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The News You Need to Know

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It's important to let us know about changes that have occurred or are anticipated in your financial life. Have your goals or family circumstances evolved such that we need to review your current investment strategies?

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Annual Financial To-Do List

Things you can do for your future as the year unfolds.

What financial, business, or life priorities do you need to address for the coming year? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to managing your taxes. You have plenty of choices. Here are a few ideas to consider:

Can you contribute more to your retirement plans this year? In 2020, the contribution limit for a Roth or traditional individual retirement account (IRA) remains at $6,000 ($7,000, for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA: singles and heads of household with MAGI above $139,000 and joint filers with MAGI above $206,000 cannot make 2020 Roth contributions.[1] It might also make sense to consider conversion of traditional IRA funds into ROTH, particularly if your income level has dropped in the short term.

Before making any changes, remember that withdrawals from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.[2]

Open an HSA. A Health Savings Account (HSA) works a bit like your workplace retirement account. There are also some HSA rules and limitations to consider. To start with, you have to be covered by a qualified high-deductible health insurance plan. You are limited to a $3,550 contribution for 2020, if you are single; $7,100, if you have a spouse or family. Those limits jump by a $1,000 "catch-up" limit for each person in the household over age 55.[5]

If you spend your HSA funds for nonmedical expenses before age 65, you may be required to pay ordinary income tax as well as a 20% penalty. After age 65, you may be required to pay ordinary income taxes on HSA funds used for nonmedical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

Review your income tax withholding status. Should it be adjusted due to any of the following factors?

* You tend to pay a great deal of income tax each year.
* You tend to get a big federal tax refund each year.
* You recently married or divorced.
* A family member recently passed away.
* You have a new job and you are earning much more than you previously did.
* You started a business venture or became self-employed.

These are general guidelines and are not a replacement for real-life advice. So, make certain to speak with a professional who understands your situation before making any changes.

Consider the tax impact of any upcoming transactions. Are you planning to sell any real estate this year? Are you starting a business? Do you think you might exercise a stock option? Might any large commissions or bonuses come your way in 2020? Do you anticipate selling an investment that is held outside of a tax-deferred account? Do you expect to inherit a significant amount? Are you considering a sizable gift to charity? What about gifting to family members or funding higher education for a grandchild?

If you are retired, and in your seventies, remember your RMDs. In other words, Required Minimum Distributions (RMDs) from traditional retirement accounts. There is a new development to report on this, as the Setting Every Community Up for Retirement Enhancement (SECURE) Act just altered a key rule pertaining to these mandatory withdrawals. Under the SECURE ACT, in most circumstances, once you reach age 72, you must begin taking RMDs from most types of these accounts. The previous "starting age" was 70½.[6]

This new RMD rule applies only to those who will turn 70½ in 2020 or later. If you were 70½ when 2019 ended, you must take your initial RMD(s) by April 1, 2020, at the latest.[6]

If you have already begun taking RMDs, your annual deadline for them becomes December 31 of each year. The I.R.S. penalty for failing to take an RMD can be as much as 50% of the RMD amount that is not withdrawn.[6]

Vow to focus on being healthy and wealthy in 2020. And don't be afraid to ask for help from professionals who understand your individual situation.

Citations.

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4 - nerdwallet.com/blog/taxes/home-office-tax-deductions-small-business/ [1/22/19]
5 - cnbc.com/2019/06/03/these-are-the-new-hsa-limits-for-2020.html [6/4/19]
6 - thestreet.com/retirement/secure-retirement-act-makes-big-changes-to-how-you-save [12/21/19]