If you're worried about taxes (and who isn't?), consider these ideas for 2020 and beyond.

Daily, I communicate with professionals, mentors, and people who inspire me. Every year my tax specialist, who prefers to remain anonymous, shares an informative newsletter with friends and clients. She's a master at her craft, and I'm fortunate to be able to tap her expertise.

Below are several of her reminders I selected for RIA readers because who isn't worried about taxes?

Keep In Mind The Following Democratic Tax Policy Themes For 'High Incomers.'

The Tax Policy Center estimates the proposed Biden Administration tax increases would raise roughly $3 trillion over the next decade, so 'High incomers' should pay attention to the following proposals:

- *A 6% tax rate increase for taxable income > $400,000?defined as ?high incomers.?*
- *Cap the tax benefit of itemized deductions for high incomers to 28%.*
- *Restore the 3% (Pease) limitation on itemized deductions if income > $400,000.*
- *Additional payroll taxes (FICA) for high incomers?unlimited wage base >$400,000.*
- *Increase capital gains rates imposed on ultra-high incomes (over $1MM) (23.8% to 39.6% shift or cap gains taxed at ordinary income rates.*
- *Increase dividend tax rates to equal all other types of ordinary income for ultra-high incomers.*

Rosso's take*: I'm not sure how 'high incomers' are determined. During the Obama administration, a high-income earner was determined to have a taxable income of $250,000 or greater. To me, it's all an arbitrary shot in the dark.*

'High incomers' are likely business owners with employees. Increased taxes on the group may lead to stifled economic growth and ultimately trickle-down negatively to employees. Another proposal to have capital gains taxed at ordinary income rates can stifle entrepreneurial pursuits because lower tax rates are a great incentive to take on business risks.

Investors are rethinking strategies to transfer appreciated assets to loved ones because of Mr. Biden's proposal to remove the stepped-up basis on appreciated assets. This change can negatively affect the middle as well as upper-class households.

The Payroll Tax Isn't All Bad.

Personally, I don't believe that payroll taxes (12.4%) on wages of $400,000 or greater is harmful because payroll taxes *support* Social Security (at least I know where the money goes). Close to

20% of older Americans depend on it as their only source of income. The pandemic's impact on payrolls could potentially jeopardize the Social Security system, and raising payroll taxes on higher earners would ensure the program's viability for all of us.

A Wharton study from May 28, 2020 - *"The Impact of the Coronavirus on Social Security's Finances,"* employs the Penn Wharton Budget Model to analyze possible pandemic effects on retirement benefits.

Hastened Depletion Of The Social Security Trust Fund.

Depending on economic and payroll recovery, the Social Security Trust Fund runs the risk of depletion two to three years sooner than 2035.

Frankly, the vision of a future of sustained economic recovery *(not stock market recovery, which has decoupled from economic conditions)* is muddy at best. Social Security has required attention before the pandemic, and the urgency to shore it up has increased because of the drop in payrolls.

Be assured the program won't disappear because it can't. Many Americans require benefits to survive. According to the National Academy of Social Insurance, roughly 61 million people collect Social Security benefits each month, and they account for about one in five people in the United States. In about one family in four, someone is receiving Social Security benefits.

Remember, Social Security is primarily funded through payroll taxes, so any initiatives that improve economic recovery will positively impact payroll growth. Next year, the maximum earnings subject to the Social Security payroll tax increases by $5,100 to $142,800.

The Democratic Tax Themes For The Masses:

- Addition of a first-time homebuyers tax credit.
- The increase of child and dependent tax credits from $6,000 to $8,000.
- A new credit for people who provide long-term care to their elderly relatives.
- An expansion of the PP loan program and tax breaks to help employers provide a safe workplace.

The new administration should prohibit access to retirement accounts penalty-free for first-time homebuyers if a tax credit is on the table. Furthermore, caregivers suffer severe economic consequences, so I think it's about time we recognize those who sacrifice to provide long-term care to loved ones.

Important Retirement Funding Considerations.

- Maximize 2020 retirement plan contributions at least up to the employer match.
- ***2020 may be the perfect time for Roth conversion.*** Substitute a partial Roth conversion in place of a traditional IRA distribution in 2020 **and** pay taxes from other personal assets.
- Your adult children will be much happier in the long run to inherit a Roth.
- To count as a 2020 Roth conversion, the funds must leave the IRA or company plan before December 31, 2020.

Rosso's take: We are having plenty of Roth discussions this year. As blog readers know, our planners advocate for Roth conversions because of the likelihood of higher taxes in the future. Interesting how the strategy is *now* in vogue with mainstream financial media.

Think Diversification Of Accounts AND Diversification Of Assets!

