

2020/2021 YEAR-END GUIDE

Investor Edition

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 LPL Financial

INTRODUCTION

How to Use This Guide

To ease some of the burdens of the upcoming tax season, we've created this helpful guide, which will assist you in becoming familiar with important dates, deadlines, challenges, and opportunities that may arise toward the end of the year.

Of course, if you have additional questions about anything included in this guide, we're just a phone call away. We look forward to working with you this tax season!

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YEAR-END CHECKLIST FOR TAX SEASON 2021

To prepare for tax season, here are a few things you will need to keep in mind:

- **Federal and State Voluntary Withholding**—If you have had a change of address in 2020, you must notify your financial professional by December 11, 2020 to ensure that withholding amounts can be corrected within the same tax year. It's recommended that you review your account transactions regularly with your financial professional to verify that withholdings on distributions have been properly applied.

LPL is not able to reverse or apply any federal or state withholdings in 2021 on distributions that occurred in 2020 for IRA and qualified retirement plan (QRP) accounts. Federal and state withholdings will be reported in boxes 4 and 12, respectively, on IRS Form 1099-R, and these tax payments may be claimed as dollar-for-dollar credits on your tax returns.

- **Required Minimum Distribution—Please note: Due to COVID-19, the CARES Act was created in which the IRS has waived all 2020 RMD requirements.**

You're required by the Internal Revenue Service (IRS) to take a required minimum distribution (RMD) from your retirement accounts by April 1 of the year following the calendar year in which you reach age 72 (70½ if you turned 70½ before Jan 1, 2020) and by December 31 each subsequent year. The first year following the year you reach age 72 you'll generally have two required distribution dates: an April 1 withdrawal, and an additional withdrawal by year end (for the year following the year you turn 72). To avoid having both of these amounts included in your income for the same year, you can make your first withdrawal by year end of the year you turn 72 instead of waiting until April 1 of the following year. If you're already meeting your RMD requirements elsewhere and therefore do not need to take a distribution from LPL, the IRS still requires that LPL furnish this information. If you need to make an RMD, please contact your financial professional to help you request this distribution.

RMDs generally are determined by dividing the prior year-end IRA balance by the life expectancy factor (or distribution period), as defined in IRS tables. RMDs during your lifetime are based on a distribution period that can be determined using the Uniform Lifetime Table and your age.

The distribution period is not affected by your beneficiary's age unless your sole beneficiary (for the entire year) is your spouse who is more than 10 years younger than you. If these assumptions are not accurate, please contact your financial professional for a new RMD calculation.

Please note: If your IRA is holding assets in which the values are not readily ascertainable on an established exchange or generally recognized market, your ability to rely upon the year-end account balance as a basis for computing the required minimum distribution relating to your IRA will depend upon such balance reflecting the fair market value of such assets. Please review the value shown for any such asset on your year-end account statement and provide any other valuation information you may have for such asset to your financial professional so that a new RMD calculation can be made.

Neither LPL nor the custodian of your IRA is responsible for any loss resulting from the valuation of any such asset.

- **Gifting**—Charitable giving is one way you can positively impact your current tax position. You may gift shares from an LPL account to a third party as a charitable donation using the F172 form. To facilitate a year-end gifting request, please contact your financial professional. LPL must receive signed instructions from you no later than December 11, 2020, to ensure that the gifting of shares takes place and settles in the desired account by year-end. Any requests received after December 11, 2020, will be processed on a best-efforts basis. To facilitate a year-end gifting request in a retirement account the CM105 form is required.
- **Roth Conversions**—You're likely aware of the benefits of Roth IRAs: tax-free withdrawals in retirement, no required minimum distributions, and the option to leave an income-tax-free legacy to the next generation. To process requests by December 31, 2020, we must receive completed request forms by December 11, 2020. Any requests received after December 11, 2020 will be processed on a best-efforts basis. Due to the Tax Cuts and Jobs Act, a Roth conversion is irrevocable. What this means is that Roth IRA conversions can no longer be recharacterized. Once you convert you cannot revert the money back to your Traditional IRA.

