Ginsburg Financial Advisors, Inc.
Personal Financial Planning & Investment Management
Larry P. Ginsburg, CFP®

phone: **(510) 339-3933**
fax: (510) 339-1611
LGinsburg@GinsburgAdvisors.com
www.ginsburgadvisors.com

Are You Ready for Tax season?
Being Tax Efficient Can Save You Money

Some of you may have already filed your 2020 taxes, and others may be in the middle of gathering all of the necessary information to file your tax return. For many of us our goal is to minimize our tax liability whether it be for last year, 2020, or this year in 2021.

Below are four tips that may help decrease your current and/or future tax burden:

1. **Make a tax-deferred contribution into your IRA, SEP-IRA or Individual 401(k):** Depending upon your income, some of you may qualify to make a ROTH IRA contribution for 2020. Although ROTH IRA contributions are not tax-deductible, investments grow tax free and are later distributed free of taxes in retirement. For some of you it would still be beneficial to make an after-tax contribution to your IRA accounts where your earnings grow tax deferred. The deadline to make a 2020 contribution into your IRA and ROTH IRA is April 15, 2021. SEP-IRA and unincorporated business Individual 401(k) contribution due dates for 2020 are your business tax filing deadline including extensions.

2. **Maximizing contributions into your company's tax deferred retirement plan**: Our Federal and State tax systems are on a graded schedule. This means the more you earn the more you pay for every dollar in Federal and State taxes. By deferring your income until retirement, you are putting money away from current taxes and into investments that grow tax-deferred while you work. You may eventually be in a lower tax bracket and rate when you retire and withdraw money. Then again, if we are successful in helping you grow your investment capital, you might still pay the same tax rate. If so, your assets and income will have substantially grown.

3. **Those who itemize deductions may benefit from a "bunching" strategy:** Given that the standard deduction amounts for 2021 are $25,100 for joint filers, $12,550 for single filers, and $18,800 for heads of households, for those of you who itemize deductions you may want to use a "bunching" strategy to increase discretionary medical expenses or charitable contributions into one year to exceed the standard deduction amounts. For those of you who itemize deductions, qualified medical expenses above 7.5% of your adjusted gross income ("AGI") are deductible.[1] Due to the Coronavirus Aid, Relief and Economic Security (CARES) Act you can deduct up to 100% of your AGI for cash donations made to certain qualified charities in 2020 and 2021.[2] This does not include cash donations to donor advised funds or private foundations which have different AGI

deduction limits. AGI limits for charitable donations vary depending upon the type of donation (property, appreciated securities, etc.) and the type of charitable organization you choose to donate. If you claim the standard deduction (rather than itemize), up to $300 of qualified charitable contributions in cash for individuals, and up to $600 for joint filers will be considered an above-the-line deduction for 2021.[2] In 2020, $300 was allowed per household.

4. **Manage taxes on IRA distributions:** Those of you who are under the age of 72 (those who did not reach 70 ½ before January 1, 2020) and have significant assets in tax-deferred retirement accounts may want to potentially take advantage of your lower tax bracket and consider implementing a tax efficient withdrawal strategy from your rollover IRA accounts. Once you retire, depending on your retirement income, you may be in a lower income tax bracket. It could make sense to take taxable distributions from your tax-deferred retirement accounts or consider a ROTH conversion for a portion of your tax-deferred assets while your income and tax rate are lower. Once you turn 72 years old you will have to take required minimum distributions ("RMDs") from your tax-deferred accounts. Your first year RMD is roughly 3.7% of your previous year-end tax-deferred account market value.

As the old saying goes, nothing is certain in life except for death and taxes. As many of us prepare our 2020 tax returns, now would be a good time to discuss tax saving strategies with your tax professional for 2021 and beyond.

We are always glad to coordinate with you and your tax professional to create an effective tax management strategy. What we have learned over the years is that growing your income in retirement is necessary to keep pace with inflation. While inflation is low now, it may rise in the future. We also know that no one can retire on their "tax benefits." Distributable cash, net of taxes, is necessary to meet your ongoing lifestyle expenses throughout retirement. We want to help you plan to attain your financial and personal goals!

1. https://www.irs.gov/taxtopics/tc502
2. https://www.vanguardcharitable.org/news/how-the-cares-act-affects-your-giving