2020 Year-End

Financial Planning Checklist

As we near the end of another year it is always wise to review your financial situation – especially after a year like 2020! Leading Edge has created a checklist to help you evaluate your progress, maximize opportunities, and set goals for 2021. Take this opportunity to do a quick financial self-assessment. Did you meet your financial goals? Did you pay off the debts that you hoped to? Did you keep within your budget? If not, commit to making those changes for the upcoming year. As always, we are here to help. Please reach out if we can help answer any questions or concerns.

- *The team at Leading Edge Financial Planning*

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This article was adapted from a Vanguard Article and Helpful Checklist

Max Out Retirement Contributions

Are you taking full advantage of your workplace retirement accounts? If not, we encourage you to consider increasing contributions to max out employer match. Also, boosting contributions to an IRA could offer 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 Keep in mind that the SECURE Act repealed the maximum age for contributions to a traditional IRA, effective January 1, 2020.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.

Refocus on Goals

Did you work on savings goals for 2020? Leading Edge Financial Planning can help you develop a plan for setting realistic targets for next year as well as staying on track to achieve them. Acting NOW before the holidays, increasing contributions for 2021 and saving more next year is a great idea! "save more tomorrow"
https://www.ted.com/talks/shlomo_benartzi_saving_for_tomorrow_tomorrow

- ***Focus on progress in the previous year...celebrate success for a moment and then refocus on tomorrow***

Use Flexible Spending Account (FSA) Dollars

If you have a Flexible Spending Account (FSA), 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 them carry as much as $550 over to the 2021 plan year. For those of you who don't have FSAs, calculate qualifying health care costs to see if it makes sense to establish one for 2021. Please NOTE, these are different from Heath Savings Accounts (HSA) and there is no rush to use HSAs before year end.

Manage Marginal Tax Rates

If you are on the threshold of a higher tax bracket, you may be able to put yourself in a lower bracket by deferring some income to 2021. Sometimes this matters to your overall tax situation and sometimes it only affects income in the higher tax bracket and is NOT very important. If you itemize, discuss the possibility of accelerating deductions such as medical expenses or charitable donations into 2020 (rather than paying for deductible items in 2021), which may have the same effect. Our partner firm, Leading Edge Tax Planning, **provides tax advice**. Please text or call Kevin with any questions, 865-617-6237. He is available until a few hours before the new year.

Here are a few key 2020 tax thresholds to keep in mind:

- The **37% marginal tax rate** affects those with taxable income in excess of:
    - $518,400 (individual), $622,050 (married filing jointly), $518,400 (head of household), and $311,025 (married filing separately).
- The **20% capital gains tax rate** applies to those with taxable income in excess of:
    - $441,450 (individual), $496,600 (married filing jointly), $469,050 (head of household), and $248,300 (married filing separately).
- The **3.8% surtax on investment income** applies to the lesser of net investment income or the excess of modified adjusted gross income (MAGI) greater than $200,000 (individual), $250,000 (married filing jointly), $200,000 (head of household), and $125,000 (married filing separately).

Rebalance Portfolios

Reviewing capital gains and losses for your taxable accounts may reveal tax planning opportunities; for example, you may be able to harvest losses to offset capital gains. Leading Edge Financial Planning personnel asks our clients to make introductions to their CPAs so we can collaborate on different options for them.

Explore Opportunities for Charitable Gifts

Donating to charity is another good strategy to reduce taxable income—and help a worthy cause. Leading Edge wants to help if you are interested in looking into various gifting alternatives, including donor-advised funds. If you opt to make charitable contributions in 2020, you can deduct up to $300 for charitable contributions even if you 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 about 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. Clients older than 70½ 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.

Form a Strategy for Stock Options

Leading Edge Financial Planning personnel are available to help with stock options and restricted stock. Clients who hold stock options may need help developing an approach for managing current and future income. Consider the timing of a nonqualified stock option exercise based on a client's estimated tax picture. Does it make sense to avoid accelerating income into the current tax year or to defer income to future years? For clients who are considering exercising incentive stock options before year-end, we recommend you have your tax advisor prepare alternative minimum tax projections to see whether there's any tax benefit to waiting until January.

Plan for Estimated Taxes and Required Minimum Distributions (RMDs)

Both the SECURE and CARES acts affect 2020 tax planning and RMDs, so you will have some additional considerations. 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, clients who took coronavirus-related distributions (CRDs) from their retirement plans have four options:

Repay the CRD (Coronavirus Distribution)

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 a client's one allowable 60-day rollover per 12-month period.)

You in concert with your tax professional, 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. Remember those who choose not to repay the CRD will need to elect on their 2020 income tax returns how they 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. We will receive more information how to proceed with repayment if you desire that alternative.

Adjust Withholding

If you may be subject to an estimated tax penalty you may consider asking employers (via Form W-4) to increase their 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, we remind you that any benefits you 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, they may need to plan for owing taxes when they file their 2020 returns. If we are too late to adjust for 2020 taxes through your employer's withholding (W4), an estimated tax payment can be made in January 2021 (dated on or before January 15) which will help alleviate most penalties.

Review Estate Documents

Now is a good time to review and update estate plans to make sure they align with goals and account for any life changes or other circumstances. Take time to:

- Check trust funding
- Update beneficiary designations
- Take a fresh look at trustee and agent appointments
- Review provisions of powers of attorney and health care directives
- Ensure that you and your spouse/partner fully understand all of the documents

Learn about and consider using Roth IRAs

Leading Edge Financial Planning personnel believe in the power of the Roth IRA for flexibility in retirement. There are ways for most of you to get some (and maybe significant funds) into Roth IRAs. Sometimes there is tax due to convert dollars from a 401k or IRA to a Roth IRA and sometimes there are NOT. We are excited to talk to you about the different strategies and if any are right for you.