



Clients and Friends,

This time of the year can get busy as we prepare for the holidays (even in our current COVID era...) and for various yearend deadlines. However, there are a number of opportunities in our financial worlds that can be missed when the calendar turns to January 1<sup>st</sup> in a few short weeks.

These opportunities include:

**1.) Max out your 401(k) account:** Contributions to 401(k) accounts for 2020 must be completed by the end of the year (unlike contributions to IRAs which can be made until 4/15 of the new year). If you have had a good earnings year in 2020 you may want to make a larger-than-typical contribution to your 401(k) from your remaining paychecks to reduce your taxes and add to your retirement savings. If you are worried about future tax rates going up by the time you retire, you may want to consider a ROTH contribution to your 401(k) which many plans permit.

**2.) Consider a ROTH conversion:** The combination of tax rates potentially moving higher in the future and many people having low earnings in 2020 may make converting a traditional IRA into a ROTH IRA a good idea. The idea is to pay the tax on a portion or all of a tax deferred IRA now when your effective tax rate may be lower than it will be in the future. Once converted the balance in the ROTH grows tax-free and can be withdrawn by you or your heirs tax-free.

**3.) Gift money and/or assets to loved ones or a trust:** You may want to take advantage of gifting in order to avoid estate taxes after you pass. The current Federal estate tax exemption is \$11.58 million per person, but that is scheduled to be reduced by 50% on 1/1/26 and President-elect Biden has proposed an immediate reduction to \$3.5 million. States like New York, Massachusetts, and Rhode Island have state estate tax limits that are in some cases even lower. You can gift assets into a trust for the benefit of loved ones to take advantage of the current Federal exemption level. You can also annually gift up to \$15,000 to another person with no tax impact for you or them. Gifting to children, their spouses, and grandchildren at the holiday time over a number of years can be an effective way to reduce the value of your estate.

**4.) Consider realizing gains:** If President-elect Biden's tax proposals become law, then capital gains would be taxed at ordinary income rates for taxpayers with more than \$1 million in income. This would mean that the tax rate on capital gains for high earners would increase from the current 20.0% to 39.6%, a virtual doubling. If this were to come to pass, then realizing gains in 2020 could save significant tax dollars. You could even sell this year and then re-purchase the same security the next day and reset your cost basis to the new higher re-purchase price.

**5.) Donate appreciated stock:** Given that we are more than eleven years into a bull market in the U.S. stock market, an effective way to make donations to charities or to a donor advised fund is to gift stocks in your portfolio that have large unrealized gains. You get the current value of the stock as your donation amount and avoid having to sell the stock and pay the capital gains tax.

**6.) Make charitable donations directly from your IRA:** Although required minimum distributions are not required in 2020, donating directly from your IRA may be the most tax effective way to fund your charitable interests. All money in an IRA will need to be distributed during your lifetime and the ten years after you pass and will be taxed entirely at ordinary income tax rates. You can avoid those ordinary income taxes by using up to \$100,000 per year for direct charitable donations rather than taking the money from somewhere else. This is also effective if you do not itemize your deductions and would, therefore, get no tax benefit from your donation.

**If you would like our assistance with any of these, please contact us immediately as Pershing continues to work remotely which often means longer lead times than typical are required.**

We wish all of you a wonderful holiday season and a New Year that returns us to a much more normal world!

*Your BRAVE Team*