Steps to take now

Using “uncertainty” to describe 2020 in one word may feel like an understatement. This year more than ever, it is particularly important to revisit your wealth plan prior to the end of the year to help ensure you aren’t missing opportunities to minimize your 2020 tax burden. You may find that you need to adjust your plan based on recent legislation, such as the SECURE Act, the CARES Act, or the 2017 Tax Cuts and Jobs Act (TCJA). It’s also important to note that some of the TCJA’s provisions sunset in 2025—unless legislative changes occur prior to that.

We recommend meeting with your key advisors to determine how the current situation impacts your particular circumstances. Your Wells Fargo relationship manager is available to discuss the strategies in this guide and to work with your external advisors, such as your tax professional or estate planning attorney.

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For the most up-to-date information on tax, legislative, and market updates, please visit our insights page: wellsfargo.com/the-private-bank/insights/planning-uncertain-times/
Taking action

To the right are key tax rates and provisions that affect high-net-worth individuals, business owners, and real estate investors. The deadline for filing and paying 2020 income taxes is Thursday, April 15, 2021.
# 2020 Tax Rates and Exemption/Exclusion Amounts

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top income tax rate</td>
<td>37%</td>
</tr>
<tr>
<td>Top capital gains tax rate</td>
<td>20%</td>
</tr>
<tr>
<td>Top qualified dividends tax rate</td>
<td>20%</td>
</tr>
<tr>
<td>Surtax on unearned net investment income</td>
<td>3.8%</td>
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<tr>
<td>Estate and gift tax rate</td>
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<tr>
<td>Generation-skipping transfer (GST) tax rate</td>
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<tr>
<td>Top alternative minimum tax (AMT) rate</td>
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<tr>
<td>Combined estate and gift tax exemption</td>
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<tr>
<td>GST tax exemption</td>
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<tr>
<td>Annual gift tax exclusion</td>
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<tr>
<td>Corporate tax rate</td>
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<table>
<thead>
<tr>
<th>Income Thresholds for Top Income Tax Rate</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Married couples filing jointly and surviving spouses</td>
<td>$622,050</td>
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<tr>
<td>Married couples filing separately</td>
<td>$311,025</td>
</tr>
<tr>
<td>Single filing as head of household</td>
<td>$518,400</td>
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<tr>
<td>Single</td>
<td>$518,400</td>
</tr>
<tr>
<td>Estates and trusts</td>
<td>$12,950</td>
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</table>

Source: irs.gov, unless otherwise specified
Looking forward to a better tomorrow

The title of Wells Fargo Investment Institute’s 2020 Outlook was “A Call for Resilience.” If you judge the Outlook only by its title, we humbly suggest they were correct. Entering 2020, we anticipated that in a late-stage bull market, diligence and resiliency would be necessary in the face of expected geopolitical headwinds, increased volatility, and a presidential election. What we did not expect was a global pandemic that has claimed too many lives worldwide, closed schools, shut down businesses, eliminated millions of jobs, and sent many who had jobs home to work while playing multiple roles for their family members. Through it all, people have shown resilience during this difficult time by caring for loved ones, attempting to keep businesses afloat, and adjusting everyday habits to a new normal.

As we prepare for year-end, the 2020 election represents another inflection point that could impact wealth planning. Final planning decisions are typically made after the results. However, the process begins now. A multi-track approach may be worth considering well before year-end so that regardless of the outcome, your family will be ready to take advantage of potential opportunities to help mitigate your income and estate tax liabilities now and in the future.

As such, this year’s guide will discuss more specific planning strategies. While not all of these strategies will be applicable to your situation, having conversations now with your financial, tax, and legal professionals will help ensure you have time to implement the appropriate ones for you before year-end. Now is not the time to lose focus. Stay strong, do not lose your optimism, and proactively plan to help position your family for a better future.

Coronavirus impact

Since early 2020, the novel coronavirus pandemic has had a swift and massive global impact on all aspects of daily life. In addition to people’s health and well-being, it has adversely affected unemployment, the global economy, and the financial markets. The almost immediate shuttering of many businesses caused considerable volatility in the equity markets. The S&P 500, for example, fell 33.9% from its high on February 19, 2020, to its low on March 23, 2020, and since then has experienced some of the biggest one-day gains and losses in history.¹

In response to the extreme volatility and in an attempt to mitigate some of the damage to the financial markets and the economy, both the Federal Reserve Board and Congress have taken unprecedented measures. The Federal Reserve extended trillions of dollars in lending to support employees, employers, financial markets, and state and local governments. They also resumed purchasing securities and supporting money market mutual funds in order to help support the functioning of financial markets by providing much needed liquidity. Additionally, the Federal Reserve lowered the federal funds rate to near zero, which has also driven down many other short- and long-term interest rates to near historic lows. Congress also responded quickly by passing a series of bills, which will be discussed in more detail below, allocating trillions of dollars toward economic stimulus and relief. With the continued impact of the coronavirus, we may see additional legislation in the near future.

2020 presidential election

The latter half of this year promises to be no less eventful than the first half as we approach the November elections. While traditional campaigning by President Trump and former Vice President Joe Biden has been upended by social distancing brought on by the coronavirus, tragic events have unleashed a flood of debates on topics including healthcare and income inequality, racial injustice, and the role of law enforcement and the criminal justice system in modern society. A series of Supreme Court decisions on social and employment topics has

seemingly stirred the waters further. Americans going to the polls on November 3 may not just be voting for a president but also to express their views on these issues. Additionally, control of both houses of Congress will be decided. Taken together, these election results will have the potential to influence policy for years to come.

Among the most important issues that Congress has the potential to consider in the coming years is the future of tax policy. Because the changes put into place by the Tax Cuts and Jobs Act have a built-in sunset that takes effect on January 1, 2026, for individual (not corporate) taxpayers, Congress will inevitably need to decide the future of current tax legislation. As we have seen in past debates about taxes, the conversation may center on a desire by some to keep tax rates low with the goal of encouraging economic activity and a desire by others to use taxes to raise revenue to fund social programs. While President Trump has largely articulated his positions on tax policy through the Tax Cuts and Jobs Act (TCJA), Biden’s positions on tax policy represent a moderate Democratic approach: limitations on deductions and progressive tax rates. As we have seen in past debates about taxes, the conversation may center on a desire by some to keep tax rates low with the goal of encouraging economic activity and a desire by others to use taxes to raise revenue to fund social programs. While President Trump has largely articulated his positions on tax policy through the Tax Cuts and Jobs Act (TCJA), Biden’s positions on tax policy represent a moderate Democratic approach: limitations on deductions and progressive tax rates. Of note is his proposal to tax capital gains for those with income in excess of $1 million at ordinary income tax rates. The pandemic has added a new element to this conversation as the substantial deficit spending necessitated by stimulus legislation has created a pressing need for more revenue to fund the federal government. It is possible that a gaping deficit may encourage Congress to begin modifying parts of the TCJA sooner rather than later.

