

TIME-SENSITIVE Tax Saving Opportunity Before December 31!

THE 6 “HIDDEN” TAX SAVING OPPORTUNITIES OPENED UP BY NEW TAX RULES

*A Guide to the Hidden
Opportunities in Your
Tax Return*



**Plus Critical Questions About COVID-19
Tax Issues Answered**

Dear Taxpayer,

The Tax Cut and Jobs Act (TCJA) passed at the end of 2017 and SECURE (Setting Every Community Up for Retirement Enhancement) Act passed at the end of 2019 radically changed your tax picture.¹ Most Americans are going to pay less in taxes under the tax brackets, and a few are going to use this great opportunity to permanently lower the taxes they pay.

The COVID-19 pandemic and relief acts also spurred new tax wrinkles you should know about.

I want to emphasize that this is a limited opportunity. The 2017 rules are scheduled to expire in 2025 (if they don't disappear sooner under a new administration), and most taxpayers will see a tax hike.²

However, this sneaky IRS move means you'll probably pay more in taxes even before they expire. To reduce the impact of the new tax laws on government revenue, the IRS changed how it increases things like thresholds, deductions, and credits for inflation.³ It sounds like a minor procedural move, but it's actually a big deal. In plain English, this change means that many taxpayers will "creep" into higher tax brackets as their incomes grow because the tax brackets themselves won't increase as much as they used to for inflation.

Bottom line: many taxpayers will pay more in taxes over the next few years due to this hidden tax increase. It might be only a few hundred dollars every year, but over time, even small tax increases add up! Unless you take steps now to reduce your taxable income.

The current tax rates might be the lowest you'll see for the rest of your life, and I want you to make the most of them. All 6 opportunities in this guide are actions you can take right now to potentially lower your taxes this year and in the years to come. I strongly recommend that you take this list, along with your tax return, to your CPA and financial adviser to see which tax reduction opportunities have opened up for you.

1. Take the Standard Deduction Later

The new tax rules nearly doubled the standard deduction and did away with many write-offs, removing the tax benefit of itemizing deductions for most taxpayers.⁴ However, an old accounting trick means you can still optimize your deductions under the new rules by "bunching" itemized deductions in a single year to get over the standard deduction threshold and then taking the standard deduction the following year—potentially maximizing your tax savings multiple years in a row.

2. Pre-Pay Your Medical Expenses

Have major medical-related expenses coming up? You can potentially maximize the tax deduction by pre-paying your out-of-pocket medical expenses for the year to get above the standard deduction amount and meet the 7.5% AGI threshold (and maybe even get a discount for paying up front). What kind of medical expenses qualify? A surprising number, including unreimbursed doctor fees, long-term care premiums, certain Medicare plans, and some home modifications.⁵

3. Give Money to Your Favorite Charity Right from Your IRA (New SECURE Act Opportunity)

Even though the SECURE Act changed the age at which your RMDs must start from 70½ to 72, you still have the right to make Qualified Charitable Distributions directly from your IRA to a qualifying charity once you're 70½, allowing you to exclude up to \$100,000 from your gross income (with certain restrictions).⁶ Even though the CARES Act allowed RMDs to be skipped in 2020, you can still make a QCD this year.

4. Lower Your Taxable Income with a Roth Conversion (But Do-Overs Are Done)

A Roth conversion is a great way to permanently lower your taxable income in retirement by converting tax-deferred assets into tax-free assets and paying taxes on the conversion in an optimal tax year (like under today's favorable tax brackets or if your retirement assets lost value this year). For example, if you're a married couple filing jointly and your household earned \$250,000 in taxable income in 2019, your effective tax rate is 19.34%, while it was 23.09% under the old rules.⁷ Unless you expect your taxes to be lower in future years, now may be an ideal opportunity for a Roth conversion.

Under the old rules, you could choose to reverse a Roth conversion (called recharacterization) and eliminate the tax bill. That loophole is gone, meaning once you convert that IRA to a Roth, you don't get a do-over.⁸ So you really have to look at all the variables and pick the right time for the move. We can review your options together and choose the optimal strategy for you.

