

# ANNUAL FINANCIAL TO-DO LIST

by Dominic Lucente

Things you can do for your future as the year unfolds.

What financial, business, or life priorities do you need to address for the coming year? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to managing your taxes. You have plenty of choices. Here are a few ideas to consider:

**Can you contribute more to your retirement plans this year?** In 2020, the contribution limit for a Roth or traditional individual retirement account (IRA) remains at \$6,000 (\$7,000 for those making “catch-up” contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA: singles and heads of household with MAGI above \$139,000 and joint filers with MAGI above \$206,000 cannot make 2020 Roth contributions.<sup>1</sup>

Before making any changes, remember that withdrawals from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.

**Make a charitable gift.** You can claim the deduction on your tax return, provided you itemize your deductions with Schedule A. The paper trail is important here. If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record, payroll deduction record, credit card statement, or written communication from the charity with the date and amount. Incidentally, the Internal Revenue Service (I.R.S.) does not equate a pledge with a donation. If you pledge \$2,000 to a charity this year, but only end up gifting \$500, you can only deduct \$500.<sup>1</sup>

These are hypothetical examples and are not a replacement for real-life advice. Make certain to consult your tax, legal, or accounting professional before modifying your strategy.

**See if you can take a home office deduction for your small business.** If you are a small-business owner, you may want to investigate this. You may be able to legitimately write off expenses linked to the portion of your home used to exclusively conduct your business. Using your home office as a business expense involves a complex set of tax rules and regulations. Before moving forward, consider working with a professional who is familiar with homebased businesses.<sup>3</sup>

**Open an HSA.** A Health Savings Account (HSA) works a bit like your workplace retirement account. There are also some HSA rules and limitations to consider. You are limited to a \$3,550 contribution for 2020, if you are single; \$7,100, if you have a spouse or family. Those limits jump by a \$1,000 “catch-up” limit for each person in the household over age 55.<sup>4</sup>

If you spend your HSA funds for non-medical expenses before age 65, you may be required to pay ordinary income tax as well as a 20% penalty. After age 65, you may be required to pay ordinary income taxes on HSA funds used for nonmedical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

**Pay attention to asset location.** Tax-efficient asset location is an ignored fundamental of investing. Broadly speaking, your least tax-efficient securities should go in pretax accounts, and your most tax-efficient securities should be held in taxable accounts.

Before adjusting your asset location, consider working with an investment professional who is familiar with tax rules and regulations.

**Review your withholding status.** Should it be adjusted due to any of the following factors?

- You tend to pay a great deal of income tax each year.
- You tend to get a big federal tax refund each year.
- You recently married or divorced.
- A family member recently passed away.
- You have a new job and you are earning much more than you previously did.
- You started a business venture or became self-employed.

These are general guidelines and are not a replacement for real-life advice. So, make certain to speak with a professional who understands your situation before making any changes.

**Are you marrying in 2020?** If so, why not review the beneficiaries of your retirement accounts and other assets? When considering your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2020, you will need a new Social Security card. Additionally, the two of you may have retirement accounts and investment strategies. Will they need to be revised or adjusted with marriage?

**Are you coming home from active duty?** If so, go ahead and check the status of your credit and the state of any tax and legal proceedings that might have been preempted by your orders. Make sure any employee health insurance is still there and revoke any power of attorney you may have granted to another person.

**Consider the tax impact of any upcoming transactions.** Are you planning to sell any real estate this year? Are you starting a business? Do you think you might exercise a stock option? Might any large commissions

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**Dominic M. Lucente, CFP®, RFC®**

CERTIFIED FINANCIAL PLANNER™  
NORTHEAST PLANNING ASSOCIATES, INC.

425 Hooksett Road · Manchester, NH 03104  
(603) 645-8131  
dlucente@northeastplanning.com  
www.dominiclucente.com



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or bonuses come your way in 2020? Do you anticipate selling an investment that is held outside of a tax-deferred account?

**If you are retired and older than 70½, remember your year-end RMD.** Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs and 401(k), 403(b), and profit-sharing plans by December 31 of each year. The I.R.S. penalty for failing to take an RMD can be as much as 50% of the RMD amount that is not withdrawn.<sup>5</sup>

**Lastly, should you make 13 mortgage payments this year?** If your house is underwater, this makes no sense – and you could argue that those dollars might be better off invested or put in your emergency fund. Those factors aside, however, there may be some merit to making a January 2020 mortgage payment in December 2019. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more.

If you're considering making 13 payments, consider working with a tax, legal, or accounting professional who is familiar with your situation.<sup>3</sup>

Vow to focus on being healthy and wealthy in 2020. And don't be afraid to ask for help from professionals who understand your individual situation.

**Dominic Lucente may be reached at 603.645.8131  
or Dominic.lucente@LPL.com  
Dlucente.com**

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#### Citations.

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