Given this context, it might be wise to consider acting before any potential opportunities disappear. Until either 2026 or new legislative action, the gift and estate tax exemption and the generation-skipping transfer (GST) tax exemption remain doubled from pre-TCJA levels. This guide discusses several strategies you can consider to take advantage of this window of opportunity. Yet, it is impossible to know exactly what the future holds regarding tax policy. While we advocate planning now to take advantage of the favorable gift and estate tax exemptions, it’s important to include flexibility for the future so that you can plan around such matters as the federal estate tax, the taxation of trust income, modifications to trusts, and the creation of trusts after your death.

Key legislative changes

Two significant legislative changes occurred in 2020 that make it important for individuals to talk with their financial, tax, and legal advisors about the appropriateness of both their financial and estate plans.

The first legislative change of note is the Setting Every Community Up for Retirement Enhancement (SECURE) Act which became effective January 1, 2020, and is the largest piece of retirement legislation since the Pension Protection Act of 2006. Although it is comprised primarily of taxpayer-friendly provisions to assist individuals in savings for retirement, a few provisions may actually have an adverse impact on certain individuals or necessitate modifications to existing estate plans.
The second piece of legislation is the Coronavirus Aid, Relief, and Economic Security (CARES) Act stimulus package, which was signed into law on March 27, 2020, in response to the coronavirus pandemic. The CARES Act is a $2 trillion aid package aiming to offer assistance to both individuals and businesses.

Please note that due to continued uncertainty regarding the economy, there may be other legislative actions taken after the publication of this guide.

SECURE Act

Individuals should talk to their financial, tax, and legal advisors about the changes made by the SECURE Act to ensure that both their financial and estate planning objectives are in line with their current plans.

Significant retirement-related changes include:

- Limitation of stretch IRA provisions—this change may adversely affect the beneficiaries of your retirement accounts upon your passing.
- Required minimum distributions (RMDs) begin at age 72. However, individuals who turned age 70½ prior to January 1, 2020, must take RMDs and are not entitled to the extra delay that the law now provides. See the CARES Act section below for the exception in 2020.
- No age limitation on traditional Individual Retirement Account (IRA) contributions.

Non-retirement related changes include:

- Taxing of children’s income (kiddie tax) at parents’ rates.
- Expansion of 529 plans to include qualified higher education expenses for apprenticeship programs and distributions to pay qualified education loans (lifetime maximum amount of $10,000).

CARES Act

The coronavirus pandemic has had a devastating effect on a significant number of individuals and businesses. In response to businesses shutting down and unemployment figures hitting all-time highs, the Federal Reserve put $2 trillion into an aid package to assist a number of those affected.

Support for individuals:

- Retirement plan modifications, including a waiver of RMDs from IRAs and certain defined contribution plans in 2020 and a broadening of qualified retirement plan loan provisions.
- Stimulus payments and expansion of charitable giving limitations to assist those individuals and organizations in need.

Support for businesses:

- Loan programs, including the Paycheck Protection Program and Economic Injury Disaster Loans.
- Deferral of payment of employer share of payroll taxes.
- Reductions in current or prior year taxes via allowing net operating losses from 2018, 2019, and 2020 to be carried back five years.
- Accelerated use of alternative minimum tax credits remaining from prior years.
- Increase in the interest expense deduction limitation.
- Increase in the taxable income limitation for charitable cash contributions.

This guide will address some of these changes in regard to retirement plans, individuals, and business owners; however, it is meant to provide an overview. Be sure to reach out to your Wells Fargo relationship manager and your tax and legal advisors to discuss how these changes impact you, your family, and your business.
Managing income
Due to many of the issues discussed in the introduction to this guide, we believe 2020 is a unique year in terms of tax planning. In most years, managing income strategies center on either accelerating income or accelerating deductions, depending on whether you think your current year income tax rate will be greater or lesser than the subsequent year. However, the coronavirus has devastated the economy, resulting in closed or diminished businesses and individuals facing unexpected job losses or career changes. Income tax management up until now has likely been low on the priority list of many. For those who needed to tap into retirement and emergency funds, tax planning took a back seat to covering everyday expenses.

Given the economic impacts of the coronavirus and the November election, we believe it is important to weigh all of your options and maintain flexibility, with respect to the management of income, until there is additional clarity after the election. As such, we will spend the next few pages reviewing some techniques that may be applicable in certain specific situations. These techniques are provided to educate you on some options during this unique time to discuss with your tax professional.

**Estimated tax payment requirements**

In order to avoid underpayment penalties, you must pay on a pro-rata basis 90% of your anticipated current year tax liability or 100% of your prior year tax liability (110% if your adjusted gross income was greater than $150,000). If using the prior year tax liability, regardless of the balance due with your 2020 return, you will not be subject to underpayment penalties. However, if you expect your 2020 income to be significantly lower than 2019, you may be able to better manage your cash flow by using the current year safe harbor. You should contact your tax professional to confirm the method that best addresses your cash flow goals.

Additionally, do not forget to take all income items into consideration. Investment income, retirement plan distributions, Social Security, and other government payments may have insufficient or no withholding, which could substantially impact your necessary estimated payments as well as your 2020 tax liability, due in April 2021.

**Taxpayers having a difficult year**

For many business owners, the coronavirus has severely impacted current (and potentially future) year revenues and profits. If you are a business owner who suffers a loss in 2020, you may want to consult with your tax professional about filing to carry back your net operating loss (up to five years) and making an expedited refund claim. In addition to the current cash influx of a refund, another potential benefit could be taking advantage of a potential tax rate differential by applying a loss incurred in a year in which the maximum tax rate is 37% to a year when the highest marginal rate was 39.6%. A net operating loss carry forward may make more sense than a carry back if there was not significant income to offset in prior years or if you project being subject to higher tax rates in the future due to either increased profitability or change in the tax laws due to a change in administration.

