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On Course | November 18, 2020 | Volume 20, #12

Welcome. We at Compass Planning appreciate the understanding and support from all of you as we move through this pandemic. Thank you.

We want to thank Craig Pellet, CPA, who has written this month's excellent article on how best to prepare now for the April 2021 tax deadline. A senior associate at John Schachter +Associates, Craig works with both individuals and small businesses and is a great resource for creative, tax-efficient planning ideas. You can reach Craig directly [here](#).

You may have missed our recent series on retirement. For Retirement, Part 1 - Retirement Savings, click [here](#). For Retirement, Part 2 - Social Security, click [here](#). For Retirement, Part 3 - The Retirement Paycheck, click [here](#).

If you need assistance organizing your finances for tax preparation, we are here to help you stay *On Course!*

Jennifer Lane, CFP



Tax laws change every year; be sure to check the IRS [website](#) for updates. You are responsible for the information on the tax return you sign. Read it and ask questions if you don't understand something. Beware of tax preparers or information services that advertise to reduce your tax burden through confusing tax strategies.

Year-end Tax Planning Ideas

The last few weeks of the year are the best time to look at what you might owe in April so you can do something to make it better!

Retirement contributions

- Make sure you're making the most of tax advantaged accounts
 - 401(k) and other retirement plan limits are indexed to inflation and can tick up each year. Make sure that you will max out that limit. If your 50th birthday is in 2020, you can start making catch-up contributions in addition to the usual annual amount. That's another \$6,500 per year to your employer-sponsored retirement account.
- Consider IRA contributions
 - Sure, you can wait until April 15, but if you have the cash, why wait? Take advantage of additional months of tax-free growth by contributing early.
 - Roth IRAs make sense for many savers. With a Roth IRA, you give up a tax deduction now in exchange for tax-free withdrawals later. Better still, Roth accounts need not be drawn down during your lifetime; other retirement accounts are subject to mandatory annual distribution rules. Be aware of income limits -- if your 2020 Adjusted Gross Income (AGI) is more than \$124,000 for a single filer, \$196,000 for married taxpayers filing jointly, your Roth IRA contribution is limited.
 - You can generally make contributions of \$6,000 for 2020 or \$7,000 if you are 50 or older this year to either or both of a traditional or Roth IRA.
- Consider a Roth conversion
 - No matter your income level, you can convert a traditional IRA to a Roth. The conversion is usually taxable.
 - If you are in a relatively low tax bracket for 2020, you could take advantage of the lower rate to make the conversion at a modest cost in tax.
- But consider if the cash you'll use for tax on the conversion is better spent elsewhere. You pay tax now for lower taxable income in retirement or a tax-free legacy for your heirs. Does that fit your broader savings goals and estate plan?

Retirees

- Required minimum distributions are not required for 2020. If you haven't already taken your RMD, you can skip it for this year.

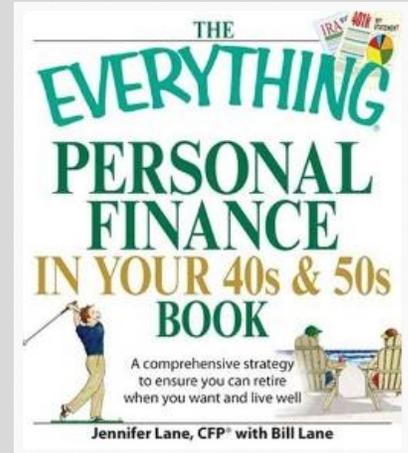
Other tax advantaged savings

- Make sure you've requested reimbursement for eligible expenses from flexible spending arrangements (FSAs). If you don't use it, you lose it.
- If you expect to pay health or dependent care costs in 2021 and your employer offers a suitable FSA, sign up. You get a tax deduction for money taken from your paycheck to fund the FSA.
- Find out if your health insurance plan qualifies you for a Health Savings Account (HSA). Many high-deductible plans allow members to contribute to an HSA and get a tax benefit for making contributions. Think of it like an IRA for health care instead of retirement.

