LET'S TALK MONEY®

November/December 2020

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Dealing with Unpredictability

Practically every class of investments have been volatile this year. The Coronavirus crisis followed by widespread civil unrest caused some of the biggest one-day losses in the history of the stock market. But we also witnessed some of the biggest one-day gains. Investment volatility is a fact of life. At times like this it is important to cling to these well-known basics that can help you to stay the course:

Remain Calm - Do not get too excited when the market is high, and don't get too discouraged when it drops. Resist the urge to overcorrect. Selling in a panic means you'll be less invested in the future to generate dividends or participate in any potential recovery.

Stay Invested - Even the experts cannot predict when markets may turn. Trying to "time the market" usually leads to poor decisions.

Stick to Your Strategy - When a sailor encounters rough seas, he will keep a steady hand on the tiller and his eyes on the horizon. In investing, the equivalent is to maintain a good, balanced mix of assets aligned with your needs, goals, time horizon and risk tolerance.

Diversify* - By owning a diverse variety of assets, you may be able to create a portfolio that is somewhat shock resistant.

Rebalance - Market fluctuations can throw the mix of investments out of line with your objectives. This means that you may have to buy or sell assets to maintain your desired level of risk. A big market drop can also offer the chance to add investments at sale prices.

Be Patient - While nothing in life is guaranteed, history shows us that major stock market declines are historically followed by recoveries to new highs. Sometimes it takes weeks, and sometimes it takes years. But every major bear market so far, through 2019, eventually recovered and reached new highs.**

**Diversification cannot eliminate the risk of investment losses. Past performance won't guarantee future results. An investment in stocks or mutual funds can result in a loss of principal.*

*** https://www.morningstar.com/features/what-prior-market-crashes-can-teach-us-in-2020*

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FINRA Reference FR2020-0701-0088/E STAN

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Widowed Parents and Taxes

Life can be turned upside down in a minute. A sudden car accident could result in someone becoming a widow(er). That type of event changes everything, including your tax filing status. It is especially difficult for parents of minor children. Here's a brief overview of what any recently-widowed parent should know.

Filing Status

You may retain the married filing jointly status for the year in which your spouse died, even if you filed separately. This is important, because it lets you keep a much higher standard deduction, which is $24,800 in 2020.

After that, you may be able to file as *qualifying widow(er) with a dependent child* status for up to two years. This would allow you to retain the same standard deduction as married filing jointly.

Who Qualifies?

Here are some general requirements for filing as a qualifying widow(er) with a dependent child:

- You must have qualified for married filing jointly status in the year of your spouse's death;
- You have a dependent child, stepchild, or adopted child (not foster child) living with you, or temporarily at school, and you pay over 50% of the costs of your home;
- You have not remarried. Remarriage in the same year as a death would require the widow(er) to file as either married filing jointly with their new spouse or married filing separately. With either, a married filing separately tax return would need to be filed for the deceased spouse.

Tax Tips for Recently Widowed

1. Claim Your Tax Refund

You may be entitled to your deceased spouse's tax refund.

2. File as a Head of Household

If you were able to file as a qualifying widow(er) for two years you'll have to change your tax filing status in year three. If you are providing support to a child, grandchild, sibling or other relative, you may qualify for head of household status. This is normally preferable to filing as a single taxpayer.

3. Sell Your Home

If you have a highly appreciated marital home, consider selling it within two years. This preserves a much larger $500,000 capital gains exclusion than the $250,000 exclusion available to single filers.

4. Assess Life Insurance Needs

Your life insurance needs may have changed. Meet with your financial professional to review your new situation.

5. Social Security

If you were both taking a Social Security income benefit at the time of your spouse's passing, you will now only be receiving one of those benefits. However, the new benefit should be the larger of the two. Many people compensate for the loss of one monthly Social Security check by taking out more from retirement accounts. But this could trigger tax on up to 85% of your Social Security benefits. Non-taxable income from Roth IRAs doesn't count against you when calculating taxes on Social Security benefits.

Bunching Deductions

As the year draws near a close, it is time to see if there are any moves you can make that will help reduce your annual income tax bill. The Tax Cuts and Jobs Act, passed in late 2017, complicated the matter of taking deductions, but there are some helpful options if you plan ahead.

The Obstacle

The Tax Cuts and Jobs Act doubled the standard deduction. For tax year 2020, it's now $12,400 for single filers and $24,800 for married filers. That affected many people who had few deductions because they are better off taking the standard deduction.