Unfortunately, some businesses may not be able to survive these difficult times. For those with multiple business investments, it’s a good idea to review which businesses may have lost substantial value and are able to generate either a loss or deduction for the current year. You and your tax professional will need to discuss the manner in which the business is disposed, as facts and circumstances may dictate either capital loss or ordinary loss treatment, which will play a role in the impact to your overall tax liability.

If you anticipate being in a higher tax bracket in 2021, you may want to consider accelerating income into this year to take advantage of the lower tax rate. Depending upon the level of income for the year, income-generating options such as Roth IRA conversions (discussed later in the guide) may be one technique to accelerate additional income into the current year.
Taxpayers having a good year

Thankfully, not all businesses have suffered this year. Some businesses have weathered the storm well or have actually thrived in this difficult environment. In some of these cases, accelerating deductions or even generating additional expenses to lower income may be helpful. For example, paying year-end employee bonuses (especially for their extra effort during the pandemic) may have the dual impact of building employee loyalty and reducing the business’s tax burden.

For some business owners, the transition to working from home led to additional purchases of computer equipment and peripherals. In certain cases, you may be able to use either bonus depreciation or the Section 179 expense election to take the deduction for this year. Additionally, if you are now working from home, you may be able to take advantage of the home office deduction. Depending upon your business, you should review these options with your tax professional to determine if any of them fit your situation.

If you are fortunate enough to find yourself having a strong year with respect to income, it may make sense to use the prior year safe harbor method for estimated tax payments. In the event that not enough tax has been paid pro-rata, withholding is deemed to be remitted pro-rata, regardless of when it is actually withheld. Thus, using year-end bonuses with significant withholding may reduce the chance of an underpayment penalty.

Taxpayers with stock compensation

83(b) elections

Individuals receiving income in the form of stock may want to consider the benefits of an 83(b) election. With an 83(b) election, you pay the tax liability on restricted shares at the time of grant versus when the shares vest. If the underlying stock has recently decreased in value, but you expect it to increase substantially, paying the income tax upfront and capital gains tax on any future appreciation may be more beneficial. However, there is risk of paying additional tax in the event the value falls in the time between making the election and the time the shares vest. There are specific rules surrounding 83(b) elections that must be followed, including filing the election within 30 days of receiving the restricted stock award. Make sure you check with your tax professional before implementing this strategy.
Buy and hold strategies
In addition, buy and hold strategies with stock options may prove beneficial. If the value of the stock is depressed, but is still greater than the strike price, exercising the options now and holding the shares until they increase in value may make sense. This strategy could lower your current tax liability and allow future appreciation to potentially be subject to (currently lower) long-term capital gains tax rates rather than higher ordinary income tax rates.

Monitoring legislative changes
Another consideration for those with significant stock compensation is changes in legislation. If ordinary income and/or long-term capital gains rates increase in future years, recognizing income now through the exercise of options or recognizing long-term capital gains may be beneficial. Be sure to speak with your advisor before year-end to determine what strategies are applicable depending upon the environment.

Incentive stock options
If you have incentive stock options (ISOs), do not forget about potential exposure to the alternative minimum tax (AMT). While you typically do not have to report when the ISO is granted or when you choose to exercise it as part of your gross income for the year, you may be subject to the AMT in the year that you exercise it. This is because the “bargain element” (the difference between the grant price of the ISO and the fair market value of the security when it is purchased via the exercise of the ISO) must be reported. This amount is generally treated as a capital gain or capital loss for tax purposes. Although the TCJA increased the AMT exemption (thus, reducing the number of people subject to AMT), those exercising ISOs need to include this bargain element as a positive adjustment for alternative minimum taxable income.

Also, if the underlying stock has dropped after exercise, you may want to consider selling the shares and paying income tax on the new difference between fair market value and the exercise price. This process, called a disqualifying disposition, can provide liquidity to pay the tax if the stock has dropped after exercising the ISO.

Finally, be aware that the income from the sale of securities could be taxed at ordinary income rates if IRS requirements for holding securities from the exercised ISO are not met.

As we have discussed throughout the guide, any final decisions on your personal tax strategy should be made after consulting your tax, legal, and financial advisors. The election outcome is likely to provide additional clarity on the outlook for 2021 tax rates. Furthermore, managing income can be combined with other strategies discussed later in this guide to help pursue your specific objectives and lower your tax liability.
Managing investments

Determining whether you are in the 0%, 15%, or 20% capital gains tax bracket can help you decide what action, if any, to take. For example, if you are in a lower bracket, you may wish to take advantage of the lower rates by making additional sales in 2020. Alternatively, if some optional sales push you into the 20% bracket, you may wish to defer those sales to 2021 if appropriate.

The outcome of the 2020 presidential election could have a significant impact on capital gains if there is a change in leadership. Democratic presidential candidate Joe Biden has proposed that taxpayers with income exceeding $1 million dollars per year should pay tax on capital gain income according to their ordinary income tax rates, which range from 0% to 37% (or up to 39.6%, per his plan). Individuals with modified adjusted gross income (MAGI) surpassing $200,000 ($250,000 for married couples) will pay an additional 3.8% tax on net investment income. As such, the top rate on long-term capital gains would almost double from 23.8% to 43.4%.

Biden has also proposed eliminating the step-up in basis upon death for capital gains. With a potential change in administration, capital losses may become an even more valuable tool to offset gains. Individuals need to consider looking holistically beyond just 2020 and 2021 planning in order to establish a long-term approach to limiting their capital gain exposure both during lifetime and at death.

Recognizing capital losses is a common way to lower your current year tax bill.
Tax-loss harvesting? Avoid the wash sale rule

Recognizing capital losses, or “tax-loss harvesting,” is a common way to help lower your current year tax bill. However, if you don’t time this carefully, the wash sale rule could come into play.

The wash sale rule prohibits claiming a loss from a security sale if you buy a substantially identical one within 30 days before or after the sale you are claiming losses for. If you violate this rule, the loss will be added to the cost basis of the shares you repurchased. Whether you buy before the sale (by “doubling-up”) or after, be aware of these four things:

• Buy substantially identical stock or securities.
• Acquire substantially identical stock or securities in a fully taxable trade.
• Acquire a contract or option to buy substantially identical stock or securities.
• Acquire substantially identical stock for your individual retirement arrangement (IRA) or Roth IRA.

