



VWG WEALTH MANAGEMENT
A Hightower Company

November 2020 Ponderings & Musings - *Transience*

There are still seven weeks remaining in the year, and it already feels as if three long years have passed since New Year's Day. One of the most common phrases we've heard uttered by those struggling to cope with COVID-19's pandemic upheavals is, "this too shall pass." Finding perspective is difficult, especially for those suffering from great losses, and those hurting from constrained human contact. Although it may feel like a monotonous 'Groundhog Day' blur, time has passed, and with it seen and unseen change.

Autumn is now firmly entrenched, as leaves fade and daylight hours shorten. Fears of a resurgence of viral spread have reemerged in the U.S. and Europe. Our nation is working through the necessarily messy process of choosing our next set of government leaders. We are anxious about how we will be able to spend the holidays with friends and family. This is a good time to deeply reflect on the term "transience." From John O'Donohue's touching "Anam Cara, A Book of Celtic Wisdom":

"Transience is the force of time that makes a ghost of every experience. Regardless of its sadness or beauty, each day empties and vanishes. There was never a dawn, regardless how beautiful or promising, that did not grow into noontime. There was never an afternoon that did not fade toward evening. In its deeper heart, time is transfiguration."

Year-End Planning

The unexpected turmoil of 2020 only further adds to the often-complex process of year-end tax planning, retirement funding, and gifting. The CARES Act adds many nuances to potential taxation and the treatment of retirement accounts. Some taxpayers have incurred unplanned changes to their income. The future of capital gains rates and estate tax thresholds is being called into question. For many, wading through the complexity of these factors is part art and part science. We urge that you begin to address these items now. VWG is here to help. A checklist of topics and specific strategies follows. We hope these serve as a catalyst for conversations with our team.

Year End Tax, Retirement, Estate and Gifting Planning Checklist

Tax Planning

- Review your payroll tax withholding for 2020 to ensure you are having enough (but not too much) federal and state taxes taken from your paycheck for 2021. You can access a simple IRS withholding estimator ([here](#)).
- VWG has enacted tax-loss harvesting swaps and strategies during this year's sharp asset declines. We will continue to review and cull further losses through year-end. Even if these losses cannot be used to offset 2020's realized gains, they represent real value for you against future gains. There is no limit on how many years one can use capital loss carryovers. \$3,000 in net realized losses can be used per year to offset ordinary income.
- The CARES Act waives 2020 required minimum distributions (RMDs) from IRAs, 401(k)s, inherited IRAs and Roth IRAs. In unique situations, withdrawals that have been taken from retirement accounts can be considered loans with a three-year payback period.
- Although tax planning usually focuses on *reducing* taxable income, certain individuals may want to maintain or even *increase* taxable income for 2020. Those in lower tax brackets should consider taking IRA distributions even though not required. Federal tax rates are

historically low and may not remain that way for long. If one expects higher tax rates in the future, it may be wise to take some amount of taxable income today.

- Although no one knows for sure, it is possible that the current 20% maximum tax rate on long-term capital gains will increase for some taxpayers sometime in the future. Those expecting very large capital gains in 2021 and beyond may consider accelerating some capital gains before the end of this year. This would in effect swap the “known” for the “unknown.”
- Maximize Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs). Review your current benefits and options, particularly for those whose employers’ plans are in the open enrollment period for next year. HSAs (associated with high-deductible health plans), can also be used to expand salary deferral as a savings vehicle that can be used in later years or in retirement. Your contributions are tax-deductible, and these funds can be invested for tax-free growth if used for future healthcare expenses. Since funds placed in an HSA will stay with you forever, regardless of whether you change employers or insurance, any unused money rolls over and continues to grow until you use it for medical expenses.

Funding and Taking Distributions from Retirement Accounts

- If still working, confirm that you have made the 401(k) maximum contribution this year. Depending on your 2020 income, you and/or your non-working spouse may also be able to contribute to an IRA or Roth IRA. Self-employed individuals have further options in which they could defer larger amounts of earnings. These actions have the dual benefit of increasing your retirement savings and potentially reducing this year’s tax liability.
- 2020 could be an opportune time for converting IRAs or pre-tax 401(k) funds to Roth IRAs. Although conversions generate immediate taxable income, federal tax rates may rise in the future. Older clients who have had their RMD waived this year should consider converting the RMD amount or more, depending on their expected tax bracket. For those

charitably inclined, some of the tax liability from a Roth IRA conversion could be offset by making a larger-than-usual contribution to a charitable organization or a donor-advised fund.

- Older owners of IRAs with multiple beneficiaries should review their estate planning. Depending on the specific situation, it may be prudent to split the IRA into separate accounts designated for each beneficiary to take advantage of favorable distribution rules.

