



JON WATTS, CPA, MANAGING DIRECTOR

## NEXT CLEARSTEAD ROUNDTABLE APRIL 23, 2020

As part of our series on pertinent topics in investment management, we are sponsoring a Roundtable, entitled *Private Investments - Growing Importance and Evolving Access*, on April 23, 2020. It will be held at the Shaker Heights Country Club in Shaker Heights, OH. We believe our Roundtable will appeal to trustees of endowed not-for-profits, professional staff members, and advisors. Panelists will include several national experts. If you are interested in attending, please contact Monica Fletcher at [mfletcher@clearstead.com](mailto:mfletcher@clearstead.com) or call (216) 621-1090.

## PAY YOURSELF!

BY JON WATTS, CPA, MANAGING DIRECTOR

The end of the calendar year is a busy time. Celebrations, shopping, traveling, and social and family gatherings consume much of our time. Most people would rather spend time with friends and loved ones than carefully plot out tax-saving strategies. But at some point, in between glasses of eggnog and Champagne, and usually immediately before New Year's Eve, it may dawn on us that we may not have done as much as we could have to position ourselves in the most tax-favorable situation by the close of the year. New Year's Eve might be too late to harvest capital losses, donate to a chosen charity, or purchase equipment for a business. Fortunately, the tax code does contain a few provisions to allow taxpayers to take certain tax-saving steps after the tax year has ended.

### IRAs

Maximizing retirement plan contributions is one great way to "pay yourself," and in some cases, this can be done after the tax year has ended. Owners of traditional Individual Retirement Accounts (IRAs) or Roth IRAs have until April 15, 2020 to contribute to their accounts for tax year 2019<sup>1</sup>. This provision applies to both deductible and designated non-deductible contributions. Self-Employed taxpayers who have Simplified Employee Pension (SEP) IRAs can delay the deadline up until the extended due date of their tax return<sup>2</sup>; October 15, 2020 for most taxpayers. The reference chart on the next page summarizes the maximum allowable contributions and relevant IRA information for 2019 and 2020.

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## IRAs

Contribution Limits	2019	2020
IRA or Roth IRA contribution limit	\$6,000	\$6,000
IRA or Roth IRA catch-up (age 50 or older)	\$1,000	\$1,000