We recommend discussing tax-loss harvesting strategies with your relationship manager and tax advisor.

Look out for year-end mutual fund distributions

Mutual funds announce capital gains to be distributed to shareholders near the end of the year. If you rebalance your portfolio at year-end, these can be problematic. For example, if you trim a position in your portfolio that has performed well, and you expect to realize a capital gain, you could increase your potential tax liability by investing proceeds in a different mutual fund near the ex-date (the date the security trades without the distribution) for its annual capital gains distribution.

Even if a fund loses value, there is still the potential for large distributions in a given year. Be sure to discuss the planned amounts of capital gain distributions for this year and rebalancing strategies with your investment professional so that he or she can help you decide on a course of action. Also, be prepared to realize strategic losses and/or raise enough cash before year-end to pay taxes due next April on these distributions.

Utilizing Qualified Opportunity Zone investments

Another tool to manage the recognition of capital gains is the Qualified Opportunity Zone (QOZ) program, introduced as part of the TCJA. You may elect to defer tax on any eligible capital gains invested in a Qualified Opportunity Fund (QOF), defined as an entity that is organized as a corporation or partnership and that subsequently makes investments in QOZ property.

You have 180 days from realizing capital gains to invest in the QOF. Capital gains are not recognized until the earlier of the QOF sale or liquidation date or December 31, 2026. If the QOF investment is held for longer than five years, there is a 10% exclusion on the deferred gain and—if held for more than seven years—the 10% becomes 15%. In order to receive the full 15%, the QOF investment must have been made no later than December 31, 2019. For most, the full 15% exclusion is no longer an option, but those who receive a reported capital gain from a flow-through entity have 180 days from the end of the calendar year to make an investment in a QOZ.

Additionally, due to the coronavirus pandemic, the IRS has granted an extension of time to invest in a QOF. If the 180th day to invest in a QOF would have fallen on or after April 1, 2020, and before December 31, 2020, you now have until December 31, 2020, to invest the gain into a QOF. You are subject to tax on the deferred capital gains after the December 31, 2026, recognition date (with your tax filing due in April 2027); however, any appreciation on the QOF investment held for 10 years or more is not subject to tax.
Reach out to your relationship manager for more information and consult with your tax professional before making this type of investment. Note that state tax laws may differ from federal law.

**Real estate investors**

Between social distancing and economic disruption, both of which appear to be the new normal until well into 2021, real estate investors could face many challenges. In the event that Biden is elected, the proposed elimination of basis step-up at death may also impact real estate investors. Currently, real estate investors can depreciate investment real estate based on their basis in the property. At death, this property then receives a basis step-up that can then be depreciated again. Eliminating basis step-up at death would have the effect of curtailing the opportunity for additional depreciation and could result in more realized capital gain when a property is sold.

On the other hand, lower interest rates and the continued availability of several useful tax provisions may provide some silver linings. If you are a real estate investor, you could see savings in three areas: bonus depreciation, deductions for rental and nonresidential property costs, and deductions for pass-through income. Specifically:

- **First-year bonus depreciation is 100%**. Additionally, owners can apply bonus depreciation for both new and used property. The IRS states this property must be acquired and placed in service after September 27, 2017, and before January 3, 2023. There are a number of factors that must occur, including no use of the property before acquisition and the property is not acquired from a related party, as well as additional IRS requirements.

- **Rental property owners can deduct the costs of personal property they use in their rental real estate (subject to limitations).** They also can deduct improvement costs for nonresidential properties.

- **Owners of investment rental property may be able to benefit from the 20% deduction on qualified business income.**

- **A Section 1031 like-kind exchange remains a useful tool for real estate investors to defer tax on the sale of investment or business real property.** Through the use of a qualified intermediary, a piece of property can be sold and replaced with a like-kind property while deferring the tax. Replacement property must be identified within 45 days of the sale of the relinquished property and the transaction must be completed within 180 days. The TCJA made changes to this provision and new proposed regulations now provide detailed rules for investors to rely on, making 1031 exchanges more appealing for some investors. If elected, Biden has proposed to eliminate this narrowed tax provision for taxpayers making more than $400,000 per year. Depending on the outcome of the election, real estate investors may need to act quickly in the next few years to take advantage of the current like-kind exchange tax provision.

Real estate used for business purposes, such as rental property, is not subject to the $10,000 limit on deductions for state and local income taxes (SALT), including property taxes. You can also continue to deduct your mortgage interest on these properties without limitations.

**Alternative minimum tax exemption amounts**

Increased exemption amounts and phase-outs have resulted in fewer taxpayers subjected to the AMT. The exemption amounts for 2020 are:

- **$72,900** for unmarried individuals not filing as a surviving spouse.
- **$113,400** for joint filers and surviving spouses.
- **$56,700** for married taxpayers filing separate returns.

Exemptions are subject to phase-out beginning at $1,036,800 for joint filers and qualifying widows or widowers, $518,400 for single taxpayers, and $518,400 for married individuals filing separately.
As mentioned in the Managing Income section, planning with AMT may continue to be relevant to taxpayers with large transactions that have AMT adjustments, such as incentive stock options or Section 1202 small business stock transactions. Planning should consider steps to help defer income or accelerate deductions to remain under the relevant threshold.

Planning with your investments in a difficult economy

2020 has seen increased volatility in the markets and overall economic disruption has produced some clear winners and losers among public companies. However, depressed asset values may present some opportunities. Consider whether it makes sense to gift assets that have declined in value but have potential to appreciate again in the coming years. Some strategies are considered in the Transferring Wealth section. As always, assets that have appreciated should be considered as candidates for charitable gifting. See the Charitable Giving section.

Consider the greater impact of your investments

The recent economic disruption has shown that environmental, social, and governance (ESG) investing may even be surprisingly resilient in difficult times. While it is impossible to know the long-term effects of the coronavirus pandemic and recent debates about racial injustice and income inequality, it is reasonable to assume that these issues will be folded into ESG investing in the future. Consider talking to your financial, tax, and legal advisors if you want to explore impactful investing focused on causes about which you are passionate.
Retirement planning

Retirement considerations are often a key element of year-end tax planning. In 2020, there are additional aspects to consider as a result of recent legislation bringing forth several significant changes relating to retirement planning. Some of the changes are temporary, brought on as part of the response to the coronavirus pandemic and the related economic fallout, and others are permanent changes to the rules.
SECURE Act

As a result of the SECURE Act, the age at which required minimum distributions (RMDs) must start has been increased. Individuals who reached age 70½ on or before December 31, 2019, must start and/or continue taking RMDs at age 70½. Beginning in 2020, individuals must take their first RMD by April 1 of the year following the year they turn age 72. The CARES Act has waived the requirement for defined contribution plan RMDs in 2020, regardless of age. Additionally, individuals who already took an RMD from certain retirement accounts for 2020 had until August 31, 2020, to roll those funds back into a retirement account.

