Issues! From a tax-planning standpoint, 2020 has been anything but a "normal" year for most. The pandemic has caused many individuals to incur significant losses in income. While at the same time, some individuals have actually experienced an increase in their expected income during this difficult time. Consequently, for 2020, there is clearly no single year-end tax planning strategy that will necessarily apply to all (or even a majority) of individuals.

In normal times, a traditional year-end tax planning strategy would include reducing your current year taxable income by deferring taxable income into later years and accelerating deductions into the current year. This strategy is particularly beneficial where your income tax rate in the following year is expected to be the same or lower than the current year. Consequently, in the following discussion we include traditional year-end tax planning strategies that would allow you to accelerate your deductions into 2020, while deferring your income into 2021. **Caution!** For individuals who expect their taxable income to be much lower in 2020 than in 2021, the opposite strategy might be more advisable. That is, for individuals who have experienced a significant drop in income during 2020, a better year-end planning strategy might include accelerating income into 2020 (to be taxed at lower rates), while deferring deductions to 2021 (to be taken against income that is expected to be taxed at higher rates). As we discuss the planning methods that involve the "timing" of income or deductions, please keep in mind that you might want to consider taking the precise opposite steps recommended if you decide it would be better to defer deductions into 2021, while accelerating income into 2020.

Taking Advantage Of "Above-The Line" Deductions. Traditional year-end planning includes accelerating deductible expenses into the current tax year. So-called "**above-the-line**" deductions reduce both your "adjusted gross income" (AGI) and your "modified adjusted gross income" (MAGI), while "**itemized**" deductions (i.e., below-the-line deductions) do **not** reduce either AGI or MAGI. Deductions that reduce your AGI (or MAGI) can generate multiple tax benefits by: **1)** Reducing your taxable income and allowing you to be taxed in a lower tax bracket; **2)** Potentially freeing up other deductions (and tax credits) that phase out as your AGI (or MAGI) increases (e.g., Certain IRA Contributions, Certain Education Credits, Adoption Credit, Child and Family Tax Credits, etc.); **3)** Potentially reducing your MAGI below the income thresholds for the 3.8% Net Investment Income Tax (i.e., 3.8% NIIT only applies if MAGI exceeds $250,000 if married filing jointly; $200,000 if single); **or 4)** Possibly reducing your household income to a level that allows you to qualify for a "refundable" Premium Tax Credit for health insurance purchased on a government Exchange. **Planning Alert!** In addition, individuals reporting Qualified Business Income will generally find it much easier to qualify for the new 20% 199A Deduction with respect to that Qualified Business Income if their 2020 taxable income does not exceed $326,600 if filing a joint return or $163,300 if single. So, if you think that you could benefit from accelerating "***above-the-line***" deductions into 2020, consider the following:

- **Identifying "Above-The-Line" Deductions.** "**Above-the-line**" deductions include: Deductions for IRA or Health Savings Account (HSA) Contributions; Health Insurance Premiums for Self-Employed Individuals; Qualified Student Loan Interest; Qualifying Alimony Payments (if the divorce or separation instrument was **executed before 2019**); and, Business Expenses for a Self-Employed Individual. **Caution!** Un-reimbursed employee business expenses are not deductible at all **for 2018 through 2025**. However, employee business expenses that are reimbursed under an employer's accountable plan are excluded altogether from the employee's taxable income.

- **Accelerating "Above-The-Line"Deductions.** As a cash method taxpayer, you can generally accelerate a 2021 deduction into 2020 by "paying" it in 2020. "Payment" typically occurs in 2020 if, **before the end of 2020**: **1)** A check is delivered to the post office, **2)** Your electronic payment is debited to your account, or **3)** An item is charged on a third-party credit card (e.g., Visa, MasterCard, Discover, American Express). **Caution!** If you post-date the check to 2021 or if your check is rejected, no payment has been made in 2020 even if the check is delivered in 2020. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payments are not deductible in 2020.

<u>"Itemized" Deductions.</u> Although "**itemized**" deductions (i.e., below-the-line deductions) do **not** reduce your AGI or MAGI, they still may provide valuable tax savings. **Starting in 2018 and through 2025**, recent legislation substantially increased the Standard Deduction. For 2020, the Standard Deduction is: Joint Return - $24,800; Single - $12,400; and Head-of-Household - $18,650. **<u>Planning Alert!</u>** If you think your itemized deductions this year could likely exceed your Standard Deduction of $24,800 if filing jointly ($12,400 if single), consider the following:

- **<u>Accelerating Charitable Contributions Into 2020.</u>** If you want to accelerate your charitable deduction into 2020, please note that a charitable contribution deduction is allowed for 2020 if the check is "**mailed**" **on or before December 31, 2020**, or the contribution is made by a credit card charge in 2020. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay the note or pledge. **<u>Caution!</u>** As discussed previously, for **2020 only**, the CARES Act allows a taxpayer to deduct charitable contributions of up to 100% of the individual's AGI if made in "**cash**." Contributions of "**property**"(e.g., stock, real estate) **do not qualify** for this temporary 100% of AGI rule.