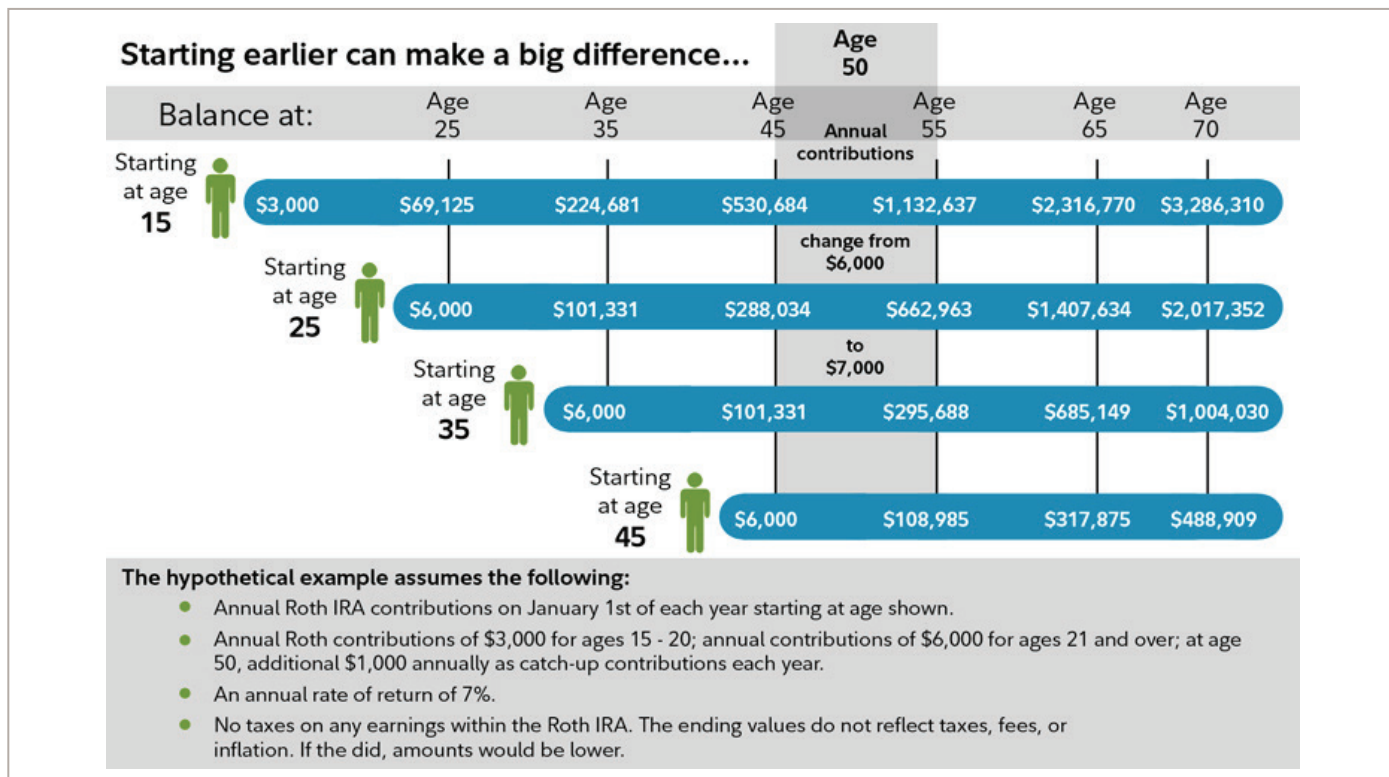
Traditional IRA Deduction Phaseout		
Participants in a retirement plan		
Single	\$64,000 - \$74,000	\$65,000 - \$75,000
Married filing jointly	\$103,000 - \$123,000	\$104,000 - \$124,000
Married filing separately	\$0 - \$10,000	\$0 - \$10,000
Spousal IRA	\$193,000 - \$203,000	\$196,000 - \$206,000

Roth IRA Phaseout		
Single	\$122,000 - \$137,000	\$124,000 - \$139,000
Married filing jointly	\$193,000 - \$203,000	\$196,000 - \$206,000

Roth IRAs, particularly for younger taxpayers, are an excellent tool to provide tax-free growth. Parents or grandparents of children with earned income for 2019 can fund a child's Roth IRA up to the lesser of the child's earned income or the statutory limit of \$6,000 for 2019 and 2020<sup>3</sup>. Opening and funding a Roth IRA for a child as soon as he or she begins earning can start the child on the smart path to a secure retirement.

As with most other investing strategies, starting early can make a huge difference. The illustration below from Fidelity highlights the impact of opening a Roth IRA and investing early in the child's working life.



Source: Fidelity.com

For informational purposes only, results are based on hypothetical assumptions. Actual ending amounts may be higher or lower than amounts shown due to higher or lower performance compared to the annual rate of return assumptions.

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Keep in mind, making a contribution to a child's Roth IRA is considered a gift and will count towards the contributor's annual exclusion amount, currently \$15,000 for 2019 and 2020<sup>4</sup>. Also note that the gift to fund the child's Roth IRA for 2019 can be made prior to April 15, 2020 and be designated as a 2019 contribution. But if the gift or contribution is made in 2020, it will count towards the contributor's 2020 annual gift exclusion, not 2019.

## SPEAKING OF TIMING...

While the ability to fund an IRA after year-end is often helpful, and holidays may feel like the right time to gift the IRA contribution to loved ones, as a practical matter, funding the account at the beginning of each year instead can make a meaningful difference over time. Doing so extends the amount of time the assets can work for the account holder. The chart below illustrates the difference over time between funding an IRA on January 1 each year versus December 31. The illustration assumes a maximum annual contribution of \$6,000 each year and a growth rate of 10%.

