

Financial Update

Ideas and Action Steps for Achievers



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Homeownership Rate Spikes During Quarantine

The U.S. homeownership rate jumped by 2.6% in the second quarter of 2020, the largest quarterly increase on record, bringing it to a level last seen in 2008. Part of this unexpected increase may be due to a change in the survey process because of the coronavirus, as well as a drop in the number of rental units as renters moved in with family or took on roommates. However, many renters bought homes, spurred by low mortgage rates.

Homeownership increased across all age groups, but the biggest jump was among those under age 35, whose 40.6% rate was the highest in almost 12 years. Americans age 65 and older have the highest rate of homeownership at 80.4%.



Sources: U.S. Census Bureau, 2020; Bloomberg, July 28, 2020; MarketWatch, July 29, 2020



Year-End 2020 Tax Tips

Here are some things to consider as you weigh potential tax moves before the end of the year.

Defer income to next year

Consider opportunities to defer income to 2021, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2021) could make a difference on your 2020 return.

Make deductible charitable contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 60%, 30%, or 20% of your adjusted gross income (AGI), depending on the type of property that you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.) For 2020 charitable gifts, the normal rules have been enhanced: The limit is increased to 100% of AGI for direct cash gifts to public charities. And even if you don't itemize deductions, you can receive a \$300 charitable deduction for direct cash gifts to public charities (in addition to the standard deduction).

Bump up withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2020 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2020, you can contribute up to \$19,500 to a 401(k) plan (\$26,000 if you're age 50 or older) and up to \$6,000 to traditional and Roth* IRAs combined (\$7,000 if you're age 50 or older). The window to make 2020 contributions to an employer plan generally closes at the end of the year, while you have until April 15, 2021, to make 2020 IRA contributions. (*Roth contributions are not deductible, but Roth qualified distributions are not taxable.)

Avoid RMDs in 2020







Normally, once you reach age 70½ (age 72 if you reach age 70½ after 2019), you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans. Distributions are also generally required to beneficiaries after the death of the IRA owner or plan participant. However, recent legislation has waived RMDs from IRAs and most employer retirement plans for 2020 and you don't have to take such distributions. If you have already taken a distribution for 2020 that is not required, you may be able to roll it over to an eligible retirement plan.

Weigh year-end investment moves

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

More to Consider

Here are some other things you may want to consider as part of your year-end tax review.

Consider postponing income and/or accelerating deductions if			Consider accelerating income and/or postponing deductions if		
					
You expect to be in a lower tax bracket next year (perhaps you'll retire next year)	Your itemized deductions are greater than the standard deduction this year	You want to delay payment of tax	You expect to be in a higher tax bracket next year (perhaps you have reduced income this year)	The standard deduction is greater than your itemized deductions this year	You're subject to alternative minimum tax this year and certain deductions are disallowed

Seeking Sun or Savings? Explore a Retirement Move

Many people intend to retire in the place they call home, where they have established families and friendships. But for others, the end of a career brings the freedom to choose a new lifestyle in a different part of the country — or the opportunity to preserve more wealth and protect it from taxes.

This big life decision is not all about money or the weather. Quality-of-life issues matter, too, such as proximity to family members and/or a convenient airport, access to good health care, and abundant cultural and recreational activities. In fact, choosing a retirement destination typically involves a delicate negotiation of emotional and financial issues, especially for married couples who may not share all the same goals and priorities.

If you're nearing retirement, there's a good chance you have at least thought about living somewhere warmer, less expensive, or perhaps closer to children who have built lives elsewhere. Here are some important factors to consider.

Cost of Living

A high cost of living can become a bigger concern in retirement, when you may need to stretch a fixed income or depend solely on your savings for several decades. There's no question that your money will go further in some places than in others.

The cost of living varies among states and even within a state, and it's typically higher in large cities than in rural areas. Housing is typically the largest factor — and often varies the most from place to place — but cost of living also includes transportation, food, utilities, health care, and, of course, taxes.