- **<u>Medical Expense Deductions.</u>** If you think your itemized deductions this year could likely exceed your standard deduction of $24,800 if filing jointly ($12,400 if single), but you do not expect your itemized deductions to exceed your Standard Deduction next year, you could save taxes in the long run by accelerating elective medical expenses (e.g., braces, new eye glasses, etc.) into 2020. **<u>Planning Alert!</u>** For 2020, you are allowed to take a medical expense itemized deduction only to the extent your aggregate medical expenses exceed 7.5% of your AGI. This 7.5% threshold is scheduled to increase to 10% after 2020.

- **<u>$10,000 Cap On State And Local Taxes.</u>** **From 2018 through 2025**, your aggregate itemized deduction for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) is **limited to $10,000** ($5,000 for married filing separately).

- **<u>Limitations On The Deduction For Interest Paid On Home Mortgage "Acquisition Indebtedness."</u>** Before the Tax Cuts And Jobs Act (TCJA), individuals were generally allowed an itemized deduction for home mortgage interest paid on up to $1,000,000 ($500,000 for married individuals filing separately) of "**Acquisition Indebtedness**" (i.e., funds borrowed to purchase, construct, or substantially improve your principal or second residence and secured by that residence). Subject to certain transition rules, TCJA reduced the dollar cap for **Acquisition Indebtedness incurred after December 15, 2017 from $1,000,000 to $750,000** ($375,000 for married filing separately) **for 2018 through 2025**. **<u>Planning Alert!</u>** If you think your itemized deductions this year could likely exceed your Standard Deduction, paying your January, 2021 qualifying home mortgage payment **before 2021** should shift the deduction for any qualifying interest portion of that payment **into 2020**.

- **<u>"Home Equity Indebtedness" Suspended For 2018 through 2025.</u>** TCJA suspended the deduction for **interest** with respect to "**Home Equity Indebtedness**" (i.e., up to $100,000 of funds borrowed that do not qualify as "Acquisition Indebtedness" but are secured by your principal or second residence). **<u>Caution!</u>** Unlike the interest deduction for "Acquisition Indebtedness," TCJA **did not grandfather** any interest deduction for "**Home Equity Indebtedness**" that was **outstanding before 2018**.

<u>Postponing Taxable Income May Save Taxes.</u> Generally, deferring taxable income from 2020 to 2021 may also reduce your income taxes, particularly if your effective income tax rate for 2021 will be lower than your effective income tax rate for 2020.

- **<u>Planning For Tax Rates.</u>** The deferral of income could cause your 2020 taxable income to fall below the thresholds for the highest 37% tax bracket (i.e., $622,050 for joint returns; $518,400 if single). In addition, if you have income subject to the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral reduces your 2020 modified adjusted gross income (MAGI) below the thresholds for the 3.8% NIIT (i.e.,$250,000 for joint returns; $200,000 if single), you may avoid this additional 3.8% tax on your investment income.

- **Deferring Self-Employment Income.** If you are a self-employed individual using the cash method of accounting, consider delaying year-end billings to defer income until 2021. **Planning Alert!** If you have already received the check in 2020, deferring the deposit of the check does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

Traditional Year-End Planning With Capital Gains And Losses. Generally, net capital gains (both short-term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual filing a joint return with taxable income for 2020 of $496,600 or more ($441,450 or more if single) paying tax on his or her **net long-term capital gains** at a **23.8%** rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8%NIIT). In addition, this individual's **net short-term capital gains** could be taxed as high as **40.8%** (i.e., 37% plus 3.8%). Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities continue to be as important as ever. The following are time-tested, year-end tax planning ideas for sales of capital assets. **Planning Alert!** Always consider the **economics of a sale or exchange first!**

- **Planning With Zero Percent Tax Rate For Capital Gains And Dividends.** For individuals filing a **joint return** with 2020 Taxable Income of **less than $80,000 (less than $40,000 if single)**, their long-term capital gains and qualified dividends are taxed at a **zero percent rate**. **Tax Tip!** Individuals who have historically been in higher tax brackets but are now expecting a significant drop in their 2020 taxable income, may find themselves in the zero percent tax bracket for long-term capital gains and qualified dividends for the first time. For example, a significant drop in 2020 taxable income could have occurred due to COVID-19; or because you are between jobs; or you recently retired; or you are expecting to report higher-than-normal business deductions in 2020. **Planning Alert!** If you are experiencing any of these situations, please call our Firm as soon as possible and we will help you determine whether you can take advantage of this zero percent tax rate for long-term capital gains and qualified dividends. If you wait too late to contact us, you may run out of time before the end of this year to take the recommended steps to maximize your tax savings