At RIA, we teach the importance of ?diversification of accounts? whereby a retiree maintains greater distribution flexibility and lifetime control over tax liabilities.

Recently, a client requested $50,000 to pay off his mortgage. Due to *account diversification,* he could withdraw $20,000 from his pre-tax rollover IRA, $10,000 from a Roth conversion IRA and the remainder from an after-tax brokerage account. A smart portfolio distribution strategy gave him the freedom to make a large withdrawal with minimal tax impact!

Maximize Annual Contributions To ROTH IRAs For 2020.

So, two common flavors of Roth are contributory and conversion. It's common for people to confuse the two. So, let?s start with the smarter, more dashing sibling of the traditional IRA: The contributory Roth IRA. Roth accounts overall offer tax-deferred growth and, most important: **Tax-free withdrawals.**

Currently, the annual contribution limit per individual is $6,000; $7,000 for individuals 50 or older. These limits apply to 2021, too?unfortunately, Roth IRA contribution levels phase-out based on household adjusted gross income.

For example, married filing jointly with modified adjusted gross income less than $196,000 may contribute the maximum. Married couples with MAGIs of $206,000 and greater cannot contribute to Roth IRAs. Based on the generous AGI phaseout levels (≥ $196,000 but < $206,000 can contribute reduced amounts), most wage earners should be able to fund Roth IRAs.

As a reminder, Roth IRAs fund with after-tax dollars. After a five-year period, which begins January 1st of the year a contribution is made, earnings may be distributed 100% tax-free if younger than 59 1/2, a 10% premature distribution penalty applies to withdrawn earnings.

Participants may withdraw after-tax contributions at any time without taxes or penalties. Moreover, the five-year waiting period for earnings shouldn't be an obstacle if the Roth is indeed invested for retirement.

Roth Benefits Outlined.

A Roth IRA is not subject to required minimum distribution rules. *Furthermore*, *Roth* withdrawals *don't count in the provisional income formula used to tax Social Security; distributions will not add to income that may generate Medicare IRMAA surcharges.*

Consider Annual Surgical ROTH Conversions.

People ask me about Roth's viability in light of massive federal government deficits and stimulus programs to come. Frankly, I?m not concerned about the government changing the tax-free status of Roth.

Why? *They?re like J.G. Wentworth! And the government needs cash now!* I?m more concerned about how political parties may consider tax-deferred account balances as fatted calves ? all too tempting not to bring to eventual tax slaughter.

The Feds removed the $100,000 AGI ceiling on Roth conversions years ago to allow traditional IRA owners to convert to Roth without limitation (J.G Wentworth!).

A Real-life Example.

Let's consider a ?young? retiree, 57 years old, with a five-year plan to convert his rollover IRA to Roth. His goal is to distribute enough funds every year to maximize the 22% tax bracket. Utilizing a 37-year retirement joint life expectancy, we calculated that his strategy has the potential to increase his lifetime withdrawals and legacy plan by an impressive $871,466.

A Roth conversion plan not only reduces his lifetime tax liability but it also helps our retiree gain tax control otherwise lost to required minimum distributions at age 72.

Years ago, this retiree and I worked together to allocate investment dollars to an after-tax brokerage account, which came in handy to pay taxes on his Roth conversion, t*hus allowing 100% of his IRA dollars directed into Roth.* Having the tax money available from an outside source instead of withheld from the traditional IRA also avoids the 10% premature distribution penalty.

Due to the SECURE Act, it is now mandatory for non-spouse IRA beneficiaries (*your adult children)* to accelerate distributions over ten years from your date of death. At least in a Roth, required withdrawals are 100% tax-free and less painful for heirs! *See? Your children will love it (although I'm sure they'll be unfortunate that you're gone).*

Other Ideas To Consider Before Year-end.

Maximize a Health Savings Account. Maximize contributions to an HSA (if available to you). HSA contributions are tax-free, allocated among mutual funds, appreciate tax-deferred, and ultimately distributed tax-free for qualified healthcare expenses.

The self-only coverage contribution for 2020 is $3,550, $7,100 for family coverage. If 55 or older, add another $1,000 as a catch-up contribution. Limits for 2021: $3,600 self, $7,200 family.

Spend down your Flexible Spending Account. So, do you have a plan to liquidate your FSA by year-end? Flexible Spending Accounts allow for tax-free distributions for the purchase of qualified healthcare products and services. An FSA Carryover Rule exists whereby up to a $500 account balance may be carried over early in the new year. However, not every plan provides this option. In conclusion, check with your employer's benefits department as soon as possible.

A qualified tax professional is worth his or her weight in gold, and I'm fortunate to have one. *Do you?*

Keep an eye out for an upcoming allegiance between RIA Advisors and a team of dynamic tax specialists designated to help you make sense of tax implications in the new year and beyond!