Selling a home in a high-cost area might enable you to buy a nice home in a lower-cost area with cash to spare. The additional funds could boost your savings and provide additional income. Moving to a more expensive locale may require some sacrifices when it comes to your living situation, future travel plans, and other types of personal spending.

Tax Differences

Seven states have no personal income tax — Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming (Tennessee and New Hampshire tax only interest and dividend income) — and other states

have different rules for taxing Social Security and pension income. Estate taxes are also more favorable in some states than in others. Property taxes and sales taxes also vary by state and even by county, so make sure to include them when calculating and comparing the total tax bite for prospective destinations.

The Tax Cuts and Jobs Act limited the annual deduction for state and local taxes to \$10,000. This change resulted in federal tax increases for some wealthier households in high-tax states, and it may also factor into your relocation decision.



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Tips for Snowbirds

If you can afford the best of both worlds, you might prefer to keep your current home and head south for the winter. But if your choice of location is based largely on lower taxes, consider how much the costs of owning, maintaining, and traveling between two homes might cut into (or exceed) the potential tax savings.

To establish residency in the new state, you must generally live there for more than half of the year and possibly meet other conditions. You should also be aware that the tax agency in your old state may challenge your residency claim, especially if you still own property, earn income, or maintain other strong ties. If so, you may need to document your time and activities in each state and/or prove that your new home is your primary and permanent residence.

If you decide to live somewhere new on a full- or part-time basis, it may be worthwhile to rent for the first year, just in case the adjustment turns out to be more difficult than expected. You might also discuss the financial implications of a move with a tax professional.

Lessons from the Lockdown: A Back-to-Basics Holiday

If there is one thing the COVID-19 stay-at-home orders demonstrated, it was the need to find joy in simple pleasures. In fact, 43% of respondents to one survey said they had "changed their ways for the better" as a result of the lockdown.¹ By applying some of the lessons learned from pandemic purgatory to the holiday season, families may be able to create new and meaningful traditions while saving money.

Travel. While confined to their homes for several months, people discovered the benefits of virtual get-togethers via video calls. The same survey cited above found that many people who used videoconferencing technology reported that they connected more with loved ones during the lockdown than before restrictions were put into place.² This holiday season, if you can't be with your loved ones, consider scheduling a virtual gathering to open gifts or share a meal together. An added benefit of less time and money spent on travel could be lower stress overall.

Experience vs. "stuff." Of course, sharing experiences in person can be more rewarding than a video chat. Stay-at-home orders prompted many people to reflect on how much they took for granted, especially the opportunity simply to spend time with loved ones they don't see on a regular basis. As many grandparents would likely contend, time spent with family can be a much more valuable gift than the latest gadget or fashion trend. Moreover, while in lockdown,

many families discovered they could actually live without many of the material goods they purchase on a regular basis. Rather than spending a lot on "stuff" this season, consider intentionally downsizing the piles of gifts exchanged and focusing more on the shared celebrations and traditions.

In April 2020, during the height of the stay-at-home orders, the nation's personal savings rate hit an all-time high of 32%.³

Food. During the lockdown, many people rediscovered the simple joy of preparing and eating home-cooked meals and baked goods. And because ingredients were often limited due to supply-chain disruptions, creativity became a valuable kitchen skill. This holiday season, instead of spending a small fortune dining out, why not put some of that pandemic culinary prowess to work? Simple meals that the whole family helps prepare can be cost-effective as well as memory-making. Wrapped up with a beautiful bow, your creations can also make thoughtful, inexpensive, edible gifts. (You might also consider supporting local businesses by having food gifts delivered or purchasing gift cards.)

1-2) OnePoll, studyfinds.org, May 23, 2020; 3) U.S. Bureau of Economic Analysis, June 30, 2020

IMPORTANT DISCLOSURES

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