5. Review How You're Paying Your Investment Fees

Prior to the TCJA, you could write off some of the fees you pay for investment management. The TCJA did away with that deduction, but there are still ways to pay fees with pre-tax dollars, if they make sense in light of your overall financial goals and investment performance. That's why we run the numbers with clients to potentially maximize the after-tax return on their investments—not just the market return.

6. Optimize Your Retirement Contributions

The TCJA and SECURE Act introduced many changes to tax rules. The 2020 CARES Act also temporarily changed certain tax requirements, making tax planning even more critical this year.

The most important step you can take right now to reduce your taxes this year may be to review how and where you're making retirement contributions. Why? Because you may be missing out on critical tax savings (and investment growth) if you're not optimizing your contributions. Depending on how close you are to retirement and your overall financial picture, you might be better off splitting contributions between retirement accounts or even diverting your contributions elsewhere to reduce debt (such as mortgage interest that is no longer deductible). We can run the numbers together, if you'd like a professional opinion.

Special COVID-19 Considerations That Could Affect You

ECONOMIC STIMULUS CHECK

If you didn't get a check from the IRS yet and think you're owed, don't worry. Since it's technically an advance refund of a 2020 tax credit, if eligible, you'll receive it after filing your 2020 taxes. **Important! You do not owe income taxes on your stimulus payment, nor must you pay it back.** ⁹

PAYROLL TAX HOLIDAY

In September the IRS issued a payroll tax holiday, allowing employers to stop withholding Social Security taxes until the end of 2020. **Important! If your employer paused your payroll taxes, you may get smaller paychecks in 2021 until the deferred taxes are paid off.** ¹⁰

529 REFUNDS

If you withdrew money from a 529 to pay for college expenses that were refunded, you'll want to return the money to the 529 as a "recontribution" within 60 days of the refund so that it isn't taxed or penalized as a non-qualified distribution. **Too late for that? You can also use the funds for other qualified educational expenses (such as computers, internet, or student loans) within the same tax year.** ¹¹

401(k)/IRA WITHDRAWALS

If you need to make COVID-related emergency withdrawals from your IRA or workplace plan (we don't advocate this in most circumstances), do it before year-end to avoid the 10% penalty that normally applies if you're under 59½. You'll be able to stretch out the income taxes on the withdrawal over the next three years. **Important! Be sure to speak to your plan administrator soon to make sure this distribution option is available to you.** ¹²

I CAN HELP YOU MAKE THE MOST OF YOUR TAX OPPORTUNITIES UNDER THE NEW RULES.

The TCJA and SECURE Act introduced many changes to tax rules. The 2020 CARES Act also temporarily changed certain tax requirements, making tax planning even more critical this year. I'm a wealth manager who helps clients use the new tax rules to uncover opportunities, identify risks, and keep more of their money working for them. I also help my clients plan for future taxes and create a retirement income plan to help minimize the taxes they will pay.

If you are currently working with a financial professional, are they looking at your tax return?

They should be. If they're not talking to your CPA, neither professional has the full picture and you're missing opportunities to optimize your portfolio and pay less in taxes. I'm happy to work collaboratively with your CPA to make sure that you're making the right moves to minimize taxes and grow your wealth. If you don't currently have one, I've got several I can personally recommend.

Everyone's situation is different, and today's tax and retirement environment is extremely complex. You have a limited window of opportunity to use the new tax laws to radically improve your tax picture now and for the future.

I use financial modeling software to show you exactly how your overall picture is affected by new tax rules and temporary updates. I can also help project your future income and the taxes you'll owe to find opportunities to potentially maximize your tax savings now and permanently reduce the taxes you pay in the future.

I'd like to invite you to a FREE Tax Opportunity Session where we review your taxes, portfolio, and current financial strategies. It's 100% free. Just send an email to the address below with the subject line "I'd like to schedule a tax reduction appointment." My team and I will take it from there.

Your tax reduction partner,

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P.S. I highly recommend you act on this now. This is a very limited opportunity to take full advantage of these potentially massive tax savings. If you have any questions or would like to meet with me personally, please email me or call my office.

Sources & Disclosures

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