*Traditional IRA account owners should consider the tax ramifications; and age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA. The converted amount is generally subject to income taxation.

- **Cost Basis**—Your cost basis must be adjusted for certain events, including corporate action, wash sale, return of capital, liquidating distribution, OID accrual, partnership distribution, undistributed capital gain, bond premium amortization, market discount accrual, dividends effective for prior year (i.e., mutual funds), etc.

Also, if you have any securities transferring from another firm, please be sure to have the cost basis transferred before December 13, 2020.

Finally, please keep in mind that any fixed income elections for 2020 must be made by close of business on December 13, 2020. This may affect tax reporting for fixed income on the 1099-INT.

- **2020 Requests**—To ensure we're processing your distribution requests correctly, it's important that you wait to submit your 2021 distribution requests until the new year. Any requests processed in 2020 will be applied to 2020 tax reporting, so waiting to submit your 2021 request until the new year will ensure that we apply reporting of your account transactions in the correct year and avoid sending multiple (and corrected) tax forms to you and the IRS.

YEAR-END PLANNING

What are the Benefits of Converting from a Traditional to a Roth IRA?

Benefits of Roth IRAs include: tax-free withdrawals in retirement (as long as they are qualified), no required minimum distributions, and the option to leave an income tax-free legacy to the next generation. When considering a Roth IRA conversion, it is not a “one size fits all” approach, as a variety of factors will need to be considered and discussed with your tax professional.*

After we discuss your options with your tax professional, if you decide to convert assets from a traditional, SEP, SAR-SEP, or SIMPLE IRA (only available after two years since the first contribution) into a Roth IRA (only available after two years since the first contribution), then we will need to complete the appropriate request form. The year-end deadline for 2020 to submit Roth conversions for guaranteed processing is December 11, 2020. Roth conversions requested after this date will be processed on a best efforts basis due to the increased volume during this period.

Please note: Beginning in 2016, you can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs they own. The one-per year limit does not apply to:

- Rollovers from traditional IRAs to Roth IRAs (conversions)
- Trustee-to-trustee transfers to another IRA
- IRA-to-plan rollovers
- Plan-to-IRA rollovers
- Plan-to-plan rollovers

*Traditional IRA account owners should consider the tax ramifications, and age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA. Required Minimum Distributions (RMDs) may not be converted to a Roth IRA. The converted amount is generally subject to income taxation. The Roth IRA offers tax deferral on any earnings in the account.

Withdrawals from the account may be tax-free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59.5 or prior to the account being opened for five years may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change. Effective January 1, 2018, pursuant to the Tax Cuts and Jobs Act (Pub. L. No. 115-97), a conversion from a traditional IRA, SEP, or SIMPLE to a Roth IRA cannot be recharacterized. The new law also prohibits recharacterizing amounts rolled over to a Roth IRA from other retirement plans, such as 401(k) or 403(b) plans.

Premier Check Writing Distributions

If you are planning on using Premier Check Writing for a 2020 distribution, please be aware that the distribution is reported for the tax year that the check is cashed (not the year that check is written). It is strongly recommended that you avoid using Premier Check Writing checks on retirement accounts near year-end if the check is intended to be reported in tax year 2020 because neither LPL nor the client has control over when the check will be cashed. Distributions are reported in the year the funds leave the account; therefore, checks cashed in 2021 will be reported as a 2021 distribution. All Premier Check Writing distributions are processed without any federal or state withholding. Clients should speak to their tax advisor prior to processing a distribution without withholding as under-withholding penalties may apply to those that choose not to withhold taxes.

Other methods clients can use to request distributions near year-end are:

- ACH
- Wire transfer
- Manual check created and mailed by LPL

What Are the Required Minimum Distribution (RMD) Service Deadlines?

Please note: Due to COVID-19, the CARES Act was created, and therefore the IRS has waived all 2020 RMD requirements.