Charitable Gifts and Tax-Smart Gifting Strategies

- If you haven't already, start planning which charitable donations you would like to make by year's end. Keep records of all donations. For larger gifts, consider gifting highly appreciated stocks, funds or other assets instead of cash. With so many afflicted by the COVID-19 pandemic, now is the perfect time to donate to organizations working hard at making a difference.
- The CARES Act allows an 'above-the-line' charitable deduction for all taxpayers who do not itemize their deductions. This temporarily supersedes 2018's State and Local ("SALT") tax law change. All who are inclined and qualify should consider making a \$300 charitable contribution.
- Taxpayers who expect to claim the standard deduction in 2020 can consider "bunching" multiple years of charitable gifts into one year so that they can qualify for a tax deduction. If one is nearing retirement and expects to be in a lower tax bracket in the future, "bunching" now can provide greater tax savings. Large "lump" contributions can be placed into a Donor Advised Fund (DAF), from which you can easily disperse smaller "grants" to multiple IRS-approved public charities at your discretion over the coming years.
- Those age 59 ½ and older may consider making a charitable contribution to a qualified charity directly from their IRA. Limited to \$100,000 in past years, the CARES Act allows charitable contributions up to 100% of their adjusted gross income (AGI). This qualified charitable distribution (QCD) will not be deemed to be taxable income.

Family Gifting

- Consider year-end gifting to family members. The 2020 annual gift tax exclusion for individuals is \$15,000. That means that the maximum a husband and wife can gift to a single person in one year is \$30,000. If you intend on making a very large gift to a child - for example helping with a home down payment - consider spreading your gifting between the end of this year and the beginning of next year.
- This annual limit is overridden for gifts made directly into 529 education savings accounts. It is also exempted for college tuition payments sent directly to the educational institution. A special 529-exclusion allows five years' worth of gifts — up to \$75,000 for single or \$150,000 for married couples — to be contributed at once, provided that no other gifts are made within the next five-year period. If the grandparents are the owners of these 529 accounts, these assets are not currently factored as assets for determining federal financial aid (but plan distributions may be counted as part of the income test). For further information on 529 savings accounts, please reference our article in September 2019's *Ponderings and Musings* ([link](#)).

Estate Planning

- Historically low interest rates, and the 2025's estate tax "sunset" present potentially powerful estate planning opportunities. Many estate and gift tax strategies hinge on the ability of assets to appreciate faster than IRS prescribed interest rates. Without a law change, the current \$11.58 million estate-tax exemption will 'sunset,' reverting to the pre-2018 \$5 million level for individual taxpayers. In the face of large federal deficits and the widening gap between the 'haves' and the 'have-nots,' there is no guarantee of this law remaining untouched prior to 2025.

VWG Ponderings and Musing Live:

Four for Fall: The Pandemic. The Markets. The Economy. The Election.

This past September VWG launched a new webinar series, Pondering & Musings: LIVE. During this webinar, our VWG advisors covered the topics that have been on everyone's mind this fall. If you missed the webinar, you can listen to the [replay](#) to better understand how this fall's course of events may impact our strategies and financial planning in 2021.

We are always looking for more webinar ideas, so please contact us if you have a topic you would like us to cover.

National Cybersecurity Awareness Month: Staying Safe at Home

This past October was National Cybersecurity Awareness month. While VWG is always committed to educating and partnering with our clients to protect their assets from cybercriminals, bad actors trying to take advantage of our new virtual environment has underscored the importance of these initiatives. To enhance your understanding of the variety and severity of some of these threats, we have a number of quick, training videos that you can access through [Proofpoint](#), a leader in cyber security awareness training. Whether you are working from home or just spending more time online, be on the lookout for fake browser updates, fraudulent shipping notifications (especially around holiday season), DocuSign phishing (we will always send you documents through secure email) and phishing emails from Microsoft Office or OneDrive. Contact your VWG advisor if you feel like your email or any of your accounts have been compromised.

VWG Distanced Get-Together

Last month, some of the VWG team enjoyed an apparently rare pleasure – spending an hour together without phone calls or videoconferencing. Of course, we stayed outside in our building's courtyard, and we kept our social distances. It's hard to believe that it has been eight months since our last team meeting within our office.



Giving Thanks

From a certain perspective, this year's extreme challenges, stresses and losses sweeten all for which we can be thankful. There is richness in so many small things previously unnoticed or taken for granted. Transience is at work. Transfiguration is occurring. For many individuals, families and businesses, the pandemic has been a catalyst and a permission to rethink and challenge many things. Many have been moved to find their voices and act against inequality. A record number of Americans have participated in the elections. Health care and medical research teams have overcome great

obstacles to respond in record speed and unprecedented collaboration. Families and friends have found new ways to stay connected and help each other. Businesses have transformed themselves in the struggle to survive. Creativity has been unleashed, planting seeds for future growth. No one would have written up this year's script, yet there is much to be grateful for.

Best wishes to you and your families for a blessed season of Thanksgiving, filled with peace and comfort.

Take care and stay safe!

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Who we are

Please reach out to us if you have any questions or comments.

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