TAXES TODAY

For CPAs, EAs, and Tax Professionals

3.05.2021

Author: Steve Pitchford, CPA, CFP®, Director of Tax and Financial Planning

DESTRUCTION OF THE RETIREMENT PLAN DEDUCTION?

info@towerpointwealth.com
Twitter: @twrpointwealth

1.916.405.9140

500 Capitol Mall, Ste.1060 | Sacramento, CA, 95814

TOWERPOINT WEALTH
For CPAs, EAs, & Tax Professionals

Destruction of the Retirement Plan Deduction?

Taxes Today by Towerpoint Wealth – 3.5.2021

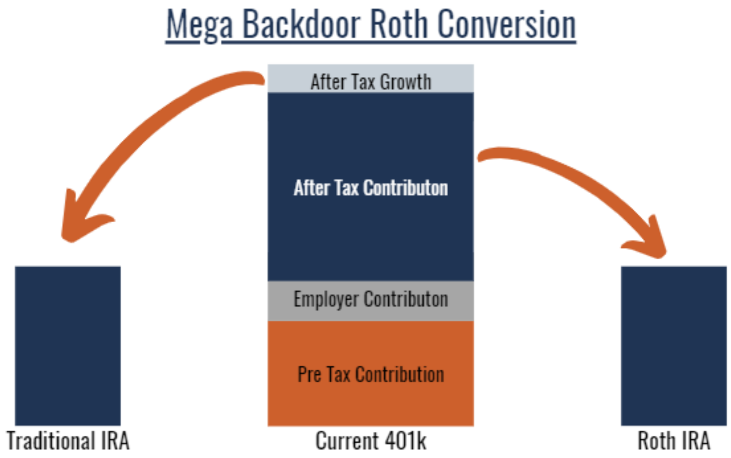
I trust that you are hanging in there and keeping your head above water with tax season in full swing.

At Towerpoint Wealth, we have been actively monitoring updates to President Biden's proposed tax law changes, with a particular focus on the possibility of the dollar-for-dollar tax deduction on pre-tax retirement plan contributions being eliminated in favor of a refundable flat tax credit. In the simplest sense, this credit (proposed right now to be 26%) would hurt individuals that are in an income tax bracket above 26% and help individuals in a tax bracket below 26%.

How can you provide advice and value to clients who will be dinged by this proposed retirement plan tax law change?

During our semi-annual comprehensive financial planning, investment, and retirement review meetings with clients, we have discussed three particular strategies:

1. Switching contributions from *pre-tax* "regular" contributions to *after-tax* Roth contributions if the retirement plan allows for Roth contributions. This strategy is particularly attractive for clients that are maximizing their annual contributions (as the future tax value of after-tax contributions is greater than pre-tax) and for those close to retirement and worried about increasing tax rates.
2. Evaluating the "Mega Backdoor" Roth strategy, where an individual may be able to make up to a $58,000 contribution (for 2021) with a portion of these assets then converted to the Roth 401(k) or Roth IRA.
3. Reconsidering the merits of making pre-tax retirement plan contributions and instead favoring contributing to a "regular" taxable account (such as an individual brokerage account, investment trust account, etc.). If this legislation comes to pass, it may be particularly attractive to be tax conscious, and strategically place tax-efficient investments in a taxable account, because the investor maintains complete control of withdrawals.



https://kinetixfp.com/mega-backdoor-roth/

Towerpoint Tip: *Ask your client to send you a copy of the Summary Plan Description (SPD) for their retirement plan(s). This is the overarching governing document of a retirement plan and will provide you with valuable information regarding whether or not the plan allows for Roth contributions, in-service Roth conversions, etc.*

At Towerpoint Wealth, we have been proactively working with and helping our clients manage and process questions about the Charles Schwab Form 1099s they have been receiving, as well as a myriad of other 2020 income tax-related questions and issues. Our tax management and planning acumen adds support to our philosophy regarding the value of being mindful of the income tax consequences of growing and protecting wealth.

Lastly, I encourage you to click **HERE** to take a look at our recently published white paper, *The Frustrations of Form 1099* (also found in the content section below), written with a specific focus on helping clients mitigate the risk (and hassle) of receiving an *amended* Form 1099.

We are here to help.

Please reach out to me, by phone (916-405-9166), or email (spitchford@towerpointwealth.com), with any questions or concerns you'd like to discuss. The world continues to be an extremely complicated place, and we are here for you, and any of your clients, as a direct expert resource and sounding board.

Steve Pitchford, CPA, CFP®,
Director of Tax and Financial Planning