Financial Stewardship

Helping You Make Wise Financial Choices

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I am looking forward to celebrating Mother's Day next month with my mom. I hope you get to celebrate with your family too.

If you have not maxed out your retirement accounts for 2020 you may be able to add more up until May 17, 2021.

If you have not completed your personal income taxes, you have until May 17, 2021.

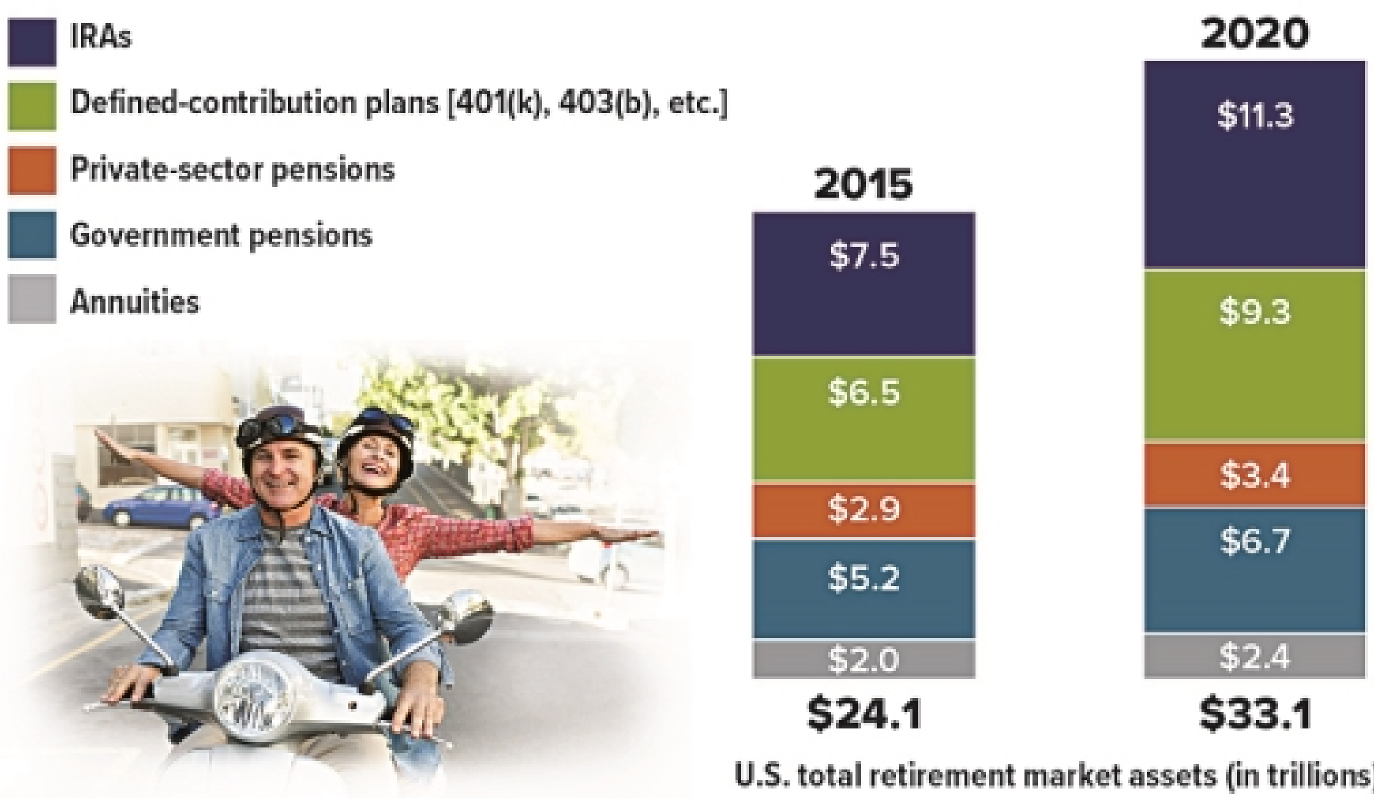
We are partnered with Securities America and Arbor Point. We expect additional changes in the coming year as we seek to do what is best for you, our clients. Feel free to call 206-354-5836 or email any questions

I enjoy being a resource and helping you. If your family or friends could benefit and be guided like you, please introduce us or share this newsletter with them.

