Subject: Year-end tips for you

December 8, 2020

We hope you're doing well. It has been quite a year – and as if Covid-19 and the election weren't enough, there's been new legislation impacting retirement plans and taxable investment accounts. Despite the legislative changes, you can still increase your savings and possibly lower your 2020 taxes. And there are new ways to avoid penalties and access money from your retirement accounts if you need cash now.

Below are details about the new rules and contribution limits. There's a lot of to-do items below, so if it gets overwhelming, feel free to contact your advisor. But please do so soon, because most of the below requires action by Dec. 31:

- **Required Minimum Distributions from retirement accounts and IRAs:** RMDs are waived in 2020. If you turned 70 on or after July 1, 2019, you don't have to start taking RMDs until you reach age 72.
  - If you took a distribution from your retirement account or IRA within the last 60 days and now realize you didn't have to, contact your tax advisor. You can put the withdrawal back into an IRA, provided you haven't done an IRA rollover in the last 365 days and will have no need to do another one in the next 365 days.

- **CARES Act distributions:** If you or someone in your household has been negatively impacted by Covid-19, you may be able to withdraw up to $100,000 in 2020 from your retirement accounts and IRAs (including SEP-IRAs and SIMPLE IRAs) without paying a 10% penalty to the IRS. To qualify, you must:
  - be diagnosed with Covid-19 using a test approved by the Centers for Disease Control and Prevention;
  - have a spouse or dependent who is diagnosed with Covid-19 using a CDC-approved test;

  or
  - experience adverse financial consequences as a result of the individual, spouse or member of the individual's household:
    - being quarantined, furloughed or laid off, or having work hours reduced due to Covid-19;
    - being unable to work due to lack of child care as a result of Covid-19;
    - owning a business that has closed or is operating under reduced hours due to Covid-19;
    - having pay or self-employment income reduced due to Covid-19; or
    - having a job offer rescinded or a start date for a job delayed due to Covid-19;

  or
  - meet other factors as determined by the Secretary of the Treasury.

  If you qualify, any taxes due on the withdrawal can be paid over three years, starting with 2020. You can also file amended tax returns to get refunds from prior-year tax returns if you return any amounts withdrawn to your account within the next three years.

Also, you may be able to borrow up to the full vested value of your workplace retirement account, or $100,000 minus outstanding plan loans, whichever is less, if your plan permits loans.

Before exercising any of the above options, be sure to speak with your tax advisor.

Finally, regardless of your age, you can contribute to an IRA for 2020 if you are still working.

- **Contributions to workplace retirement accounts:**
  - 401(k), 403(b), 457 or SARSEP: You can contribute 100% of your compensation, up to $19,500 ($26,000 if you're age 50+).
  - SIMPLE IRA: You can contribute 100% of your compensation, up to $13,500 ($16,500 if you're age 50+).

  If you haven't yet contributed the maximum, you can increase your retirement savings (and thus reduce your taxes) by contributing more than usual from your December paychecks. Talk with your HR department.

- **Contributions to IRAs:** The maximum contribution is $6,000 ($7,000 if you're age 50+).
  - You can delay funding your 2020 IRA until next year (no later than April 15). But the sooner you fund the account, the more time your money will be invested!
  - You can contribute this maximum for both yourself and your spouse. Your spouse can do this even if your spouse didn't earn any income this year. (Call your advisor for information about creating a spousal IRA.)

- **Charitable donations:** Planning to donate to a charity or religious organization? Do it before year-end to get the tax deduction for 2020.
  - Cash donations:
    - If you itemize deductions on your tax return, all your cash donations are deductible, up to 100% of your Adjusted Gross Income.
    - If you don't itemize, you can deduct $300 of cash donations.
  - Gifts of securities:
    - Consider giving shares of your mutual funds or Exchange-Traded Funds that have appreciated. The charity will get their full value, and you'll avoid paying capital gains taxes on the profits.
    - Want to donate appreciated assets but don't know who to donate them to? You can open an account in a Donor-Advised Fund and get a tax deduction for 2020 but delay making the actual donation to charity for years. Talk with your advisor to learn more about this.
    - Even though RMDs aren't required this year, you can do an RMD and send it to a charity as a Qualified Charitable Distribution. You must be at least age 70½.

  If you want to engage any of these giving strategies, please talk with your advisor soon, as some of these ideas take a couple of weeks to complete. It's best to start no later than early December.

- **Flexible Spending Accounts:** If you diverted some of your paycheck into an FSA this year, you generally must spend the money by Dec. 31. But the CARES Act lets your employer give you additional time, into early 2021. So check with your employer. Otherwise, you'll need to spend all the money in your FSA by the end of 2020; any amounts you don't spend will be lost.
    - It's also time to enroll in your FSA for 2021. Talk with your HR department.

- **Federal student loans:** Payment requirements are suspended until after Dec. 31, and interest on the loans is not accruing. But that's actually a good reason to pay, if you are financially able to do so. The reason: All of your payment will be applied to reducing the balance, with none of the payment being used for interest.

- **Unemployment benefits:** This is considered taxable income, so call your tax advisor to make sure you're handling tax-withholding correctly.

- **A life change in 2021 could mean a tax change, too:** Let your advisor know if you expect any major changes in your life next year. Thinking of selling your house? Might you change jobs? Buy a car? Anyone in the family having a baby or adopting one? Big events often offer big opportunities – and pitfalls. Call your advisor to plan ahead!

- **Any life changes right now?** Finally, please let your advisor know if you have experienced any changes in your financial situation or investment objectives. This information will help your advisor discuss potential account adjustments with you, which can include portfolio updates, account management restrictions or withdrawal amounts, so my advice continues to be in your best interests.

Feel free to contact your advisor anytime regarding any of the above. Until then, best wishes to you and yours for a safe, healthy and happy holiday season.

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