New Requests for 2020 Processing

If you are 70½ years of age or older, or you have beneficiary accounts subject to RMD, you can establish a distribution schedule for the RMD that recalculates each year. Once the service is established, you will no longer need to manage the RMD process. During the first year that you subscribe to the RMD Service, distributions of the calculated RMD amount will be divided to fit the time remaining in the year.

For example, if you choose a monthly frequency with distributions to begin in October, the RMD amount for the year will be divided into three equal monthly installments. Each following year, the RMD Service will automatically calculate your RMD and withdraw it on a monthly basis.

If you would like to establish RMD Service for 2020, the request should be received no later than December 1, 2020, as RMDs cycle on the 10th and the 25th of each month. If you fail to withdraw a RMD, fail to withdraw the full amount of the RMD, or fail to withdraw the RMD by the applicable deadline, the amount not withdrawn is taxed at 50%. LPL is not responsible for any penalties related to failure in withdrawing RMDs.

The IRS has guidance on what happens if the RMD is not fulfilled:

<https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions>

The RMD Service can be established for the following types of accounts: Traditional IRAs, Rollover IRAs, SEP IRAs, SAR-SEP IRAs, SIMPLE IRAs, and Beneficiary IRAs (including Beneficiary Roth IRAs). The service is not offered for Roth IRAs as they do not require distributions. Post year-end adjustments from alternative investment/private placement valuation changes will result in an adjusted fair market value. RMD Service will be automatically adjusted to account for any revisions to the FMV or your account.

Correcting Contribution or Distribution

During year-end review of your accounts, you may discover that you made an error in a retirement account. If this is the case, to process tax code corrections, you can submit form CM100 for contributions, or CM120 for distributions.

The most common types of errors this form is used to correct are:

- Required minimum distribution (RMD) requests that were submitted to LPL on or before December 31, 2020, but were not in good order (NIGO). Please be aware that this form cannot be used for clients who failed to request their RMD by the applicable deadline. The IRS has guidance on what happens if the RMD is not fulfilled: <https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions>
- Deposit corrections that were made from a retirement account to a retail account or vice versa.

When submitting this form, be sure to include a description of the error and a description of the correction you are requesting. It's important that you include any supporting documentation that would be needed to support the reason for the error and correction. If the supporting documentation is already on file, you can reference that information on the form. Please be as specific as possible so the request can be processed quickly.

While each request will be reviewed to determine if the correction is allowable based on IRS guidelines, we'll make every effort to correct the error as soon as possible, typically within three to five business days.

Excess and Recharacterization Deadline

If you over-contribute or erroneously contribute to their retirement account, there are processes you can use to resolve these mistakes. The IRS deadline for processing prior year return of excess and recharacterizations is the date your return for the year is due (including extensions).

If you have excess contributions for 2019, there are several options available. If the 2019 excess contribution occurred between January 1, 2020, and July 15, 2020, we can accept a letter of instruction or form CM 100 asking LPL to change the reporting to a 2020 contribution. By changing the contribution year to 2020, you can then leave the funds in the account as a current year contribution or remove it by October 15, 2021.

In general, if the excess contributions for a year are not withdrawn by the date your return for the year is due (including extensions), you are subject to a 6% tax. You must pay the 6% tax each year on excess amounts that remain in your account at the end of your tax year.

Unfortunately, we cannot recharacterize any prior-year 2019 contributions after the deadline. Please be sure to have your clients discuss the situation with your tax advisor before making any decisions.

Resolving Over-Contributions for 2020

If you have over-contributed to your retirement account, you may need to process a Return of Excess. To withdraw an excess contribution from an IRA, you need to complete the Move Money, IRA Distribution, Excess Contribution (CM108) form.

Changes to Voluntary Federal and State Withholding

If you have had a change of address in 2020, your broker/dealer must be notified by December 11, 2020 to ensure that the withholding amount(s) can be corrected within the same tax year. We will not be able to reverse or apply any federal and state withholding in 2021 on distributions that occurred in 2020 for IRA and QRP accounts. Federal and state withholding will be reported in boxes 4 and 12, respectively, on IRS Form 1099-R, and these tax payments may be claimed as dollar-for-dollar credits on your tax returns.

