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Lynn's Top Five

By Lynn Ballou CFPr

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As I'm writing this, it's the night before the election and so much is still up in the air regarding our shared political futures. That said, it's pretty unlikely we'll get any earth-shaking last minute tax law changes inflicted upon us before the clock strikes midnight on Dec. 31. As we say good-bye (good riddance?) to one of the most truly bizarre years on record, it's time to focus on any remaining tax moves that could be helpful. Here are five for your consideration:

1) Required Minimum Distributions: Although Congress gave us a tax break this year and allowed RMDs to be skipped for 2020, there are some taxpayers who could benefit from taking distributions anyway. If your taxable income for the year will be less than zero when you file without taking distributions, you should consider pulling some money out of the appropriate retirement accounts and invest these dollars into your other after tax accounts so you don't waste this opportunity to pay nothing on something!

2) Roth Conversions: Taxpayers who are in very low tax brackets might also benefit from Roth conversions. One important consideration to take into account before you make this move: whatever you do before year-end cannot be undone next year during filing season in 2021, so run your projections thoughtfully. Also, it's not just about the federal taxes you'd owe on the conversion - it's also about the tax impact to your state taxes as well. Last but not least be sure you have the cash to pay the taxes from a source other than the funds you are converting.

3) Charitable Giving: For some you'll want to consider gifting low basis assets. For others the traditional cash approach will be best. Another idea for those of you who qualify would be to consider making a donation from your IRAs up to the limits (your RMD for the year, even if not taken). Called Qualified Charitable Distributions (QCD), donating directly from your IRA funds this year could impact future years' taxable RMDs favorably.

4) Employee Retirement Benefits: You have until the end of the year to fully fund the employee contribution portion of your retirement plans such as 401(k)s. Check out your paystubs, and determine if you are on track to fully fund the maximum you are allowed to not only for the deduction, but for the benefit of future tax deferred growth. At a minimum, be sure you are investing enough to receive all the available employer matches.

5) Last call to realize Capital Gains and Losses: In this year of extremes, take a last look at portfolio moves you made and tally up your gains and losses. This might not be the worst year to take gains if Congress decides to increase the tax in future years on these capital transactions to help pay for all the stimulus being provided now. Conversely, if you have losses on the books, determine if it's wise to lock some of those in. Keep in mind that you can only deduct net realized capital losses (after offsetting against realized capital gains) up to $3,000 per year. However, at least under current law, any losses you can't use in 2020 carry forward to next year.

If ever my advice to work closely with your Certified Financial PlannerT and tax advisor was appropriate, this is the year to take that advice to heart! And if any of these ideas appeal to you, I'd recommend you act soon to be sure they are all tucked in place properly by year end. Here's to a better 2021 for us all.

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