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Financial and Tax Planning Opportunities Created by the Market Correction

No one enjoys or looks forward to market corrections. However, it is not a time to bury one's head in the sand or just sit tight and do nothing. It is a time when you should be looking at various tax and financial planning opportunities that will move you closer to achieving your lifetime dreams by making wise financial choices.

The first thing you should consider is in your Non-Qualified account, harvesting tax losses that can offset capital gains and a small amount of ordinary income. There are technical rules that need to be followed in repositioning the portfolio to take advantage of any rebound without falling prey to the "wash sale" rules in the tax code. One should work with a professional advisor to make sure this is done correct.

The second consideration is in your qualified retirement accounts. The biggest opportunity that exists in the current market environment is the ability to do a Roth conversion. A common problem for many investors is an overabundance of traditional IRA & 401k money that will create required minimum distributions (RMDs) in excess of their needs for spending in retirement. This subjects each excess dollar to the highest marginal tax rate in the future. By converting now while the value of your portfolio is down you will pay less current tax and the future appreciation will avoid future income taxation. Since Roth IRAs have no RMDs It can compound until needed or you pass it to your beneficiaries at death.

If due to various circumstances you find your income down in 2020 you can covert some of your IRA to a Roth at lower marginal tax rates. In 2020 the marginal tax rate on Joint returns is 24% up to Taxable Income of \$326,000. I would submit to you that future tax rates are definitely headed higher for those in the higher income levels for a variety of reasons. Other potential benefits of converting IRAs to a Roth before retirement include the impact of potential lower taxation on Social Security benefits and potentially lowering or eliminating the increased Medicare premiums that are based on Adjusted Gross Income.

The stimulus act also suspended the RMD requirements for 2020 so if you are retired and otherwise obligated to take RMDs you can take an amount similar to what your RMD would have been and roll it over into a Roth IRA, provided you don't need the cash flow from the RMD to maintain your lifestyle and cash flow needs.

In conclusion, this is not a time to freeze and just wonder what will happen. There are positive steps you can be taking that will empower you to advance and achieve your lifetime dreams. This is an opportunity that comes along once a decade or so, don't waste it.

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