Years	End	Beginning	Difference
5	\$36,631	\$40,294	\$3,663
10	\$95,625	\$105,187	\$9,562
15	\$190,635	\$209,698	\$19,063
20	\$343,650	\$378,015	\$34,365
25	\$590,082	\$649,091	\$59,009
30	\$986,964	\$1,085,661	\$98,697
35	\$1,626,146	\$1,788,761	\$162,615
40	\$2,655,555	\$2,921,111	\$265,556

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## HEALTH SAVINGS ACCOUNTS (HSAs)

Another somewhat basic, but often overlooked opportunity for post-year-end planning is the Health Savings Account (HSA). HSAs are tax favorable accounts allowing eligible individuals to set aside funds for qualified medical expenses. Contributions to HSAs are excluded from income and distributions are tax free to the extent that the distributed funds are used to pay for medical expenses. The contributions are an above-the-line deduction from gross income and, thus, the deduction is available to taxpayers who do not itemize deductions<sup>5</sup>.

Contributions made by the original due date for the taxpayer's return can be deemed as made in the preceding tax year; in other words, taxpayers may deduct HSA contributions on their 2019 tax return if they make such contributions by April 15, 2020<sup>6</sup>. Eligible individuals can contribute up to \$3,500 for 2019 for self-only coverage (\$3,550 for 2020) or \$7,000 for 2019 for family coverage (\$7,100 for 2020)<sup>7</sup>. Individuals who are age 55 or older can make an additional \$1,000 "catch-up" contribution<sup>8</sup>. Keep in mind that no contributions, including catch-up contributions, can be made by or for an individual who is eligible for Medicare<sup>9</sup>.

The reference chart below summarizes 2019 and 2020 contribution limits for HSAs.

Health Savings Account		
HSA Contribution Limit	2019	2020
Single	\$3,500	\$3,550
Family	\$7,000	\$7,100
Catch-up contribution (age 55 or older)	\$1,000	\$1,000

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## A FINAL THOUGHT

Although the calendar has turned from 2019 to 2020, there is still time to favorably affect your tax position while building your savings. At Clearstead, our advisors work to build investment strategies to match your needs. No need to panic if you did not “pay yourself” by December 31. Use these simple ideas to take advantage of the opportunities provided in the tax code to help you maximize your retirement and medical expense savings and pay yourself. You are worth it!

### Sources:

- (1) IRC § 219(f)(3).
- (2) IRC § 404(a)(6).
- (3) Notice 2019-59, IRB 2019-46; Notice 2018-83, IRB 2018-47.
- (4) Rev. Proc. 2019-44, IRB 2019-47; Rev. Proc. 2018-57, IRB 2018-49, 827.
- (5) IRC § 62(a)(19).
- (6) IRC § 223(d)(4)(B).
- (7) Rev. Proc. 2019-25, IRB 2019-22, 1261; Rev. Proc. 2018-30, IRB 2018-21, 610; and Rev. Proc. 2018-27, IRB 2018-20, 591, modifying and superseding in part Rev. Proc. 2018-18, IRB 2018-10, 392.
- (8) IRC § 223(b)(3).
- (9) IRC § 223(b)(7).

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*Performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.*

### MARKET BENCHMARK RETURNS

January 31, 2020		1M	3M	12M	YTD
US Large Cap	S&P 500	0.0%	6.7%	21.7%	0.0%
US Small Cap	Russell 2000	-3.2%	3.7%	9.2%	-3.2%
Developed Intl	MSCI EAFE	-2.1%	2.2%	12.1%	-2.1%
Emerging Intl	MSCI Em Mkt	-4.7%	2.3%	3.8%	-4.7%
Real Estate	NAREIT	1.4%	0.8%	16.6%	1.4%
Core Fixed	BarCap Agg	1.9%	1.8%	9.6%	1.9%
Short Fixed	BarCap 1-3Yr	0.6%	0.8%	4.2%	0.6%
Long Fixed	BarCap LT G/C	5.2%	4.1%	23.1%	5.2%
Corp Debt	BarCap Corp	2.3%	2.8%	14.0%	2.3%

Source: Bloomberg

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