RBC Wealth Management
The Crescent Group
Carsten Frederiksen, CFP®
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
Direct: 214-775-6401
NMLS#: 1321563 City National Bank
The Crescent Group website

Paul Hendershot
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
NMLS # 1370978 City National Bank

Nick Weege, CPFA
Financial Advisor
214-775-6408

Lindsey Vickers, MBA
Client Service Associate
214-775-6458

Andrew Ielmini
Client Service Associate
214-775-6448

November 2020 Monthly Commentary

We hope that you and your family had a wonderful and safe Thanksgiving. For obvious reasons, most people don't typically prioritize financial planning matters during the holiday season. This remains all the more true this year as we celebrate the holidays while having to navigate various restrictions and challenges related to the covid-19 pandemic. In the midst of these activities, we want to remind you of the various financial planning considerations you can take advantage of before year end.

Retirement account contributions

Maxing out your contributions to tax-deferred retirement accounts is probably the first step towards staying on track with your retirement goals. December 31st is the last day you can make 2020 contributions to employer-sponsored retirement plans, such as 401K and 403b plans. As of January 1st, you will lose the ability to make your 2020 contribution and any contributions will count towards 2021. For 2020, you can contribute up to $19,500 to your employer-sponsored plan, and an additional $6,500 if you turned 50 this year.

For those who would like to contribute to an IRA or Roth IRA, you have until the tax-filing deadline (expected to be April 15th 2021) to make contributions for 2020. The amount you can contribute to these accounts varies depending on your income and age. Currently, you can contribute up to $6,000 and an additional $1,000 if you're over the age of 50. For full details of retirement account contribution limits, click here.

Tax planning

No one likes paying taxes, and the end of the year is a good time to consider steps you can take to reduce your tax liability. We already mentioned maximizing contributions to tax-deferred investment accounts in the above section. When taking additional steps to minimize taxes with investments, it's important to proceed with caution. Tax savings should not be the primary driver of investment decisions. To quote self-made billionaire investor Charlie Munger: "But in terms of business mistakes that I've seen over a long lifetime, I would say that trying to minimize taxes too much is one of the great standard causes of really dumb mistakes. I see terrible mistakes from people being overly motivated by tax considerations." We can always count on Munger to bluntly share his opinions. That said, and proceeding carefully, one option to reduce your tax liability is to sell an investment at a temporary loss in a taxable account. You can then offset that loss against taxable investment gains realized throughout the year. You can also use any losses over the amount of your gains to offset up to $3,000 of ordinary income, or you can carry it forward to reduce your taxes in future years. Our Group proactively takes advantage of offsetting short-term losses against gains throughout the year[1].

One additional note on taxes: we have nothing new to report at this time on potential tax changes under the Biden administration. The fragile state of the economic recovery will make it politically difficult to increase taxes. We do know Biden has nominated Janet Yellen for Treasury Secretary, and she favored low interest rates and stimulus to offset economic weakness when she served as Federal Reserve Chair a few years ago. Since her Treasury nomination, she has already called “for action to prevent U.S. economic devastation”. It seems unlikely that tax rates would increase any time soon[2].

Review beneficiaries

Do you want to make any changes to beneficiaries of your retirement accounts (401K, 403b, IRAs)? What about wills and trusts? Also, consider life and other insurance policies, which you may have purchased at a time when your needs differed from today.

Gifting

Many people consider making charitable contributions at the end of the year. While the motivation for such contributions typically comes from a desire to help those in need, charitable contributions can also result in tax deductions. If you want to ensure that your contribution is tax deductible, it’s important to consult with a CPA, since the standard deduction can be high and your charitable contribution may not end up resulting in a tax deduction. Contact our Group if you would like us to connect you with one of the CPAs we partner with.

One can also make financial gifts to family members at the end of the year, which can be used to help fund college or fulfill another need. Doing so can also help reduce the size of your estate. Currently, the IRS allows every taxpayer to gift up to $15,000 to an individual recipient per year. There is no limit on how many recipients you can gift to, but there is a maximum lifetime exemption of $11.58 million.

If you have any questions about the information covered in this commentary, don’t hesitate to contact our Group. Wishing you and your family continued well-being and wealth through the holiday season.

Best Regards,

The Crescent Group
Carsten Frederiksen, CFP® | Paul Hendershot | Nick Weege, CPFA | Andrew Ielmini | Lindsey Vickers, MBA

Sources:

(1) Charlie Munger USC 1994 Commencement Speech
(2) The Financial Times