Charitable giving

- A special rule for 2020 allows all taxpayers, whether or not they itemize deductions, to claim up to \$300 against their income for cash donations to qualified charities.
- If you expect to take the standard deduction (\$12,400 for single filers; \$24,800 for joint returns, and \$18,650 for heads of household), instead of itemizing deductions, charitable contributions won't benefit you beyond the special \$300 deduction allowed for 2020. Consider "bunching" your charitable gifts into 2021, i.e., paying several years' worth in a single year if doing so will get you over next year's standard deduction.

Get more tips in Jennifer's book



[Buy Now](#)

Jennifer and Sarah were both named
2020 Boston Five Star Wealth Managers.



Helpful Websites

[IRS.gov](https://www.irs.gov)

- If you are a Massachusetts resident, you'll get a state tax deduction for charitable donations made starting in 2021, regardless of whether you itemize on your federal return.

Did you work outside your usual state? You might owe tax there.

- As the pandemic hit, many of us left urban areas for rural refuge. If you worked remotely from another state, you'll likely owe tax to that other state for the work you did there. Ask your tax advisor if making an estimated tax payment is necessary. Paying something now may reduce penalties later.

Jennifer In The Media

Below are links to Jennifer's frequent contributions to financial planning articles.

- Jennifer contributed to a timely article, *How to seek forbearance on your mortgage*, for **The Boston Globe**. [Read article.](#)
 - If you're interested in dividend funds, Jennifer contributed to **The New York Times** article, *Dividend Funds Can Add Income, and Risk, to Your Portfolio*. [Read article.](#)
 - Jennifer contributed to a **BankRate** article, *Should I combine my mortgage and student loans?* [Read article.](#)
 - Need help with your 401(k) during the pandemic? Jennifer contributed to a **Boston Globe** article, *Five tips for managing a 401(k) during the pandemic's turbulence*. [Read article.](#)
 - Jennifer contributed to the **Bottom Line Inc** article *Prepare your Finances for a Possible Recession*. [Read article.](#)
 - Jennifer contributed to **The Wall Street Journal** article *If Saving During a Pandemic Is Hard, Here's How to Stay Motivated*. [Read article.](#)
 - The **New York Times** featured Jennifer in an article titled, *Balanced Funds Don't Inspire Fear or Greed. That's Why They Are So Useful*. [Read article.](#)
 - With a contrarian view, Jennifer contributed to an article, *People are enraged by the idea that you should have twice your salary saved by the time you're 35!* published recently by **Business Insider**. [Read article.](#)
 - Moving in together? Check this article from **Business Insider**, *Five questions you and your partner should answer before taking the biggest step in your relationship*. [Read article.](#)
 - **Insider** asked Jennifer to contribute to an article on old fashioned ways to manage your money, *Six money-saving tips your grandma used that are way more effective than any budgeting app*. [Read article.](#)
 - Jennifer contributed to an article on **Business Insider**, *This is the best way to do your taxes online - according to experts*. [Read article.](#)
 - **CNN Money's** Money Moves featured Jennifer in an article on how to strike the right balance between retiring early and saving enough. [Read article.](#)
 - Jennifer contributed to a **CNN Money** article *When is the Right Time to See a Financial Advisor?* [Read article.](#)
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Compass Planning News

- Compass Planning continues to meet with clients as well as those interested in learning more about the firm via phone and web-based video conferencing. Email info@compassplanning.com to learn more.
- Compass Planning has become a supporter of [The Center for Financial Planning](#) at the sustainer level. The CFP Board created the center to achieve a more diverse and sustainable financial planning profession so that every American has access to competent and ethical financial planning advice.
- Compass Planning is a sponsor for this year's YW Boston's [2020 Elevating Lives Series](#). YW Boston's Elevating Lives Series is a curated event series that focuses on areas relating to the YW Boston's mission of eliminating racism and empowering women. The series convenes thought leaders from across sectors for transformative discussions that help elevate lives.
- AdvisoryHQ named [Compass Planning](#) as one of the ten best Boston financial advisors. ([Disclosures](#))

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our fee-only, client-centered approach provides education and guidance for achieving financial goals and dreams.

This newsletter and any linked references are for informational purposes only and are not to be construed as tax, legal, or investment advice. Compass Planning has gathered the information from sources it believes are reliable, but your individual situation can vary, and you should consult with your investment, accounting, and/or tax professional before taking any action.

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