Investment tax planning

"Your Green"
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Green Financial Resources

As we end one year and begin another, there are things you need to think about doing to maximize your retirement assets, gain any available tax benefit, and/or avoid any tax penalty that may be linked to your investments. Here are things you should consider:

IRA (Individual Retirement Account): Make sure you have maximized your IRA contributions to take advantage of the tax benefits they offer. Contributions for 2019 may be made through Monday, April 15, 2020. *Note: Filing an extension on your tax return does not extend the deadline for making your IRA contributions.* **The 2019 maximums are $6,000 for IRA contributions for those under age 50 ($7,000 for those 50 or older), and for 2020 this remains the same.** Make sure your contribution amount takes into consideration any prior contributions you have made for the tax year 2019, so you do not exceed this maximum.

If your income exceeds certain annual IRS limits, you may not be able to take a full deduction for a contribution to a traditional IRA, if you are *eligible* for a workplace retirement account such as a 401k. For 2019, these income limitations begin at $64,000 for singles/$103,000 for married filing jointly, increasing to $65,000/$104,000 in 2020.

The rules can be complex, so it is wise to contact a financial or tax professional to discuss your specific situation. We rarely recommend traditional IRA contributions if they are not fully deductible, or cannot wisely be converted to a Roth IRA. Once you reach age 70½ you are no longer eligible to make a traditional IRA contribution, but you can still make Roth IRA contributions, *if you have earned wages.*

Roth IRAs: Although there are no immediate tax benefits, for those who are eligible a Roth IRA might be the way to go because it provides tax-free withdrawal of contributions later. A Roth IRA has other benefits over a traditional IRA: 1) you can make contributions to your Roth IRA after you reach age 70½, and 2) you can leave amounts in your Roth IRA as long as you live. Your earned income does impact your eligibility to contribute to a Roth. An IRA calculator to help you determine if you qualify is available at RogerSGreen.com under the Resources tab.

Spousal Roth/IRAs: Many are not aware of this provision allowing a non-working spouse to contribute to a Roth IRA based on the income of the working spouse. If you meet the eligibility requirements, you can open a Roth IRA in your name and have your working spouse contribute to it from income/assets. The Roth IRA allows you to make withdrawals during retirement that are not subject to income taxes, increasing the portion of your money you may have to spend in retirement. There are more restrictive guidelines for making the same type of Spousal contribution into a traditional IRA account, and contributions would reduce your taxable income for the year for which the contribution is made; but withdrawals from those accounts will be taxable as income in retirement.

Irrevocable Roth conversions: IRS guidelines allow for the irrevocable conversion of existing assets from a traditional IRA to a Roth IRA regardless of your Adjusted Gross Income. A Roth conversion can lower your future tax bill if you anticipate higher future tax rates. Keep in mind, however, that converting normally results in a taxable event. The decision to convert can be complex, and you must consider many factors such as assumed future tax brackets, other assets available for retirement, and whether you have the assets to pay for the conversion income taxes. The decision to convert assets to a Roth is irrevocable and cannot be undone.

Roth re-characterization no longer available: If you convert an IRA to a Roth IRA, and later change your mind, you can no longer undo or "re-characterize" that Roth conversion. The ability to do so ended on October 15th, 2018.

401(k)/403(b) and most 457 Plan contributions: The maximum contribution was $19,000 for 2019 and $19,500 for 2020. For those age 50 or older, an additional $6,500 catch-up contribution is permitted for 2020, up from $6,000 in 2019. Maximize your contributions, as this is how most people get started on investing for their future.

If your company matches employee contributions into your 401(k), make sure you are contributing *at minimum an amount that earns you the full employer match.* Failure to do so equates to refusing free money from your employer. Your 401(k) contributions, unlike IRA contributions, *must be made by December 31st each year.* There is a provision limiting the matching money paid by employers into the 401k for those earning higher incomes. For 2019 that income limit rose to $280,000, and it is going up to $285,000 for 2020.

SEP IRAs & Solo 401ks: **For the self-employed, the amount they can save in a SEP IRA/Solo 401(k) was $56,000 in 2019 and rose to $57,000 for 2020.** That is based on the amount you can contribute as a percentage of salary as an employer, with a compensation limit used in the savings calculation at $285,000 in 2020, up from $280,000 for 2019.

Required Minimum Distributions (RMD): If you reach the age of 70½ during 2019 or are over 70½, you must take a Required Minimum Distribution (RMD) from impacted retirement accounts (traditional IRAs and 401k type plans) each calendar year. ***Failure to take an RMD can result in a 50% IRS excise penalty on the amount of the distribution.***

Annual Gift Tax Exclusion: The tax code allows you to gift cash or property, up to $15,000 for both 2019 and 2020, without a gift tax return or a gift tax. This exclusion can be used to help you bless others without a tax penalty. I've seen the joy my clients have received from helping a family member pay for a special trip, buy their first home, do home renovations, fund an adult child's Spousal Roth IRA, or just to help them meet their living expenses during a difficult time. Gifting limits *do not* pertain to gifts to your spouse, which are unlimited.

Gifting for Education and Medical Expenses: Unlimited gifts in the form of tuition and other qualified educational and medical expenses are permitted, *if you pay the care provider or learning institution directly.*

Because of the eligibility requirements and variables impacting many of these decisions, the input of a financial advisor and a tax professional is recommended. To inquire about your individual situation, or about setting up an individual IRA or a 401k for your small business, please contact us at 770.931.1414 or visit our website at RogerSGreen.com for information about how to schedule a no-cost consultation.

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