



Year End Planning Strategies 2020

Once again, we are closing out another year. I think you will agree, it has been a year like no other. I want to remind you that there were significant changes to the tax laws in 2020 that could substantially benefit you in your year-end financial planning.

We were just coming off the Secure Act passed in Dec of 2019. Once COVID-19 hit many found additional financial support in the form of the CARES Act in April 2020. Couple this with an historically low tax environment and 2020 makes for some interesting year-end financial planning opportunities and considerations:

Contribute to IRA or Roth IRA

As long as you have earned income, you can contribute up to \$6000 to an IRA or Roth IRA in 2020. If you are 50 years or older there is a \$1000 catch-up opportunity

- Remember you must have earned income and income tax limitations apply

Roth Conversions

You may want to consider a Roth conversion in 2020. Not only were Required Minimum Distributions (RMDs) pushed to 72 years of age under the Secure Act 2019 but in 2020 they were suspended altogether under The CARES Act.

Although individuals are not required to take RMDs, if the funds are not needed, and you are accustomed to including this amount in your taxes, a Roth Conversion this year may be a consideration.

- You can utilize today's low income-tax brackets
- Reduce future mandated distribution amounts from your IRAs
- Potentially reduce future tax burden
- A key reminder, if you are considering utilizing this approach, you must have the funds available to pay the taxes. And recharacterization of a conversion is no longer an option

Coronavirus Related Distributions

The CARES Act provided for retirement account withdrawals and loan relief. Participants can access up to \$100k in Qualified Disaster Distributions.

Under this strategy it is important to note:

- Qualified withdrawals are not subject to a 10% penalty
- Distributions can be included in income over a 3-year period
- Currently, individuals can repay or roll back the funds into their retirement account for up to 3 years from the distribution. Individuals would get a credit for any taxes paid
- Withdrawals and distributions can be taken from IRAs and Qualified Retirement Accounts



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Qualified Charitable Distributions

A QCD is a direct transfer of funds from your IRA custodian, payable to a qualified charity. These contributions were able to be counted toward your Required Minimum Distribution. With RMDs eliminated in 2020, The CARES Act provides for up to a \$100k contribution to a qualified charity

Key points to keep in mind:

- A Qualified Charitable Distribution excludes the amount donated from your taxable income
- Only available to IRA owners or Beneficiaries 70 ½ years or older
- A QCD must be paid directly to a qualified charity
- These donations cannot go to Donor Advised Fund
- Donors can give up to \$100k

Elimination of Stretch IRA

The SECURE Act legislation eliminated the “the Stretch IRA’ for many non-spouse beneficiaries. Remember, the Stretch IRA was not a product but a planning tool to allow beneficiaries to distribute funds over their lifetime.

The new law requires these funds to be distributed within 10 years. Other requirements and guidelines include:

- While distribution must be made within 10 years beneficiaries do not have to take a distribution each year. This certainly gives rise to tax planning
- This new law should prompt everyone to review current Beneficiary Designations and Estate Documents, including any Trust provisions

Life Insurance and Long-Term Care

Individuals and families may want to review existing planning strategies for life insurance needs to provide an efficient, tax exempt income strategy for their beneficiaries.

A few financial planning strategies may include:

- Utilizing life insurance in place of a Roth to eliminate 10-year distribution concerns
- Reviewing and optimizing life insurance and long-term care plans that address Chronic, Critical and Terminal Illness to provide access to insurance benefits at our most necessary times
- Ensure protections are in place to protect you and your loved ones

By Brendan McPoyle, CFP®. Princeton Global Asset Management is a boutique investment advisory firm that provides asset management for institutional clients, families, and small businesses. As a Partner and Wealth Manager, I assist clients throughout the Tri-State area. I have a few opportunities remaining if you are interested in scheduling a year-end financial review. Call today: [1-302-268-6413](tel:1-302-268-6413)