A Possible Solution

That's where bunching deductions comes in. Here's generally how it works: By paying two years' worth of qualifying deductible expenditures before year's end you may be able to exceed the standard deduction and deduct those expenses on your 2020 return. Then next year, take the standard deduction. Alternatively, you can push deductions into next year and take the standard deduction this year.

What Deductions Qualify?

Some examples of deductions that you could bunch include:

Charitable Giving - Rather than making your usual contribution every year, it may make more sense to make a double contribution every other year – or a triple contribution every third year. That way, you aren't effectively taxed on your charitable deductions.

Medical Expenses - If your medical expenses are in excess of 10% of your adjusted gross income, you can deduct them. So, it may make sense to schedule that elective surgery you had planned before year's end—or next year, if you expect higher medical expenses.

Property Taxes - If this year looks to be a high earning year, you could pre-pay property taxes that have actually been assessed, but this deduction is also now capped at $10,000. If moving to a new state, shift deductions to the higher-tax state.

This is a simplified list of potential deductions. Talk to your tax and financial professionals to see how bunching deductions may help you to maximize your tax breaks.

Safe Deposit Box Tips

Safe deposit boxes are one way to keep valuable documents and other items safe offsite.

Here are some items you might consider keeping in your safe deposit box:

- Deed and title documents
- Paper stock and bond certificates
- Vaccination records
- Birth and adoption certificates
- Marriage and death certificates
- DD-214s and other military records
- Precious metals
- Social Security cards

What *not* to keep in a safe deposit box:

- Original copy of your will
- Cash (no FDIC protection)
- Advance directive and power of attorney documents
- Drugs
- Firearms and ammunition
- Hazardous chemicals

Even though safe deposit boxes are usually in banks, the FDIC does not insure the contents. You may be able to purchase insurance separate, or add the items to your homeowners insurance policy.

Increased Charitable Giving Incentives

During the COVID-19 pandemic, Congress recognized the need to boost charitable contributions. So, they included a section in the CARES Act to encourage Americans to open their wallets to those in need.

Their solution: A $300 "above the line" deduction. That means you can deduct up to $300 for cash donations to qualified charities – and you don't have to itemize your expenses to do it.

This $300 deduction does not apply to contributions to donor advised funds. Nor does it apply to contributions of anything other than cash.

The CARES Act also raised the allowable limit on itemized cash donation deductions for charities from 60% to 100% of adjusted gross income. That means that you can actually donate up to an entire year's AGI to charity, if you want – as long as you do it in cash.

Avoid Tax Surprises in Retirement

Too many people underestimate the effect of taxes on their retirement income. And with the national debt expanding, Congress could increase taxes in the future. But with proper planning, there may be ways to help reduce your tax exposure.

Practice Tax Diversification

Tax diversification means dividing your assets into three different buckets:

Taxable - Examples include credit union accounts and brokerage accounts. Gains and income are taxable in the current year. Long-term gains and dividends are taxed at lower rates.

Tax-deferred - These include traditional IRA, 401(k) and 403(b) plans. In these accounts, income and capital gains are generally deferred until you take money out. Withdrawal amounts get taxed as ordinary income and if taken before age 59½ an additional 10% tax penalty may apply.*

Tax-advantaged - You can build up your tax-advantaged bucket by contributing to Roth accounts or by converting traditional IRA assets into a Roth IRA. You'll pay income taxes on the balance you convert, but growth in your Roth account is tax-advantaged from that point.**

One More Surprising Tax

Many retirees are shocked to discover that up to 85% of their Social Security benefits are taxable if their income rises above a certain threshold. This is just one more reason to consider income taxes early on — when investing for retirement.

Actionable Steps:

- Consider contributing to a Roth IRA account and/or convert traditional IRA funds to a Roth IRA;
- Delay Social Security benefits as long as possible;
- Meet with your financial and tax professionals who can assist in planning for taxes as you invest for retirement.

** The CARES Act suspended the 10% early withdrawal penalty for 2020.*

***Converting from a traditional IRA to a Roth IRA is a taxable event. To qualify for tax and penalty-free withdrawals a Roth IRA must be in place for five tax years and the distribution taken after age 59½ or due to death, disability or a first time home purchase (up to a $10,000 lifetime maximum). Roth IRA distributions may be subject to state taxes.*

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