New Year, New Tax Strategies

2020's Gains May Mean New Problems at Tax Time

By Andrew Ellis, CPA, CFP, CFA Financial Advisor

On many levels, what a year 2020 turned out to be! Aside from our significant medical, social, and political challenges, it was a terrific year for East Tennessee investors.

For the year ending 2020 (1):

S&P 500	Up more than 16 %
DJIA	Up more than 7 %
NASDAQ	Up more than 43 %

For many of us, these gains are welcome news indeed. But forward-thinking investors are forecasting potential tax increases on the horizon. The 2017 Tax Cuts enacted by President Trump are scheduled to expire at the end of 2025. And there are whispers that President Biden's administration will be raising taxes.

Successful inventors may wish to offset their significant gains with a charitable donation.

With 2020 windfalls come a new question: How do we best benefit from last year's gains?

One answer may be to do a win-win offset. It's a 2-step process.

1. Do a Roth Conversion. I've written about this in the past: converting an existing IRA/401(k) from a traditional format to a Roth IRA. As such, you will be on the hook to pay taxes in the year the conversion takes place. The theory here is that your tax burden in 2021 likely will be less than your tax burden at or after retirement, say, post-2025.

2. Make a significant charitable donation. Given the tax burden above, offset it with a generous contribution to a preferred charity. This is a deductible expense.

More than half of charitable organizations in the US expected to raise less money in 2020 than they did in 2019; an equal percentage believe the same is in store for 2021 (2). For many of my clients, their philanthropic giving is an important element of their wealth accumulation.

It's a win-win strategy.

So, what's the result of this one-two punch? Zero additional tax burden for 2021, and the added advantage of having made a significant difference in the lives of those served by your favorite charity.

A reminder that a traditional IRA/401(k) features the Required Minimum Distribution (RMD), which is taxable. Perhaps you are an investor with assets, and at present you don't need income from your account. The traditional approach forces you to take a distribution. With a Roth IRA, you gain additional flexibility.

See the Whole Picture

Investment advisors are generally prohibited from providing tax, accounting, or legal advice. They are the first to congratulate you on your well-earned gains. But should those gains be offset by increased or unexpected taxes, advisors quickly fade to the background. As "the investor's CPA," I work diligently to understand the tax ramifications of investment decisions. I help my clients (and their investment reps) with strategies to draw down their retirement investment savings with the most favorable tax impact possible.

For investors in East Tennessee, Andrew Ellis is your personal "investor's CPA."

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Andrew Ellis is a Certified Public Accountant and a Certified Financial Planner® professional. Andy is one of a handful of elite CPAs nationally who is also a Chartered Financial Analyst®, the gold standard in the investment industry. He holds a Bachelor of Science degree from the University of Tennessee. Along with wife Holly and four active children, Andy makes his home in West Knoxville.

Let's talk about your unique situation: schedule an appointment with Andrew B. Ellis, CPA, CFP, CFA Financial Advisor by calling (865) 344-2965 or contact us <<link>>.

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(1) https://www.washingtonpost.com/business/2020/12/31/stock-market-record-2020/

(2) https://afpglobal.org/half-charities-expecting-drop-donations-2020-and-beyond