CPA Practice Advisor

of investments you hold, and keep a proactive mindset while fostering the drive to ...

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Creating new goals throughout the year helps one thrive and grow. For some, that goal may be preparing for the future, saving for college, saving for a medical treatment or learning more about tax saving strategies. Here are four tips for new investors who are looking to close out 2020 strong and set themselves up for success in 2021 — while taking into account the current climate and how your overall financial situation may have recently changed..

1. Maximize contributions to retirement accounts

For many, having enough money to retire one day is essential. It is important to start thinking about saving for retirement as soon as you can. The earlier you start, the faster your money will compound. If you work for an employer that sponsors a

traditional or ROTH IRA and depending on your individual situation, both can be tax advantageous. Traditional IRAs are funded with pre-tax dollars, meaning you pay tax on the amount when withdrawn. Traditional IRA contributions, up to $6,000 if you are under 50 years old and up to $7,000 if you are 50 years old or older, are tax deductible if you fall under the income threshold. You also have until the April tax filing deadline to make your contributions for that tax year.

In comparison, ROTH IRAs are funded with after-tax dollars so there is no tax deduction in the year of the contribution, but you can withdraw your funds, plus any investment growth, tax free at retirement. There is a contribution limit to the amount you can fund into a ROTH IRA each year as well as a phase out for high income earners.

Whether you can max out your retirement plan or if you need to start small, the sooner you start, the better off you'll be.

2. Contribute to a 529 college savings plan

If you are looking to save money for higher education and save tax dollars, consider contributing to a 529 college savings plan. These types of plans are funded with after-tax dollars, but when withdrawn for higher education expenses, the earnings are tax-free. Investors can choose from a variety of investment options, including age-based portfolios which shift to more conservative investments as the beneficiary gets closer to using the funds. With numerous portfolio options and earnings growth that is tax free, these types of accounts are a great option for anyone trying to reach their education goals.

3. Consider a Health Savings Account

If you have a high-deductible health plan, consider enrolling in a health savings

to save money for medical expenses and earn money on their savings, a health savings account could be a good option to consider.

4. Diversify your investment account types

It's rarely a good idea to put all your money into one type of investment. As your goals change, so will your investments, so consider your risk tolerance and spread out your investments accordingly. Someone who is just starting their career and in their 20s will have a different risk tolerance than someone in their 50s. It might be advantageous to contribute 50% into a ROTH IRA and 50% into a traditional IRA depending on the situation, earnings potential and current tax bracket. Financial and tax professionals can help you determine the appropriate risk tolerance and what percentage to invest into each type of account for the point in your career. The earlier you start planning and investing, the better.

Key takeaways

If the current pandemic has taught us anything, it is to save while we can. It's extremely important to continuously monitor, plan, and educate yourself on the type of investments you hold, and keep a proactive mindset while fostering the drive to grow your money. There are multiple apps that can help you track your investments, such as Mint, so that you always know how your money is performing. Based on your goals, consider maximizing your contributions to your retirement accounts, contributing to a 529 college savings plan, funding a Health Savings Account and/or diversifying your investment account types. As we work to recover from COVID-19, start thinking of where you want to invest, and the goals you want to achieve from those investments. If you are unsure of where to start, speak with a local tax or financial professional.

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