PENSION & WEALTH MANAGEMENT ADVISORS

Dear Friends & Clients,

Although 2020 has been a year of unexpected changes, one routine remains consistent and that is the fourth quarter means it's time to plan for the new year. With new tax and retirement considerations related to the COVID-19 pandemic this year, here are several items to review:

Max Out Retirement Contributions

Are you taking full advantage of your workplace retirement accounts? If not, consider increasing contributions to max out employer matches. Increasing contributions to an IRA could offer tax advantages as well. Keep in mind that the SECURE Act repealed the maximum age for contributions to a traditional IRA, effective January 1, 2020. As long as individuals have earned income in 2020, they can contribute to a traditional IRA after age 70½—and, depending on modified adjusted gross income (MAGI), they may be able to deduct the contribution. Use Flexible Spending Account (FSA) Balances Make sure you use your FSA balances. The Internal Revenue Service relaxed certain "use-or-lose" rules this year because of the pandemic. Employers can modify plans through the end of this year to allow employees to "spend down" unused FSA funds on any health care expense incurred in 2020—and let you carry as much as $550 over to the 2021 plan year.

Explore Opportunities for Charitable Giving

Donating to charity is a good strategy to reduce taxable income—and help a worthy cause. If you opt to make charitable contributions in 2020, you can deduct up to $300 for charitable contributions even if they don't itemize deductions. This "above-the-line" deduction is new for 2020 under the CARES Act. If you itemize, the CARES Act also allows a deduction for all cash contributions to public charities up to 100 percent of your adjusted gross income. What if you are older than 70½? Don't forget that neither the CARES Act nor the SECURE Act changed the qualified charitable distribution (QCD) rules. If you are older than 70½ you can still make a QCD of up to $100,000 per person directly to a charity—and married taxpayers filing jointly may exclude up to $100,000 donated from each spouse's IRA.

Plan For Estimated Taxes and Required Minimum Distributions (RMDs).

Both the SECURE and CARES acts affect 2020 tax planning and RMDs. Under the SECURE Act, individuals who reach age 70½ after January 1, 2020, can now wait until they turn 72 to start taking RMDs —and the CARES Act waived RMDs for 2020. Under the CARES Act, those who took coronavirus-related distributions (CRDs) from their retirement plans have four options:

- Repay the CRD.
- Pay all of the income tax related to the CRD in 2020.
- Pay the tax liability over a three-year period that includes 2020, 2021, and 2022.
- Roll the funds back in over a three-year period. (Repayments will be coded as rollover contributions but won't count as one allowable 60-day rollover per 12-month period.)

You will need to file IRS Form 8915-E to report the CRD repayment or its inclusion in taxable income. The IRS expects Form 8915-E to be available by the end of 2020. If you choose not to repay the CRD, you will need to elect on your 2020 income tax returns how you plan to pay taxes associated with the CRD.

It's important to point out, however, that once you elect a strategy, you can't change it. Likewise, individuals who took a 401(k) loan after March 27, 2020, will need to establish a repayment plan and confirm the amount of accrued interest.

Adjust Withholding

If you are subject to an estimated tax penalty, you can consider asking employers (via Form W-4) to increase your withholding for the remainder of the year to cover shortfalls.
The biggest advantage of this is that withholding is considered to be paid evenly throughout the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. If you collected unemployment in 2020, any benefits they received are subject to federal income tax. Taxes at the state level vary, and not all states tax unemployment benefits. If individuals received unemployment benefits and did not have taxes withheld, you may need to plan for owing taxes when you file your 2020 returns.

Review Estate Documents

Now is a good time to review and update estate plans to make sure one accounts for any life changes or other circumstances:

- Update beneficiary designations
- Take a fresh look at trustee and agent appointments
- Review provisions of powers of attorney and health care directives

As we move into year-end planning, please feel free to call us with any questions.

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