If you would like prayer, please let me know.

IRAs Are Top Tool for Retirement Savings

Individual retirement accounts are the largest pool of U.S. retirement assets, which totaled $33.1 trillion at the end of the third quarter of 2020.



Source: Investment Company Institute, 2020

How Well Do You Understand Retirement Plan Rules?

Qualified retirement plans, such as IRAs and 401(k)s, have many rules, and some of them can be quite complicated. Take the following quiz to see how well you understand some of the finer points.

1. You can make an unlimited number of retirement plan rollovers per year.

A. True

B. False

C. It depends

2. If you roll money from a Roth 401(k) to a Roth IRA, you can take a tax-free distribution from the Roth IRA immediately as long as you have reached age 59½.

A. True

B. False

C. It depends

3. You can withdraw money penalty-free from both your 401(k) and IRA (Roth or traditional) to help pay for your children's college tuition or to pay for health insurance in the event of a layoff.

A. True

B. False

C. It depends

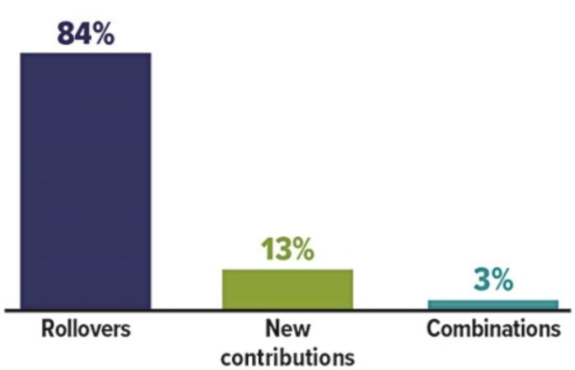
4. If you retire or otherwise leave your employer after age 55, you can take penalty-free distributions from your 401(k) plan. You can't do that if you roll 401(k) assets into an IRA.

A. True

B. False

C. It depends

Shares of Traditional IRA Assets Opened with...



Source: Investment Company Institute, 2020 (data reflects IRAs opened in 2016)

1. C. It depends. Rollovers can be made in two ways — through a direct rollover, also known as a trustee-to-trustee transfer, in which you authorize the funds to be transferred directly from one account or institution to another, or through an indirect rollover, in which you receive a check in your name (less a required tax withholding) and then reinvest the full amount (including the amount withheld) in a tax-deferred account within 60 days. If the full amount is not reinvested, the outstanding amounts will be considered a distribution and taxed accordingly, including any applicable penalty. Generally, individuals can make an unlimited number of rollovers in a 12-month period, either direct or indirect, involving employer-sponsored plans, as well as an unlimited number of direct rollovers between IRAs; however, only one indirect (60-day) rollover between two IRAs is permitted within a 12-month period.

2. C. It depends. Beware of the five-year rule as it applies to Roth IRAs. If you establish your first Roth IRA with your Roth 401(k) rollover dollars, you will have to wait five years to make a qualified withdrawal from the Roth IRA, regardless of how long you've held the money in your Roth 401(k) account, even if you are over 59½. However, if you have already met the five-year holding requirement with *any* Roth IRA, you may take a tax-free, qualified withdrawal.

3. B. False. You can take penalty-free withdrawals from an IRA, but not from a 401(k) plan, to pay for a child's qualifying education expenses or to pay for health insurance premiums in the event of a job loss. Note that ordinary income taxes will still apply to the taxable portion of the distribution, unless it's from a Roth account that is otherwise qualified for tax-free withdrawals.

