Consider This Program

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On This Show:

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Show Notes:

Distribution Questions

1. How do I know what my options are with my 401k if I switched companies for a better job in my field?

It depends on the plan. If it's under the amount of money to roll that plan out, you can either take a check or if it's coming from a 401k, the IRS instructs the employer to withhold 20% from your paycheck. That 20% goes to pay taxes to the federal government. Then you get a check, which is fully taxable at the end of the year. If you're under 59 and a half, that's a 10% federal penalty as well. Or you can roll that to an IRA.

So you can open up an IRA and have that money deposited into an account on your behalf. That's option number one. If you have enough money in there, you actually have the option to leave it inside of that 401k. Now, that doesn't mean that that's your best answer. But it is certainly one option. We've created a checklist for you, a list of 10 things that you should consider. Should I move the money from my 401k to an IRA? What do I need to know? What do I need to be aware of? You can call Angie at (800) 928-4001 and she will happily send you that checklist.

2. Do all plans allow you to leave it with them when you separate from your job?

Again, it's based on the amount of money that you have. It's not whether they allow it or not. The Department of Labor forces them to let you leave it if you've got enough money in there because not everybody wants to open up an IRA. Traditionally 401k plans had fewer fees and expenses. That's not always true anymore.

3. So if you take your 401k to your new employer how does that work? Do you have to go to your former HR department and initiate that yourself or can the new employer provide the paperwork to roll that in? How does all of that work?

It has to come from your HR and sometimes they'll have you go directly to the custodian. They show that you've separated from service. That's the definition of being able to take a distribution or an IRA rollover.

4. What if you're just laid off? Is that really a separation?

That's when you're in a cash struggle. The rules out of the department of labor plan said that you had to pay back a loan. Now, fortunately, the IRS has given people a longer period of time now to pay back the loan to be able to help. So when you're laid off, it's an ideal time (depending on what time of year and what your income looks like) to get into the tax planning to see if you actually want to take money out of the 401k and recognize taxes on it today to do a Roth conversion.

5. What is an in-service non-hardship distribution?

I'm over 50 years old and the Department of Labor allows for in-service. That means while you're working non-hardship, you can take money out of your 401k (being over 50 years old) and roll that money to an IRA. Why would I do that? Because I want to roll part of it into a Roth conversion. I want to be able to control the investments that are inside of it, so I have more trading options.

IRAs

1. Is there a time when you should not put money in an IRA? Is there a time when I should be doing something else instead of contributing to my IRA and Roth?

Each year you're allowed to contribute money to an IRA; for 2019 that is $6,000. If you're under 50, there's a thousand dollar catch-up. If you're over 50, you can put in another thousand for a total of $7,000 in 2020, that goes to $7,500 if you're over 50, $6,500 if you're below right. Those are two things to understand. You have to have earned income and not make too much money. There's an income limitation on an IRA for deductibility. But not for contribution. Anybody can contribute to an IRA, as long as you're under 70 and a half. It can be a Roth IRA at any age provided.

2. Should I still be contributing to my IRA if I'm not receiving income temporarily?

It is a great time to contribute to a Roth IRA because you may be in a lower tax bracket. If you've been laid off, you can't get to that money before 59 and a half. With a Roth contribution, you always have access to the capital if you need it back, but once the period of time has expired, you can no longer contribute. If the money is sitting there in an account on the side, this might be an ideal time to make a Roth contribution, provided you had enough income in the earlier part of the year to allow that to take place.

You create a checklist. The first money you should always save is for retirement. Then the second step, assuming you qualify, use a Roth IRA for the next batch of money. Once you've fully funded what is free money into your 401k, you've done your IRA, you've done your spouse's IRA. Now many times, you go back to the 401k up to the limit that you're able to contribute to. That's the ordering rule.

3. If you invest in a normal brokerage account, can any of that money be converted?

The contribution amount is limited by your age, limited by your income, and limited by other options that you have.

Legacy Planning

How to Make Your Digital Life Part of Your Estate Plan

Digital life could include anything from your logon security for social media, your email, etc.

We have had the question before asking if it's legal for a family to gain access to social media accounts after someone passes away.

The answer is yes. There is a Uniform Fiduciary Access to Digital Assets Act. There is a state code. When you have a will that is written up, that means you are going to go through probate. Just a simple reminder: a trust, if it is written in Indiana, is domiciled in Indiana. Once it becomes irrevokable, it can't be changed unless you have a decanting privilege in a trust protector. That's inside of the trust, which is something that we strongly advocate. This is an Indiana rule that says you are allowed to give somebody else the right as an executor or a successor trustee, durable power of attorney to be able to have access to that data.

Even though there's a law, there are still a lot of channels you have to go through and it doesn't guarantee that you can end up getting the access to what you need. It's best to do all of it upfront.

Charitable Gifting

1. Can I take a charitable contribution deduction for the full amount and directly offset my income?

No, you're only allowed to give up to a certain percent of your adjusted gross income. If it's a cash gift, you can only deduct 60% of your adjusted gross income in one year. Keep in mind, you have to be able to itemize.

2. How can you decide if you itemize or not?

You get $12,000 as a single mama that you're able to itemize each year on your tax return. Barb and I are married filing jointly. We're under 65. So we get $24,000 ($12,000 apiece). If you're able to go above that $24,000, then you take the itemized deduction. If not, you take the standard. The IRS wants everybody to take the standard deduction for all intents and purposes because there's the ability to manipulate or mistake numbers on an itemized deduction that you don't have in a standard deduction.

3. Are all donations eligible? Can I donate to anyone?

Well, you can donate to anyone. If you want to deduct it, you have to be able to itemize it and two, they have to be a 503 entity.

Also, I wanted to make a note that the IRS does have a search tool on their site where you can check any organization. It's important this time of year because there are a lot of places asking for charitable contributions. Some of them will believe that they're 503 entities, but they're not; others just flat out fib.

4. Can you deduct a qualified donation that you made last year for this year's taxes?

No, it has to be inside of the calendar year. That's one of those things that ends on December 31st.

If you make a gift that is larger than your adjusted gross income or larger than the amount that you're allowed to deduct (unlike losses in the stock market where you have a carry-forward loss that goes on), you have to use it in a five year period of time. That rule is still there, so you can use it over the next few years if you happen to make a large gift in one year. We do that a lot with our tax planning strategies when we work with your CPA to help people do what we call the double stack and the bracket bumping.

5. Can you deduct a donation of a non-cash item like furniture, clothing, etc?

You can up to a $500 limit every year without having an itemized breakdown and a value that's established to it.

If you've got a question for Angie, give her a call. We would love to see you in the office. It's (800) 928-4001.

Disclaimer: Joseph Clark is a Certified Financial Planner™ and the Managing Partner of Financial Enhancement Group, LLC an SEC Registered Investment Advisor. He is the host of "Consider This" found on WIBC Saturday mornings from 6-7a.m. as well as three other Indiana-based radio stations. Joe has served as an Adjunct Assistant Professor at Purdue University where he taught the capstone course for a degree in Financial Counseling and Planning.

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