

Year-end checklist



Wealth
Management

Now is an ideal time to consider year-end strategies that may benefit you, and plan for the year ahead. Please discuss any ideas and questions with your financial advisor.

Results of the election on November 3, 2020 may require a need to revisit this checklist. For example, if you anticipate your marginal income tax rates to increase next year, whether due to increased income or changes to tax legislation, you may want to look to ways to accelerate income and defer deductions.

Investment and income tax strategies

Offset capital gains

- Harvest your losses by selling taxable investments.
- Harvest your gains by selling taxable investment if you have capital loss carryovers or year-to-date losses for the current year. Short-term losses are most effective at offsetting capital gains. Note: wait at least 31 days before buying back a holding sold for a loss to avoid the IRS wash sale rule.
- Evaluate if you should delay purchasing mutual fund shares until 2021 to avoid capital gains on brand new investments.

Defer or reduce income (if you anticipate being in a lower taxable income bracket in 2021 or later)

- If possible, defer income and the sale of capital gain property until 2021 or later to postpone taxable income to the following year.
- Consider using an RBC Credit Access Line to cover any short-term income distribution gaps.
- Bunch your itemized medical expenses in the same year in order to meet the threshold percentage of your adjusted gross income to claim such deductions.
- In December, make your January mortgage payment (i.e., the payment due no later than January 15) so you can deduct the interest on your 2020 tax return.
- Increase your W-2 federal withholding amount in preparation for a significant tax bill or to avoid the under-withholding tax penalty.
- If you have concerns that you may be subject to the Alternative Minimum Tax (AMT), speak with your CPA or

other tax advisor before deferring income or accelerating deductions, as your AMT status could limit your ability to benefit from these actions.

- If you feel you will be in a lower income tax bracket in the future and can accept the risk of receiving payments over time, use installment sale agreements to spread out any potential capital gains among future taxable periods.
- For 2020 only, consider not taking your RMD (CARES Act provision) if you are in a higher income tax bracket in 2020 than you expect to be in 2021 or future years.

Retirement planning — seize opportunities and avoid missteps

- Maximize your IRA contributions. You may be able to deduct annual contributions of up to \$6,000 to your traditional IRA and \$6,000 to your spouse's IRA. If you are 50 or older, take advantage of catching up on IRA contributions and certain qualified retirement plans. You may be able to contribute and deduct an additional \$1,000.
- Required Minimum Distributions are suspended for 2020 under the CARES Act, but consider whether to take you RMD if you anticipate being in a higher tax bracket in future years.
- Consider increasing or maximizing your 401(k) and retirement account contributions.
- Consider contributions to a Roth 401(k) plan (if your employer allows and you are in a lower income tax bracket now than you expect to be in the future).
- Avoid mandatory tax withholding by making a direct rollover distribution to an eligible retirement plan, including an IRA.
- Avoid taking IRA distributions prior to age 59½ or a 10% early withdrawal penalty may apply.
- Consider setting up a Roth IRA for each of your children who have earned income.
- Consider converting from a traditional IRA to a Roth IRA if in a low marginal income tax bracket. Partial Roth IRA conversions are permissible.

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- Explore taking employer stock from tax-deferred accounts (net unrealized appreciation strategy) to take advantage of capital gains tax rules.
- Determine the optimal time to begin taking Social Security benefits, which you can apply for between ages 62 and 70.
- If you have been impacted by the COVID-19 pandemic as defined by the IRS, you may be eligible to take a COVID-19-related distribution from an eligible retirement plan. The deadline for taking such a distribution is December 30, 2020, and you may withdraw up to an aggregate limit of \$100,000 from all eligible plans and IRAs. You have to pay income tax on the COVID-19-related distribution, but the 10% penalty for withdrawals before age 59 ½ does not apply and the taxes can be paid over three income tax years.
- If you have business losses that flow through to your individual tax return in 2020, consider a Roth conversion or harvest capital gains to create income that is offset by the business loss.
- Make a Roth IRA contribution if under the applicable earnings limitation.

Gifting strategies

Give to loved ones

- Consider making gifts of up to \$15,000 per person allowed under federal annual gift tax exclusion. Use assets likely to appreciate significantly for optimum income tax savings.
- Make sure that your estate plan is up to date, and that you have a will, revocable trust, health care directive and power of attorney in place.

Give to those in need—charity

- Make a charitable donation (cash or even old clothes) before the end of the year. Remember to keep all of your receipts from the recipient charity. If the charitable contribution is made very close to year end, consider using a credit card to record that they can be deducted in the current year.
- Use appreciated stock rather than cash when contributing to charities. This may help you avoid income tax on the built-in gain in the stock, while at the same time maximizing your charitable deduction.
- If you are over 70½ in 2020 and would like to make a donation to charity from your IRA, you can donate up to \$100,000 each year directly to qualified charities using a Qualified Charitable Distribution. You avoid taxes through a direct transfer of funds from your IRA custodian to qualified charities. It is a particularly effective way to direct your required minimum distribution.
- Set up a donor-advised fund for an immediate income tax deduction and provide immediate and future benefits to charity over time.

- Consider “bunching” several years of charitable contributions into one year with a gift to a donor-advised fund to make your contributions more tax-efficient.

Itemize personal residence and mortgage interest*

- Up to \$250,000 (\$500,000 for married couples filing jointly) of the gain from the sale of your principal residence can be excluded from federal income tax, if certain requirements are met.
- Interest on up to \$750,000 of mortgage indebtedness incurred after December 14, 2017, is allowed as an itemized deduction if used to purchase or improve a home.
- For mortgages incurred December 14, 2017, or earlier, interest will be deductible on up to \$1,000,000 of debt (the old cap), even if refinanced after December 14, 2017.

Set yourself up for success in the upcoming year

Wrap up 2020

- Send capital gains and investment income information to your accountant for a more accurate year-end projection.
- Check your Health Savings Account contributions for 2020. If you qualify, you can contribute up to \$3,550 (individually) or \$7,100 (family), and an additional \$1,000 catch-up if you are age 55 or older. Confirm you’ve spent the entire balance in your Flexible Spending Accounts for the year.
- Revisit contribution amounts to your 529 plan college savings accounts.
- Open up an RBC Credit Access Line to be ready for unexpected opportunities or events.
- Review Medicare Part D plan to potentially make a change during open enrollment, which begins in October.

Planning for 2021

- Discuss major life events with your advisor to ensure you have clarity in your current situation and direction for tomorrow. This includes family, job or employment changes and significant elective expenses (real estate purchases, college tuition payments, etc.).
- Ensure your account preferences and risk tolerance and investment objectives are up to date with your advisor.
- Double check your beneficiary designations (employer-sponsored retirement plans, 401(k)s, IRAs, Roth IRAs, annuities, life insurance policies, deferred compensation plans, etc.), transfer on death (TOD) designations and payable on death (POD) designations. They should be updated as necessary and align with your estate plan.
- Review you have designated a trusted contact person on each of your accounts to help protect your assets against fraud and financial exploitation.

* Interest on mortgage or home equity debt not used to purchase or improve a personal residence is no longer allowable as an itemized deduction.

RBC Wealth Management does not provide tax advice. All decisions regarding the tax implications of your investments should be made in consultation with your independent tax advisor.

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