- **Timing Your Capital Gains And Losses.** If the value of some of your investments is less than your cost, it may be a good time to harvest some capital losses. For example, if you have already recognized capital gains in 2020, you should consider selling securities **prior to January 1, 2021** that would trigger a capital loss. These losses will be deductible on your 2020 return to the extent of your recognized capital gains, plus $3,000. **Tax Tip!** These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks, such as: **1)** The $2,500 American Opportunity Tax Credit, **2)** The $2,000 Child Tax Credit, **3)** The Adoption Credit of $14,300, or **4)** Causing your taxable income to drop below the $326,600/$163,300 thresholds for purposes of the 20% 199A Deduction (previously mentioned). **Planning Alert!** If, within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules (although the disallowed loss will increase the basis of the acquired stock). **Tax Tip!** There is no wash sale rule for gains. Thus, if you decide to sell stock at a gain in order to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

The "Premium Tax Credit" Under The Affordable Care Act. Although TCJA essentially eliminated the penalty for individuals who fail to purchase qualified health coverage by reducing the "**Shared Responsibility Tax**" (SR Tax) **to Zero**, **it did not repeal** the refundable **"Premium Tax Credit" or "PTC."** The PTC is still generally available for eligible low-and-middle income individuals who purchase health insurance through a State or Federal Exchange. The PTC is generally paid **in advance directly to the insurer** ("Advance Payments"). Any individual who received Advance Payments for 2020 **is required to file a 2020 income tax return** to reconcile: **1)** The amount of the "**actual**" PTC (based on the individual's "**actual**" 2020 Household Income), with **2)** The **Advance Payments** of the PTC (which were determined by the Exchange based on the individual's "**projected**" 2020 Household Income). **Caution!** If an individual's Advance Payments for 2020 exceed the "actual" PTC, the **excess must be paid back** on the **2020 tax return** as an "**additional tax liability**."

- **<u>Possible Cap On The Amount That Must Be Paid Back.</u>** The amount of the 2020 excess payment that must be repaid as an additional tax liability is **capped if** the individual's actual 2020 Household Income is **less than 400%** of the Federal Poverty Line (FPL) for the individual's family size. For example, for 2020, as long as an individual's actual household income is **less than 400% of the FPL**, the maximum amount that must be repaid will not exceed **$1,350 for a single individual** and **$2,700 for others**. **<u>Planning Alert!</u>** In some cases, an individual whose "**actual**" 2020 Household Income is projected to be 400% or more of the FPL may be able to trigger these dollar caps by reducing his or her "**actual**" 2020 Household Income **below** 400% of the FPL. **For example**, an individual might make a contribution to an IRA (if eligible to do so) in order to reduce his or her 2020 Household Income to less than 400% of the 2020 FPL for the individual's family size. Taking this step would cap the amount of the individual's excess payments required to be paid back as an additional tax liability to **$1,350 for single individuals** and **$2,700 for others**. **<u>Tax Tip!</u>** If you think that you may have to pay back some or all of your 2020 excess payments, please call our Firm as soon as possible so we can determine whether you can take steps **before the end of 2020** to minimize the amount of the pay back.

Final Comments

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of promoting, marketing, or recommending to another party any transaction or matter addressed herein. The preceding information is intended as a general discussion of the subject addressed and is not intended as a formal tax opinion. The recipient should not rely on any information contained herein without performing his or her own research verifying the conclusions reached. The conclusions reached should not be relied upon without an independent, professional analysis of the facts and law applicable to the situation.

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HOLIDAY MESSAGE

To say that 2020 has been a challenging year would be an understatement. We have faced a worldwide pandemic and its ripple effects on our families, communities, and businesses. We have all adapted to a new way of living and working. Hurricanes Sally and Zeta wreaked havoc on both our Mobile and Baldwin County communities.

But 2020 also allowed families to spend more time together, more meals were prepared at home, restaurants added outdoor dining, drive-in theaters made a comeback and drive-in concerts were introduced, and we all learned how to use Zoom and Microsoft Teams. Many businesses were forced to learn how to operate remotely and discovered opportunities and efficiencies. Some businesses shifted gears in order to remain open such as distilleries learning to make hand sanitizer and multiple plants converting operations to produce respirators.

I say all of these things, not to minimize the fact that many are still struggling – both families and businesses, but to focus on the fact that we are resilient and we have shown that we can adapt. I am so proud of our local communities for helping and supporting each other whether it was COVID or hurricane related.

I know it is much easier to focus on all of the challenges that 2020 has brought us, but I challenge you to take a moment and think about some of the positive experiences you have had this year. Our CSB team is thankful for each of you and we are here to help if you need us.

We wish you much peace and joy this Christmas and a very happy 2021!

Gina McKellar