This Week's IRS Announcement & A Different Approach to Maximizing IRA Contributions

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The Internal Revenue Service recently announced that it is delaying the tax filing deadline for individuals to May 17th (from April 15th) for 2020 tax returns. This new deadline applies to **both** filing returns and tax payments. The postponement **does not apply**, however, to individuals who make quarterly estimated tax payments. For those, the deadline remains April 15th, and regular interest and penalties on unpaid amounts will still apply beyond that date. (For more specifics, click here to review the IRS's announcement.)

Though the tax filing deadline is postponed for 2021, the month of April is still widely recognized as National Financial Literacy month. At Portfolio Advisors, one of our consistent goals is to educate our clients and assist them in making informed financial decisions. Among these decisions is how to go about saving for retirement.

Incidentally, the postponement of the tax filing deadline of May 17th also applies to the deadline for investors to make retirement contributions to an IRA. Here are some clever ways to fund IRA contributions.

Automate Your Contributions

It can be daunting to come up with the funds to make an IRA contribution as the deadline approaches, let alone making the maximum contribution of $6,000 for 2021 ($7,000 if you are age 50 or older). Setting up automatic transfers can be an effective way to avoid this headache. Arrangements can be made to automate the transfers from your bank account to your IRA. These can generally occur as frequently as you like (weekly, monthly, bi-monthly, etc.). (Portfolio Advisors can help set up automated IRA contributions directly from your bank account that can easily be changed at any time. Please contact your advisor for assistance.)

Automating these contributions would not only lessen the potential headache of finding the funds to make a single, lump-sum contribution but also get you accustomed to living below your means while getting you into the habit of long-term, gradual saving.

Divert Pay Raises or Bonuses Towards Contributions

Automatic transfers to employer sponsored retirement plans (i.e. 401(k), 403b), etc.) are a convenient way to "set-it-and-forget" deposits, but don't overlook increasing the rate of contributions over time, particularly if you receive a raise or a bonus from your employer! Additionally, increasing the recurring contributions to your IRA when you receive an unexpected windfall like a tax refund or an increase in salary, especially if you are not already on track to maximize your contributions for the year, would be time well-spent. You could reap the double-benefit of accelerating your retirement savings and curbing the temptation to give in to lifestyle creep.

Take Advantage of the Retirement Savings Credit

The Retirement Savings Contributions Credit, or Savings Credit, is a tax credit available to low-income earners who make contributions to an IRA or an employer-sponsored retirement plan. The tax credit received is a percentage of contributions up to $2,000 that scale based on your adjusted gross income. In 2021, you may take advantage of this tax credit if you have adjusted income of less than $33,000 for single filers, $66,000 if married filing jointly, or $49,500 if filing as head of household. The tax credit would be applied directly to any taxes owed, reducing your tax liability dollar for dollar and possibly resulting in a greater tax refund! (source: IRS Website)

Consider Adjusting Withholdings at the Workplace

A large tax refund can be an unexpected windfall that could also be directed towards IRA contributions. However, if you are accustomed to receiving large tax refunds, you may be withholding more than necessary from your paychecks. That tax refund is, in essence, a return of dollars you loaned interest-free to the government throughout the tax year. To get more utility out of these dollars, consider adjusting your tax withholdings with your employer. You'll increase your take-home pay with each paycheck and may be able to redirect these dollars towards investments in your IRA, possibly netting you a return on your investment!

We, at Portfolio Advisors, are here to help if you are interested in maximizing your IRA contributions and can help you take the leap in starting an account. To jump-start your savings or to discuss these strategies further, please feel free to reach out to our office!