RMD rules for inherited IRAs have also been updated as part of the SECURE Act. Prior to 2020, the beneficiary of an inherited IRA was allowed to receive RMDs over their life expectancy. Under the SECURE Act, a beneficiary who inherits an IRA in 2020 or later must withdraw the funds from the IRA within 10 years of the IRA account holder’s death. There are certain beneficiaries for whom an exception to the 10-year rule applies, including spouses, disabled individuals, chronically ill individuals, those who are not more than 10 years younger than the decedent, and certain minor children (until reaching the age of majority).

Another change made under the SECURE Act includes removal of the restriction disallowing traditional IRA contributions by individuals over age 70½. Now there is no age limitation on the ability to make contributions to a traditional IRA. There is also a new exception to the 10% additional tax for early or pre-59½ distributions from IRAs and qualified employer-sponsored retirement plans for birth and adoption expenses up to $5,000.
CARES Act

For individuals facing financial hardship as a result of the coronavirus, the CARES Act includes several provisions relating to retirement plans in an effort to provide immediate relief. In addition to the waiver of 2020 RMDs previously mentioned, distributions of up to $100,000 from qualified retirement plans and IRAs are allowed in 2020 for coronavirus-related purposes. These include a COVID-19 diagnosis for you, your spouse, or dependent, or financial hardship resulting from coronavirus-related impact on work or lack of childcare. These distributions are not subject to the 10% early withdrawal penalty and are taxable evenly over three years, beginning with the year of distribution. Tax on these distributions may be avoided if the amount is fully recontributed within three years. Qualified retirement loan provisions are also expanded to allow loans up to $100,000 (increased from $50,000) and a longer repayment period. These loans must have been made within 180 days of enactment of the CARES Act.

Given the complexity of these provisions, it is important to discuss the potential implications on your overall wealth plan with your financial, tax, and legal advisors to determine if any adjustments should be made.

Consider a Roth IRA conversion

Depending on your situation, it might make sense to convert all or part of your eligible retirement account—401(k), traditional IRA, or other non-Roth account—to a Roth IRA before year-end. Historically, such conversions have been powerful tax management tools for retirement planning in that they allow money from an eligible retirement account to be re-characterized and converted to a tax-advantaged Roth IRA. Upon conversion, taxes are paid immediately instead of being paid upon withdrawal from a traditional plan so it’s important to remember that when considering this strategy, the lump sum to pay these taxes must be available. Accordingly, withdrawals from Roth IRAs are tax-free for you and your heirs. As the TCJA has lowered the effective tax rate for many Americans and the SECURE Act has changed the ability of beneficiaries to “stretch” the withdrawals from an inherited traditional IRA, Roth conversions have become an even more powerful and timely planning tool.

As tax-efficient retirement accounts, Roth IRAs offer advantages to both the account owners and beneficiaries. Owners can take advantage of the current low tax rate environment and, in some cases, depressed asset values in their accounts, which can further reduce the tax impact. Beneficiaries also benefit from a conversion in that while they are still subject to the SECURE Act’s 10-year distribution rule on inherited accounts, these distributions are not taxable and won’t raise their taxable income.

Reminder: Review the beneficiary designations on your retirement accounts and life insurance policies to make sure your primary and contingent beneficiaries are up to date and coordinated with your plan.

Qualified charitable distributions

Although there has been a waiver on 2020 RMDs, you may still wish to consider making a qualified charitable distribution (QCD) from your IRA as an option to support a charitable organization during this time of uncertainty. Taxpayers over 70½ are eligible to make a QCD and would not recognize that distribution in gross income. QCDs are not permitted for ongoing SEP or SIMPLE IRAs. Making a QCD will help reduce the value of your retirement account, thereby reducing your RMDs in future years. This is an option for you even if you do not itemize your deductions. A QCD is reduced by the amount of any deductible IRA contribution you make for that tax year.
Before making a conversion, there are a number of factors
to consider. For example, it is important to make sure you
have enough money outside of the IRA to pay the income
taxes due on your conversion, and to decide when you will
need to start taking distributions. The answers matter
because, in most cases, you will have to wait five years
(beginning with the year of conversion) or be age 59½
to avoid the 10% additional tax on distributions of your
converted assets.

Also, once a conversion is made, there is no ability to re-
characterize the assets if the tax rates do go lower or there
is a change in your financial situation. It is important to
take a holistic view of your entire financial plan before
making a decision to convert.

Note that you can withdraw your converted contributions
tax and penalty-free after five years and you are at least
59½. There are also exceptions to the early withdrawal
penalties and taxes due if any of the following apply:
• Your beneficiary makes withdrawals following your death.
• You become disabled.
• You use the funds ($10,000 maximum) for the first-time
purchase of a principal residence.

If you think you might benefit from a Roth IRA
conversion, it is important to assess potential federal and
state income tax, as well as estate tax implications. Be
sure to consult with your tax professional to determine
whether a Roth conversion would benefit you.

Small business owners and self-employed
individuals

People who own businesses or are self-employed can
derfer taxes by using defined contribution and defined
benefit plans. For example, Simplified Employee Pension
(SEP) IRAs, could provide significantly greater tax
deferral benefits.

SEP IRAs allow:
• Tax-deductible contributions up to the lesser of 25% of the
  eligible employee’s compensation or $57,000 (for 2020).
• Contributions up until the extended due date of your
  2020 business income tax return.

Defined benefit plans may provide a maximum annual
retirement benefit of up to the lesser of $230,000 or 100%
of a participant’s highest average compensation over
a consecutive three-year period. To qualify for a 2020
income tax benefit for contributions, the plan must be
established before year-end.

