Your Year-End Checklist

Set yourself up for success in 2021

2020 has been an unprecedented year that has left many investors feeling cautious about the markets and concerned about retirement. Does your financial plan need to be updated? At Evergreen we have a quarterly review schedule to make sure our clients' needs are being reviewed on an ongoing basis, and now is a more important time than ever. Review the questions below to see if your financial plan needs to be adjusted before year-end.

ARE YOU
TRACK?

COVID-19 brought many uncertainties, which led many to stop retirement contributions and put those plans on hold. As the job market has stabilized, now is a great time to get back on track. You have until April 15th, 2021 to make traditional and Roth IRA contributions of $6,000; and if you are over 50 years old you can contribute an additional $1,000. The SECURE Act of 2019 removed the age restriction of not being allowed to contribute past 70 ½, now if you have earned income you can continue making contributions. These contributions are subject to income limits, so check to see if you qualify or review with your CPA.

If you have a 401(k) or other employer retirement plan, check your contribution to make sure you are taking advantage of the $19,500 annual limit. An additional $6,500 is allowed for those over 50 years-old and may not be automatically applied once you reach eligibility.

A Roth conversion (also known as a backdoor Roth contribution) is a savvy way to achieve tax-free growth. You are allowed to convert funds in a traditional IRA into a Roth IRA in any given year, for any amount, with no income limits. Any amount converted is treated as ordinary income. 2020 may be an opportune year for converting if your income is down. In addition, if Joe Biden is elected his tax plan is proposing higher income tax rates, so if you are considering a conversion this may be a good time to do it.. It is important to review this strategy with your CPA and wealth consultant so you can fill up income buckets to stay within certain tax brackets, and transfer securities that make sense to move into the Roth account.

The CARES Act eliminated the need to take your IRA Required Minimum Distribution (RMD) for 2020, so you can skip it and save on the taxes. It is worth noting that going forward the age RMDs begin has been increased from age 70 ½ to 72, so it is worthwhile to review your distribution strategy for the next few years if this change impacts you.

There are a few other material changes from the CARES Act to review before year-end. If you or your family have been diagnosed with COVID-19 or have experienced negative financial consequences due to the virus you may be eligible to withdraw up to $100,000 from your retirement plan without incurring a 10% early withdrawal penalty. Amounts withdrawn can be returned to the accounts over a 3-year period, and you can pay taxes over a 3-year period as well. You could also take up to a $100,000 loan from your 401(k) plan, with payments delayed for 1 year. If you are needing to gain access to these funds review with your CPA to understand your eligibility and the tax ramifications.

It is always a good idea to review these designations annually, but especially this year after the SECURE Act was enacted in 2019. The stretch provision has been eliminated, and going forward most non-spousal beneficiaries will have to deplete these inherited accounts within 10 years, resulting in large taxable events. For some this legislation will warrant a complete overhaul of their legacy plan.

As insurance plans change so frequently, review your healthcare documents during open enrollment. Medicare open enrollment is from October 15th through December 7th, with information available beginning in October.

If you are covered under an employer plan plan, check to see if you are eligible for a Flex Savings Account (FSA) or Health Savings Account (HSA), and if so make contributions. If you have an FSA, make sure to deplete these funds by year-end as they do not roll over to the next year. Enroll in an HSA if available, as they offer triple tax savings by providing tax-deferral when contributing, tax-free growth on investments, and tax-free withdrawals if used for qualified medical expenses. Unlike FSAs, there is no requirement for these funds to be used within a calendar year and can be part of your long-term retirement strategy.

GIFTING STRATEG

In the midst of this pandemic our communities are struggling, and for those who are charitably inclined there is no better time than now to donate and make sure these funds are getting to organizations who can make the biggest impact.

Outright gifts to charity can be made with cash and the The CARES Act allows a special $300 ($600 for couples) above-the-line deduction for cash contributions in 2020 for those who do not itemize. For those that do itemize, AGI limits are repealed for 2020 and cash contributions can be made up to 100% of AGI. Gifting appreciated securities may still offer a bigger tax impact if you itemize deductions as it also removes the gain from your portfolio. With the standard deduction being raised to $12,400 per individual ($24,800 for married couples) many will not itemize. Consider bunching multiple years of contributions into one year, if you have the ability, to get the largest tax impact.

Donor Advised Funds (DAFs) are excellent tools to maximize your charitable impact over time. You can gift cash or appreciated securities to receive a deduction, and reinvest the funds to grow the amount you can give. You can easily make grants to organizations, with no annual minimums to distribute. Family and loved ones can be made successors on the funds so they can continue giving and expand your legacy.

Give from your IRA through Qualified Charitable Contributions (QCDs). If you are over 70 ½ you can give up to $100,000 from your IRA each year. Typically this would count against your annual RMD, however this strategy is still allowed even though RMDs are suspended for 2020 .

Making a plan to give to loved ones during your lifetime can help save taxes down the line, and help your loved ones when they may need the funds more. Individuals can gift $15,000 per beneficiary each year (married filers can gift $30,000). Contributing to 529 education plans can be a great way to help kids and grandkids pay for college. For these plans you can accelerate up to 5 years worth of gifts of $75,000 ($150,000 per couple). We recommend reviewing annual gifting as a part of your overall legacy plan.

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With the markets shifting considerably in 2020, now is a good time to review your portfolio allocation to make sure it aligns with your goals. While equity and income markets have rallied since the lows in March, the return profile is less attractive but we still think there is value to be had in pockets of the market. As we are in a recession with falling growth and earnings, we think now is a good time to gradually bring down risk in the portfolio, and adding back at another pullback in the market. It has been a great year to be tactical and active and we think this trend will continue.

It is also a good time to review tax-loss harvesting, especially if your portfolio has realized losses from earlier this year. With the market rally we think now is a good time to trim your winning positions. 2020 may be an especially good time to take advantage of low capital gains rates, as Biden's tax plan is proposing capital gains being taxes at higher ordinary income rates, instead of 15% or 20%.

We recommend reviewing your financial plan annually, or if there are any major life events such as births, deaths, retirement, job change, etc. All of the disruption in the world in the last year likely warrants a review of your big picture. Reach out to your wealth consultant to set up a review or fill out the form below to be contacted by Evergreen to get started on this process.

Why combine tax, investments & financial planning...

To seamlessly integrate your investment portfolio and financial plan with maximum tax-efficiency requires a team with expertise in each of those areas. We believe this integration is best achieved when your CPA, CFP®, and Wealth Consultant are working under one roof.

We remove the need for clients to have to serve as the middle man between the investment manager and CPA. Evergreen clients can spend more time focusing on their work and families and less time facilitating meetings and communication when they utilize the all-in-one investment and tax service Evergreen provides.