4. A. True. If you leave your employer after you reach age 55, you may want to consider carefully whether to roll your money into an IRA. Although IRAs may offer some advantages over employer-sponsored plans — such as a potentially broader offering of investment vehicles — you generally cannot take penalty-free distributions from an IRA between age 55 and 59½, as you can from a 401(k) plan if you separate from service. If you might need to access funds before age 59½, you could leave at least some of your money in your employer plan, if allowed.

When leaving an employer, you generally have several options for your 401(k) plan dollars. In addition to rolling money into an IRA and leaving the money in your current plan (if the plan balance is more than $5,000), you may be able to roll the money into a new employer's plan or take a cash distribution, which could result in a 10% tax penalty (in addition to ordinary income taxes) on the taxable portion, unless an exception applies.

Due Date Approaches for 2020 Federal Income Tax Returns

Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2019 tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate. The filing deadline for individuals is generally Monday, May 17, 2021.

Filing for an Extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.* Filing this extension gives you an additional five months (to October 15, 2021) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Due Dates for 2020 Tax Returns

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the May filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Note: *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances, you are generally allowed an automatic one-month extension (to June 15, 2021) without filing Form 4868, though interest will be owed on any taxes due that are paid after the May filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

What If You Owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible.

If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a Refund?

The IRS has stepped up efforts to combat identity theft and tax refund fraud. More aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is required to hold refunds on all tax returns claiming the earned income tax credit or the additional child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a tax return. However, note that in 2020 the IRS experienced delays in processing 2019 paper tax returns due to limited staffing during the coronavirus pandemic.

So if you are expecting a refund on your 2020 tax return, consider filing as soon as possible and filing electronically.

New Changes to College Financial Aid and Education Tax Benefits

In late December 2020, Congress passed the Consolidated Appropriations Act, 2021, another relief package in response to the pandemic. The bill included several provisions related to education, including $22.7 billion for colleges and universities. Here are some key highlights.

Simplified FAFSA. The bill accomplishes the long-held bipartisan objective of simplifying the Free Application for Federal Student Aid, or FAFSA, starting with the 2023-2024 school year. For example, the legislation significantly reduces the number of overall questions (including eliminating questions about drug convictions and Selective Service status); makes the income protection allowance more favorable for parents and students, which will allow more income to be shielded from the formula; increases the income threshold (from $50,000 to $60,000) to qualify for the simplified needs test, an expedited formula in the FAFSA that doesn't count family assets; and widens the net of students eligible for a Pell Grant.

However, the FAFSA will no longer divide a parent's assessment by the number of children in college at the same time. This change has the potential to significantly reduce the amount of financial aid offered to middle- and high-income families who have multiple children in college at the same time.

Goodbye EFC terminology. In the future, the expected family contribution (EFC) will be referred to as the student aid index, or SAI, in an attempt to more accurately reflect what this number represents: a yardstick for aid eligibility rather than a guarantee of what families will pay (families often pay more than their EFC amount).

Expanded Lifetime Learning credit. The bill increased the income limits necessary to qualify for the Lifetime Learning credit, an education tax credit worth up to $2,000 per year for courses taken throughout one's lifetime to acquire or improve job skills. Starting in 2021, a full credit will be available to single filers with a modified adjusted gross income (MAGI) below $80,000 and joint filers with a MAGI below $160,000 (the credit phases out for single filers with incomes between $80,000 and $90,000 and joint filers with incomes between $160,000 and $180,000). These are the same income limits used for the American Opportunity credit. To accommodate an expanded Lifetime Learning credit, Congress repealed the deduction for qualified college tuition and fees for 2021 and beyond.

Employer help with student loan repayment. The bill extended a provision allowing employers to pay up to $5,250 of employees' student loans on a tax-free basis for another five years. This provision, included in the Consolidated Aid, Relief, and Economic Security (CARES) Act, would have expired at the end of 2020.

Schedule an appointment