SECURE Act incentives for employers

The SECURE Act provides several incentives to entice
employers to provide retirement savings opportunities
for employees. Employers can now receive a tax credit
when they offer automatic enrollment to employees and
tax credit when they establish a retirement plan, and can
partner more easily with other employers to create pooled
employer plans beginning in 2021. You should consider
whether taking advantage of these opportunities makes
sense for your business. Finally, although outside the scope
of this guide, keep in mind that retirement benefits paid by
employers are payroll costs for purposes of the Paycheck
Protection Program.
Charitable giving

For many individuals, charitable giving—whether on a large or small scale—is an important part of financial planning. Giving to charities allows you to support the causes most important to you while also potentially reducing your income and transfer taxes. In this particular year, market volatility and other uncertainties have especially affected the financial operations of many charitable organizations, and individuals and families wanting to make a positive impact are able to take advantage of special tax incentives in making their charitable contributions.

To maximize your impact on charities and potentially reap income tax benefits, it’s important to be strategic about philanthropy. Consider the following tips:

1. Review your tax situation and determine which assets to give.
2. Donate to a qualified, tax-exempt organization.
3. Obtain and keep receipts and be aware of any value received for goods or services that may reduce your deduction.

Gifts made to charities are generally deductible subject to limitations based on the type of asset and your adjusted gross income (AGI). Thanks to the CARES Act, if you itemize on your tax return, you can take a deduction for up to 100% of your adjusted gross income for cash contributions to charitable organizations. Note that this deduction is for the 2020 tax year and only applies to cash contributions. It is also important to note that contributions to donor advised funds and private non-operating foundations do not qualify for this 100% deduction. The following chart provides a summary of the deduction limitations for other types of assets and AGI limitations.

If you are contemplating the sale of your business or other liquidity event, incorporating a philanthropic component might defer or reduce taxes and increase your overall return, all while benefiting a favorite cause. We recommend working with your relationship manager and tax professional prior to and during such transaction to determine the best choice for your situation.

Interested in charitable giving but unsure which organization to support? A donor advised fund might be a good option.

In 2020 the CARES Act lifted AGI limitations for cash contributions. Donor advised funds and private non-operating foundations are excluded.

Consider donating appreciated assets, such as publicly traded stocks and bonds. That way, you generally won’t have to recognize capital gains and, for those who itemize, there is an income tax deduction for the fair market value of the property (up to 30% of AGI).
AGI limitations on deductions for charitable gifts

<table>
<thead>
<tr>
<th>Type of organization</th>
<th>Cash gifts</th>
<th>Long-term capital gain property(^1)</th>
<th>Tangible personal property(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public charity (2020 only)</td>
<td>100%</td>
<td>30% using fair market value of the asset contributed</td>
<td>30% using fair market value of the asset contributed</td>
</tr>
<tr>
<td>Donor advised funds</td>
<td>60%</td>
<td>30% using fair market value of the asset contributed</td>
<td>30% using fair market value of the asset contributed</td>
</tr>
<tr>
<td>Private foundation</td>
<td>30%</td>
<td>20% using fair market value if the asset contributed is publicly traded stock</td>
<td>20% using tax/cost basis of the asset contributed(^3)</td>
</tr>
</tbody>
</table>

1. Long-term property is property held more than one year. Short-term property, held one year or less, is subject to different limits.

2. This applies if it will be used by the charity in conducting its exempt functions (e.g., art in a museum). Different limits apply for tangible personal property that will not be used by the charity in conducting its exempt functions.

3. If the fair market value of unrelated use property is lower than the tax cost/basis (depreciated asset), the allowed deduction will be limited to the fair market value.

Source: irs.gov, unless otherwise specified
Depending on your specific goals and circumstances, there are myriad options available to help you achieve your philanthropic goals, including direct gifts, qualified charitable distributions, donor advised funds, charitable trusts, family private foundations, and blended gifts (combining current and deferred giving).

**Direct gifts**
Gifts you make by check or credit card are deductible if the check is written and mailed or the credit card charge posts on or before December 31. Gifts of stock are considered complete on the date the brokerage firm transfers title (which can take several business days) or the date you can document permanent transfer of control. Be sure to plan these types of transfers well before December 31. You can carry forward charitable contributions that are not deductible in the current year due to AGI limitations for up to five years.

As mentioned previously, there is a special tax incentive this year for those who itemize and make cash contributions to charitable organizations. However, in general, the higher standard deduction combined with limits on other deductions means fewer people might be able to deduct their charitable contributions. Thinking ahead to next year and depending on the type of asset you contribute, you can choose to make direct gifts and bunch your donations into one year. For example, instead of making contributions in December 2020, you can make your contributions in January 2021.

Then, making additional contributions later in 2021 might give you enough to itemize in one calendar year. You could then take the standard deduction the following year, when you don’t make contributions.

For those who don’t itemize, there’s still a tax incentive to be philanthropic. As a result of the CARES Act, you may deduct a cash contribution of up to $300 if you don’t itemize deductions (note that this only applies to the 2020 tax year).

**Donor advised funds**
In addition to bunching donations, donor advised funds are another way to take advantage of deductions. The irrevocable contribution you make to a donor advised fund is deductible in the year you fund it, but distributions to charitable organizations can be spread over multiple years. A donor advised fund is also a good option if you are interested in charitable giving but unsure which organization(s) to support and/or you don’t want to take on the administrative and fiduciary duties of a private foundation.

**Foundations**
If you already have a private foundation, be sure it has made the required qualified charitable distribution (generally 5% of net investment assets) to avoid excise tax.

**Charitable trusts**
If you are charitably inclined and also want to benefit family members or other individuals, a split-interest charitable trust may be an option. Such trusts are “split-interest” because the financial interest is split between the charity and one or more individual beneficiaries (usually, your heirs).

These irrevocable trusts can be structured as either a charitable remainder trust (CRT) or as a charitable lead trust (CLT), which you would establish and fund with assets. In a CRT, you or the individual(s) you designate receive an annuity paid with the income generated by the CRT during lifetime or for a term of years. At the end of the lifetime of the named beneficiaries (measuring life) or term of years, the CRT terminates and the charity receives the remaining trust assets. In contrast, a CLT provides that the charity receives the financial interest during the term of years or measuring life, and upon the expiration of that term, the individual beneficiary or beneficiaries receive the remaining assets.

