Published on *Brightworth* (http://dev.brightworth.com)

Money Moves Before Year's End

Submitted by asd The Brightworth Team on 12/15/2020 - 11:56

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The end of 2020 is in sight, but there is still plenty of time left to make a number of financial moves that will help improve your retirement savings, reduce your tax bill and benefit your community.

Here are 10 ways that you can improve your financial condition between now and Dec. 31. Some of these ideas involve transactions with third parties, so it's best to move ahead as quickly as you can to reap the most benefits.

Contribute the Maximum Amount into a 401(k) Retirement Plan

It's probably the easiest and smartest way to save for retirement. Federal law allows workers under 50 years old to contribute $19,500 to their company plan. If you are 50 and older, you can contribute $26,000.

If you are not on track to maximum fund your plan, you still should have one or two pay periods left before the end of the year, so make the most of them. And remember, if you elect your contribution to go into the before-tax 401(k), those funds will not be taxable as part of your 2020 federal tax return. The more you put in, the less in taxes you will pay this year.

Make the Most of Your Health Savings Account

For those with a high-deductible health insurance plan, try to contribute the maximum amount into this account. Individuals can contribute $3,550 for 2020, and those with family plans can contribute up to $7,100. And people 55 and older can contribute an extra $1,000. The maximum amount you can put in includes any employer contributions, so be sure to understand whether your company is making deposits on your behalf.

Be aware that once you reach age 65 and are eligible for Medicare, most people can no longer contribute to a health savings account, so there is a limited window to take advantage of this incredible savings plan. Many experts refer to the tax benefits as the "triple tax play" -- save taxes on the money going in, no taxes on the interest earned inside the account, and withdrawals are tax-free when used for qualified medical expenses.

The good news here is that you have until April 15, 2021, to contribute money into the HSA for 2020. However, it's best to make those contributions by Dec. 31. This will give the person preparing your tax return all of the information and forms they need to document your contribution. And you won't have to remember to take care of this task after the New Year.

Fund an Individual Retirement Account or Roth IRA

While you may not get a tax deduction for this, it's a good discipline for anyone who is working to fund their IRA or Roth IRA. People under age 50 can contribute up to $6,000 and those 50 and older can contribute $7,000 assuming they made at least this amount in wages.

Empty Out Your Flexible Spending Account

Many people have a Flexible Spending Account (FSA) to cover certain out-of-pocket medical, dental and vision expenses. While contributions to these special accounts provide a tax deduction, there is a catch: These funds are subject to the “use-it-or-lose-it” rule. So, it’s important to spend any remaining money in this account before you lose it, typically by Dec. 31.

Make sure to find out whether your company offers a grace period into 2021 to spend FSA funds. Some companies will allow employees to spend money in their 2020 account through March 15, 2021. If not, make sure you find the time for a last-minute run to the pharmacy, dentist, or optometrist.

Speak with Your Tax Advisor

If you earned more money in 2020 than in previous years, ask your tax advisor to project the amount of taxes due in the fourth quarter. This will enable you to determine if you need to make an estimated tax payment before January 15th to avoid penalties. Even if you don't believe you will have a large tax bill, we encourage people to have this conversation. There's no need for an unpleasant surprise when your 2020 tax return is finished and you end up with a larger-than-expected tax bill this spring.

Find Out If You Qualify for Tax Credits

Some states allow individuals to buy tax credits that support feature film production, low-income housing, energy and other initiatives. In my home state of Georgia, a television or movie production company receives a tax credit for its expenses incurred in my state. If they can't use all of their credits, they are allowed to sell their unused credits to Georgia taxpayers.

Business owners, professionals and others with large tax bills can go to the market and buy these credits to reduce the amount of state income taxes they pay. It's also another reason to find out the amount you may owe in 2020 state income taxes and make sure you have enough cash available over the next few months to buy those credits.

Contribute to Your Children's or Grandchildren's 529 College Savings Plan

It takes time to save for a college education, and contributing to a college savings account each year is a great way to make a dent in this big future expense. Over 30 states and the District of Columbia currently offer a state income tax credit or deduction up to a certain amount. For example, contributions to a Georgia 529 plan of up to $4,000 per year by an individual or $8,000 per year by a married couple filing jointly are deductible in computing state income tax.

Also, if you have been contributing to a plan for several years, review the asset allocation of the 529 plan and make sure it's not too aggressively invested, especially if your child is going off to college in the next few years.

Evaluate Capital Gain and Losses – It was a Wild Year!

The Standard & Poor's 500 index is near record highs and has risen by approximately 14% through November 30. Many stock investors have experienced gains in their portfolio this year, so if you have sold stock this year, you may incur higher capital gains tax this year than last year.

Most taxpayers will pay between 15% and 23.8% in federal long-term capital gains taxes. State income taxes are in addition to these rates, which could quickly bump the long-term capital gains tax rate to 30% or more. If you sold a stock held less than one-year, short-term capital gains tax rates apply, which for most taxpayers are higher than their long-term gain tax rate. On the other hand, sell the stragglers! The stock market's success in 2020 means many of your stocks are worth more today than last year. But not every company has experienced gains! Airlines, energy companies, and some financial institutions have been particularly hard hit. For example, through November 30, American Airlines, Exxon Mobil, and Wells Fargo are all down over 40%. When you sell investments that have gone down in value, you can report the tax loss on your tax return to offset other capital gains. If your losses are large, you can use up to $3,000 annually to offset other types of income.

Reduce Taxes by Donating Stocks or other Appreciated Assets to a Charitable Organization

The jump in stock prices can signal a good time to donate some of these stocks to your favorite charity, especially if you are looking for some extra deductions to offset higher income or capital gains this year.

A financial tool that can help accomplish your charitable giving goals while also reducing taxes is a Donor Advised Fund. The fund allows individuals to donate several years of charitable contributions up front, liquidate stock inside the account that has appreciated and pay no capital gains tax, then disperse those contributions to charities over multiple years. If you are married and file a joint return, you may need to donate more than $15,000 to the fund in order to be able to itemize your deductions in 2020. (The standard deduction for married couples is $24,800 so your total eligible deductions need to exceed the standard deduction to get the extra tax benefit from your charitable giving.)

Because nonprofit organizations and donor advised fund custodians are swamped with these requests at year's end, I recommend transferring any stocks to charity or a donor advised fund now. This will help ensure your contribution is recorded in order to get a deduction on your 2020 taxes. If you are donating real estate, business interests or other sophisticated assets, jump on this today.

Use the Gift Tax Exclusion to Spread the Wealth Among Family

You can give $15,000 annually by December 31 to an unlimited number of people without having to report this on a gift tax return. And, the beneficiary of the gift does not report it as income either. Married couples can gift $30,000 to an unlimited number of people each year, which is $15,000 from each spouse to the same person.

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