5 year-end strategies to save on your 2020 taxes

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Don’t let the holidays distract you from last-minute opportunities to reduce your 2020 tax bill.

There are about five weeks left in the year, which means the clock is ticking on tax-planning strategies.

Some tactics are only in play for 2020, thanks to the federal CARES Act, so this is the only chance you’ll have to capitalize on them.

“There’s typical year-end planning, and there are the ‘do it by 12/31 or forever hold your peace’ kind of strategies,” said Mark Alaimo, CPA and member of the American Institute of CPAs personal financial specialist committee.

Here are a few ideas to cover with your tax professional in the coming weeks.

1. Give generously

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The CARES Act, the major relief bill that went into effect in the spring, gives donors an incentive to give away more cash.

Taxpayers who take itemized deductions on their tax return can deduct up to 100% of their adjusted gross income for cash donations to public charities.

Certain entities are excluded from this deal, which means you can't collect a 100% deduction for donating cash to your donor-advised fund.

This is for 2020 only. In any other case, you could claim up to 60% of your AGI for charitable donations.

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Slow down and talk with your tax professional before you commit piles of cash to your favorite charity.

Depending on your circumstances, it may make better tax sense to give away appreciated stock instead. In this case, you'd claim a deduction on your taxes for the fair market value of the investment.

The CARES Act also has a charitable giving provision for donors who claim the standard deduction on their tax return ($12,400 for singles and $24,800 for married couples).

In this case, you can take an above-the-line deduction for up to $300 in cash donations to charity.

Keep records of your gift, even if it's a small one. For contributions of $250 or more, you're required to obtain a written acknowledgement from the qualified charity, detailing the amount of cash and description of property included.

"If they make their cash contribution using their debit or credit card, the email they receive from the charity is the substantiation," said Alaimo.

2. Consider a Roth IRA conversion

Households that have lost some income during the Covid-19 downturn might be positioned to convert their traditional individual retirement account to a Roth IRA.

Roth IRAs are valuable to retirees: After-tax dollars you save in this account grow tax-free over time and may be tapped free of taxes in retirement.

In comparison, you're paying ordinary income taxes when you draw down from a traditional IRA or 401(k).

You will pay income taxes on traditional IRA sums that are converted. That means now might be the best time to do it if your household income is down and your account values are suffering.

3. Got a side gig? Don't forget business deductions

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Whether the Covid-19 downturn spurred you to start your own business or you're a veteran to the side-gig life, now is the time to reduce your taxable income.

Business expenses that are [“ordinary and necessary”] are deductible.

Some of the breaks on the table include the home-office deduction, write-offs for mileage and expenses for the materials and equipment you bought for your job.

Keep your receipts and faithfully track your income and expenses. Even maintaining a simple spreadsheet with these details can help streamline your tax return preparation next spring.

4. Stock up on savings

Looking for a win in the present and future? If you have the extra cash available, consider shoveling a few extra dollars into your health savings account.

Health savings accounts are paired with high-deductible insurance plans. They come with three key tax advantages: Money you contribute is either pretax or tax deductible, and it accumulates free of taxes.

Further, you can use your funds for qualified medical expenses and avoid taxes on the withdrawal.

In 2020, the maximum you can contribute to an HSA is $3,550 for individual coverage or $7,100 for family plans. Accountholders who are age 55 and over can toss in an extra $1,000.

Cash you save in an HSA can be carried into the future; there is no requirement that you spend down saved amounts. That means you can tap these funds for health-care costs in retirement.

You have until April 15, 2021 to make contributions for the 2020 tax year.

5. Get your tax withholding in order

If you've been withholding insufficient taxes from your paycheck at work — or if you haven't made enough estimated tax payments for your side gig — consider updating your withholding.

Generally, taxpayers must pay at least 90% of the current year's tax owed or 100% of the tax liability from the prior year. Those with adjusted gross income over $150,000 must pay at least 110% of the prior year's taxes owed.

Fall short, and you're subject to penalties and interest.

You can ask your human resources department to increase the amount of taxes withheld from the remaining paychecks for this year, according to Paula McMillan, CPA and member of the AICPA personal financial specialist credential committee.

"The easiest way to adjust this is on your Form W-4," said Eric Bronnekant, CPA and head of tax at Betterment.

Fine-tune next year's withholding by working with your tax professional or running the numbers from your latest tax return through the IRS withholding calculator.