Generally, charitable split-interest trusts are structured so that the donor of such trusts can take advantage of income, gift, and estate tax benefits. Please contact your Wells Fargo relationship manager or your tax or legal professional to learn more about these trusts and discuss which types of charitable giving may benefit your particular circumstances.
Transferring wealth

As in most years, minimizing taxes may be important to you, but making sure assets pass effectively and efficiently should also be a consideration. There are actions you can take in 2020 to potentially reduce your future estate tax liability and help to maximize your lifetime gifting. This year is more unusual than most as we are facing a potential change that could significantly impact income and estate taxes depending on the 2020 election results.
The combination of historically high estate and gift tax exemptions, relatively lower asset valuations caused by the impact of the coronavirus on the economy, and low interest rates prescribed by the IRS that are used for wealth transfer strategies create a "trifecta" for attractive wealth transfer opportunities. Making transfers now can remove assets from your estate at a potentially lower valuation than may be possible in future years. In addition, low interest rates mean that certain strategies could be more impactful for your beneficiaries and create additional opportunities to address your objectives.

**Legislative considerations**

As we approach the presidential election and the end of the year, discussions surrounding wealth transfer could increase. The TCJA raised the estate, gift, and GST tax exemptions from $5,000,000 to $10,000,000 (adjusted for inflation). In 2020, these exemptions are set at $11,580,000. However, due to the sunset provision attached to the legislation, the exemptions will revert to $5,000,000 (adjusted for inflation) starting on January 1, 2026.

In the event of a change in administration and Democratic control of both the House and Senate, changes could occur sooner. Joe Biden has stated he would seek to roll back the TCJA, effectively cutting in half the estate, gift, and GST tax exemptions. In addition to decreasing these amounts, Biden has also called for an elimination of the basis step-up at death. The elimination of the step-up in basis would result in a capital gains tax liability to future generations upon the sale of the underlying asset, in addition to the potential 40% estate tax paid for amounts over the exemption (on the full fair market value of the estate) at the time of death. This situation could be particularly expensive for taxpayers with significant unrealized gains or "negative basis."

Finally, marketability and minority interest discounts could be eliminated via regulations. In August 2016, the Obama administration issued regulations, effectively excluding the use of these discounts in wealth transfer strategies. While the Trump administration shelved these regulations, it would be very easy for a new administration to reinstate. However, even without a change in the administration and the impact of the expanding budget deficit due to the fiscal measures the government is taking during the coronavirus crisis, the federal estate tax exemption amount may be reduced before its scheduled expiration. With that in mind, the following are strategies that may be attractive for transferring wealth in the current environment.

**Gifting strategies**

**Fulfilling annual obligations**

As we enter the fourth quarter, be aware of your other annual planning obligations. Follow through on satisfying your annual charitable pledges for any multi-year commitments and keep a record of your donations. If you have established trusts and also have decided to contribute to them, it is important to transfer the funds timely and document the transfer of the funds appropriately to satisfy certain notice and tax requirements. This includes gifting to Crummey trusts and having the trustee deliver annual notices to beneficiaries, contributing funds to irrevocable life insurance trusts (ILITs) so that the trustee can pay premiums, and in the case where your qualified personal residence trust (QPRT) has terminated, paying fair market rent to the remainder beneficiaries if you continue to occupy the residence.
Special lifetime gifting options

Remember that not all gifts are taxable gifts that use all or part of your lifetime exemption. You have three options for making lifetime gifts that leave your exemption intact:

- **Annual exclusion gifts.** Every taxpayer can give up to $15,000 per year to an unlimited number of recipients. Married couples can gift together for a total of $30,000 per year. An annual gifting program where you make these gifts to children, grandchildren, their spouses, etc., can be an effective tool to transfer wealth.

- **529 plans.** These education savings plans offer the potential for tax-free growth if you meet their requirements.

- **Medical expenses and tuition payments.** You can make unlimited payments for anyone’s benefit as long as you pay the providers or the educational institution directly (only certain expenses qualify). As a bonus, a dependent’s medical expenses might also qualify as an income tax deduction.

Flexibility on 529 plans

You can use funds from 529 plans to pay for up to $10,000 of elementary and secondary (K–12) school expenses. However, not all states consider elementary and secondary school expenses to be qualified withdrawals; check with your tax professional for your state’s rules prior to making a withdrawal.

While this flexibility is positive, depending on your situation, letting funds continue to grow in existing 529 accounts might make more sense than withdrawing them for K–12 tuition.

You can contribute up to $15,000 per year per beneficiary without it being considered a taxable gift. You can also consolidate five years of contributions into a single year, for a total contribution of $75,000 per individual and $150,000 per married couple. If you bunch contributions like this, you will need to file a gift tax return. Any additional gifts you make to the beneficiary for the following four years would likely be considered a taxable gift.

Achieving a Better Life Experience (ABLE) accounts allow for tax-advantaged funds to help disabled individuals pay for qualified disability-related expenses. Due to relatively recent changes in the tax law, rollovers from 529 plans to ABLE accounts (529A plans) are permissible, subject to federal and state limitations. Be aware that rollover rules may vary by state.

The SECURE Act included several provisions impacting the use of 529 plan funds. The changes include allowing for tax-free 529 plan distributions for...
student loan repayment (up to a lifetime limit of $10,000 per plan beneficiary and beneficiary’s siblings). Any student loan interest that is paid for using tax-free 529 plan earnings is not eligible for the student loan interest deduction. Additionally, 529 funds can now be used to cover fees, textbooks, supplies, and equipment (including tools) for registered and certified apprenticeship programs.

**Use of lifetime exemptions**

As noted earlier, the historically high federal estate tax exemption amount, together with current low interest rates and, in some cases lower asset values, present opportunities for accelerating the transfer of wealth. As there is uncertainty surrounding potential changes to tax law, it is important to incorporate flexibility in any estate planning you undertake. Trust provisions such as a substitution power, power of appointment, or the ability to decant may allow you to modify certain aspects of the trust without a court order if your circumstances or laws change.

**Wealth transfer planning strategies**

Certain strategies can help you and your family members capitalize on the low interest rate environment. For example, intra-family loans (often from a parent to a child or a grandparent to a grandchild) with interest fixed at the applicable federal rate (AFR) may often be below commercial rates. By utilizing an intra-family loan, a child or grandchild may be able to utilize the borrowed funds to invest in assets at a higher rate of return than the interest charged by the loan, resulting in a tax-free gift from the lender to the borrower. Loans at a low AFR can also be used as an impactful technique in a sale of assets to an intentionally defective grantor trust (IDGT). In a low interest rate environment, the seller can create the promissory note with an AFR that may potentially provide savings to the trust beneficiaries by reducing the annual interest payments on the note. It is important to note that tax laws disfavor “gift loans,” so it is important to work with your tax professional and keep transactions within AFR guidelines.

