Year-End Financial Planning Checklist

10 Suggestions to Help You Stay on Track

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Although 2020 has been a year of unexpected changes, one routine has remained consistent: the fourth quarter means it's time to begin organizing your finances for the new year. To help you get started, here's a checklist of key topics to think about, including new tax and retirement considerations related to the COVID-19 pandemic.

1) Max out retirement contributions. Are you taking full advantage of your employer's match to your workplace retirement account? If not, it's a great time to consider increasing your contribution. If you're already maxing out your match or your employer doesn't offer one, boosting your contribution to an IRA could still offer tax advantages. Keep in mind that the SECURE Act repealed the maximum age for contributions to a traditional IRA, effective January 1, 2020. As long as you've earned income in 2020, you can contribute to a traditional IRA after age 70½—and, depending on your modified adjusted gross income (MAGI), you may be able to deduct the contribution.

2) Refocus on your goals. Did you set savings goals for 2020? Evaluate how you did and set realistic goals for next year. If you're off track, we'd be happy to help you develop a financial plan.

3) Spend flexible spending account (FSA) dollars. If you have an FSA, note that the Internal Revenue Service (IRS) 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 over $550 to the 2021 plan year. If you don't have an FSA, you may want to calculate your qualifying health care costs to see if establishing one for 2021 makes sense.

4) Manage your marginal tax rate. If you're on the threshold of a tax bracket, you may be able to put yourself in the lower bracket by deferring some of your income to 2021. Accelerating deductions such as medical expenses or charitable donations into 2020 (rather than paying for deductible items in 2021) may have the same effect.

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

- **The 37 percent marginal tax rate** affects those with taxable incomes in excess of $518,400 (individual), $622,050 (married filing jointly), $518,400 (head of household), and $311,025 (married filing separately).
- **The 20 percent capital gains tax rate** applies to those with taxable incomes 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 percent surtax on investment income** applies to the lesser of net investment income or the excess of MAGI greater than $200,000 (individual), $250,000 (married filing jointly), $200,000 (head of household), and $125,000 (married filing separately).

5) Rebalance your portfolio. Reviewing your capital gains and losses may reveal tax planning opportunities; for example, you may be able to harvest losses to offset capital gains.

6) Make charitable gifts. Donating to charity is another good strategy worth exploring to reduce taxable income—and help a worthy cause. Take a look at various gifting alternatives, including Qualified Charitable Distributions (QCD) and donor-advised funds.

7) Form a strategy for stock options. If you hold stock options, be sure to develop a strategy for managing current and future income. Consider the timing of a nonqualified stock option exercise based on your estimated tax picture. Does it make sense to avoid accelerating income into the current tax year or to defer income to future years? If you're considering exercising incentive stock options before year-end, don't forget to have your tax advisor prepare an alternative minimum tax projection to see if there's any tax benefit to waiting until January.

8) 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, if you reached age 70½ after January 1, 2020, you can now wait until you turn 72 to start taking RMDs—and the CARES Act waived RMDs for 2020. If you took a coronavirus-related distribution (CRD) from a retirement plan in 2020, you'll need to elect on your 2020 income tax return how you plan to pay taxes associated with the CRD. You can choose to repay the CRD, pay income tax related to the CRD in 2020, or pay the tax liability over a three-year period. But remember: once you elect a strategy, you can't change it. Also, if you took a 401(k) loan after March 27, 2020, you'll need to establish a repayment plan and confirm the amount of accrued interest.

9) Adjust your withholding. If you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. 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. You can also use this strategy to make up for low or missing quarterly estimated tax payments. If you collected unemployment in 2020, remember 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 you received unemployment benefits and did not have taxes withheld, you may need to plan for owing taxes when you file your 2020 return.

10) Review your estate documents. Review and update your estate plan on an ongoing basis to make sure it stays in tune with your goals and accounts 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 fully understand all of your documents

Be Proactive and Get Professional Advice
Remember to get a jump on planning now so you don't find yourself scrambling at year-end.

Although this list offers a good starting point, you may have unique planning concerns. As you get ready for the year ahead, please feel free to reach out to us to talk through the issues and deadlines that are most relevant to you.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

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