State Withholding FAQs

Q: When is the latest I can make withholding adjustments?

A: December 13 is the deadline to make any withholding adjustments.

Q: What should I do if I find out state withholding was made to the incorrect state after December 31?

A: You will need to file a tax return with the incorrect state to claim a refund and should consult with a tax advisor to determine the best course of action.

Q: My address has temporarily changed due to vacationing at a summer home. How do I ensure that any state withholding applied on retirement distributions continue to pay to the correct state?

A: Since your permanent residence address has not changed, your financial professional should submit a request to have duplicate statements sent to the temporary address or set up the temporary address as an “interested party” mailing, so state withholding is not impacted and your 1099-R forms will report correctly. It will show state taxes paid to the correct jurisdiction.

Year-End Gifting Guide

Charitable giving is one way you can positively impact your current tax position. One way to maximize charitable giving is to gift stock or mutual funds rather than cash. When you decide to gift rather than sell long-term appreciated shares, you’ll potentially get to take a reduction for the full fair market value of shares and avoid tax on the long-term capital gain.

You also have the option of reducing your taxable estate by gifting up to \$15,000 per year for single or \$30,000 per year for a couple without any tax ramifications to you or the recipients of the gift. This allows the beneficiary to benefit from the gift much sooner than if the inheritance was tied up in the estate until death.

Gifts Shares to Recipient at Another Financial Institution

To facilitate a year-end gifting request, we will need to fill out the appropriate gifting form to gift shares from your account to a third party as a charitable donation. The third party’s account must already be established at an eligible receiving institution.

Signed instructions must be received no later than December 11, 2020, to ensure that the gifting of shares takes place and settles in the desired account by year end. Any requests received on or after December 11, 2020, will be processed on a best efforts basis.

Please note: Other types of gifting requests are due by November 8, so contact our office as soon as possible to discuss the best option for your request.

For more information on year-end gifting, please visit <https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes>

Disposition Request for a Worthless Security Position

As the year-end approaches, you may wish to dispose of their worthless positions. To help alleviate confusion and make this process as efficient as possible, please be aware of the following:

On the F5 disposition request form, there are two options; at least one box must be checked.

- If you intend to sell for \$0, please check the bottom box and fax to (858) 202-8325. Note: Please remember that you cannot sell for \$0 in an LPL retirement account.
- If you wish for a receipt to be issued, you can check the top box and fax to (858) 202-8325.

This form is intended for positions that are no longer trading or no longer have a transfer agent. It's not intended to be used for positions that may simply have low value or securities in a LPL retirement account. If you're unsure if a position is eligible for this process, please contact the Service Center at (800) 877-7210 or your appropriate Service 360 team.

Ineligible positions: This form may not be used to remove warrants, rights, or other classes of securities that expire. Additionally, options, private placements, restricted securities, securities that are going through reorganization, or actively traded securities are ineligible.

All requests to sell a worthless security for \$0 need to be received by the P&S Department by 12:00 p.m. PT on December 31, 2020. All requests for a Receipt of Deposit forms need to be received by the Custody Department by December 20, 2020. Any forms received after these dates will be processed on a "best-effort" basis.

Tax Harvesting

Identify Opportunities To Harvest Tax Losses

Tax harvesting is defined as selling securities at a loss to offset a capital gains tax liability. Tax gain or loss harvesting is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains. For many investors, tax harvesting is the single most important tool for reducing taxes now and in the future. If properly applied, it can save you money in taxes and help diversify your portfolio. However, you shouldn't take the decision to sell lightly, and you should carefully consider the timing of any sale. Properly and improperly timed sales can directly affect the overall return you receive from your investments. Consider working with your tax advisor to determine if tax harvesting is a good strategy this year.

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This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.