Other trusts, such as grantor retained annuity trusts (GRATs) and charitable lead trusts (CLTs), can also take advantage of a low interest rate environment, since the lower rates set a low “hurdle” for investments to clear to achieve the desired outcome.

If you’re concerned about losing control of or access to assets now in order to make use of your exemption, some transfer options, such as spousal lifetime access trusts (SLATs), can potentially mitigate these concerns for married couples. A SLAT is an irrevocable trust that is funded during the donor’s lifetime using annual exclusion gifts, applicable exemption gifts, and/or taxable gifts, and provides access to the assets and future appreciation through the beneficiary-spouse as long as they remain married. Due to the current low interest rate environment, it may be beneficial to utilize a promissory note reflective of current AFRs set by the IRS in a part gift/part sale transaction in order to make the transfer to the SLAT. There are risks and expenses involved with SLATs, so be sure to discuss this option with your legal and tax professionals.

Before implementing any wealth transfer option, you should consider the trade-offs between lifetime transfers and transfers at death. Lifetime transfers usually result in the beneficiary assuming the tax basis in the gifted asset equal to your basis at the time of the gift. This could result in any built-in and future appreciation being taxed to the beneficiary when he or she sells the property, although any gift or estate tax on such appreciation could potentially be avoided. In contrast, if the transfer of the asset occurs at death, the beneficiary generally assumes the tax basis equal to the fair market value at that time, eliminating any income tax on the built-in appreciation (it is important to note that Biden’s tax proposal includes eliminating this step-up in basis). However, income tax savings on the asset may be offset by any estate tax imposed on the asset. Of course, taxes are only one aspect to consider when transferring wealth; consider your overall goals and review other options instead of making decisions based solely on the tax impact.
Life-changing events

If you have experienced a life-changing event, such as the passing of a spouse, in addition to dealing with your personal emotions, you may also have to make tough tax and administrative choices in a limited period of time. Several decisions that you may need to make include:

- **Portability.** Portability is the ability to utilize the unused portion of your deceased spouse’s gift and estate tax exemption of $11.58 million in 2020. You can elect to have that unused amount transferred to you as the surviving spouse. Note that this only applies to the estate and gift tax exemptions; the GST tax exemption is not portable. You generally must make your election on a “timely filed” Estate (and Generation-Skipping Transfer) Tax Return (Form 706), which is due nine months after the date of death.

- **Deductions.** You might have choices as to where to claim certain deductions, such as on an income tax return or an estate tax return, and thereby potentially decrease your overall tax burden.

- **Optional basis adjustment in partnership assets.** You may have a limited time to elect whether to adjust assets held in a partnership or LLC to match the new basis of the decedent’s interests in that entity.

The techniques above may help you to minimize your overall tax burden, and state laws may provide additional or different relief.

*For those who have life insurance policies, consider reviewing them on a periodic basis to make sure they meet your estate planning objectives.*

*Insurance products are offered through nonbank insurance agency affiliates of Wells Fargo & Company and are underwritten by unaffiliated insurance companies.*
State estate taxes

Although you may now be able to avoid an additional amount of federal estate tax, you may still need to consider, and plan for, state estate taxes. Many states impose an estate tax or have an exemption amount lower than the federal exemption. When discussing planning options with your financial, tax, and legal advisors, be sure they know the states in which you own property.

Key
- | States with an estate tax
- | States with an inheritance tax
- | States with both

States with an estate tax
- Connecticut
- District of Columbia
- Hawaii
- Illinois
- Maine
- Maryland
- Massachusetts
- Minnesota
- New York
- Oregon
- Rhode Island
- Vermont
- Washington

States with inheritance tax
- Iowa
- Kentucky
- Maryland
- Nebraska
- New Jersey
- Pennsylvania
Key 2020 dates

While year-end is always a good time to adjust your strategies or put new ones in place, planning is most effective when done year-round. The following are some key dates to be aware of in the fourth quarter; many have been addressed in this document, but, if applicable, be aware of potential action to take regarding Social Security, Medicare, and Flexible Spending Account (FSA) balances.
October

- Review your investment portfolio, making sure your asset allocation aligns with your financial goals, life events, and potential impacts from tax law changes.
- For tax planning purposes, determine whether the 0%, 15%, or 20% capital gains tax rate will apply to you and whether or not adjusting the timing of capital gains recognition makes sense.
- Set up a SIMPLE/safe harbor 401(k), if applicable.
- File your federal tax return by 10/15 if you previously filed for an extension (for corporate tax return, individual, or gift tax [Form 709]).
- Review your Medicare Part D choices if you are on Medicare. Enrollment window: 10/15–12/7.
- Review the impact of the increased gift and estate tax exemptions on your estate plan.

November

- Plan to complete individual gifts and charitable contributions, including opening accounts and depositing contributions, before 12/31.
- Consult the Social Security Administration, ssa.gov, to determine your Social Security benefits and how to apply (for those planning or considering retirement in the near future).
- Consult ssa.gov to determine how and when to apply for Medicare (for those approaching 65 or planning to retire in 2020).
- Confirm your current FSA balance and verify your plan’s rules for rollovers of unused funds. If the rollover option is not available to you, or if your balance exceeds the permissible amount, plan to spend the balance on qualified health care expenses before the end of the year.
- If you are selling assets for tax-loss harvesting purposes but want to maintain exposure, make sure your position is in place by 11/30.
- Review your retirement account beneficiary designations to verify they are in alignment with your estate plan.

December

- Use tax-loss harvesting sales to offset capital gains in your portfolio.
- Convert eligible retirement accounts to a Roth IRA, if beneficial.
- Complete a 529 plan contribution.
- Sell shares acquired through the 2020 exercise of incentive stock options in disqualifying disposition to limit AMT exposure.

Although 12/31 is the technical date these activities need to be completed for tax purposes, they will need to be put in process well in advance of 12/31 to implement by year-end.
Contact your relationship manager to learn more about these strategies. We can help you create your plan, track your progress, and suggest course corrections throughout the year.
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CAR-0720-03946  IHA-6719603