End of the Year Planning

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As the year comes to a close, there are a number of strategies available to better position your family for a financially successful New Year. Reviewing your accounts and investments with your trusted wealth advisors today can help you to make and save more money in 2024 and beyond.

The following is a year-end checklist to help your finances end on a high note.

Tax Loss Harvest:

If you own taxable investment accounts, ***tax loss harvesting may boost your after-tax returns***. Tax loss harvesting involves selling securities for a capital loss and reinvesting the proceeds into new investments that are not substantially identical. A thorough review of your accounts' individual tax lots may uncover tax loss harvesting opportunities. If you wish to repurchase the security you sold to capture a tax loss, beware of the wash-sale rule which disallows realized losses if the security sold is repurchased within 30 days. Realized capital losses may be used to offset realized capital gains and a limited amount of ordinary income. Unused realized capital losses may be carried over indefinitely into future tax years.

Review Your Estate Plan:

Many execute a thoughtful estate plan, file the original documents in a safe place, and resume normal life without thinking about their plans for years. ***We recommend reviewing your estate plan on an annual basis to verify all items remain in order.*** Key areas of focus include asset titling and beneficiary designations. Keep in mind that a plan that was entirely appropriate 5 or 10 years ago may need modifications based on changes to family circumstances and changes to federal and state law.

Consider Strategies to Take Advantage of Historically High Federal Gift and Estate Tax Exemptions:

Wealthy families currently have opportunities to take advantage of the historically high lifetime federal gift and estate tax exemption amounts but the window for action is closing quickly. Currently, an individual can transfer up to $12.92 million, free of estate and gift tax. For married couples, that amount is $25.84 million. Under existing federal tax law, the current gift and estate tax exemption amounts expire on December 31, 2025 and then revert to $5 million for individuals and $10 million for married couples (adjusted for inflation). If you wish to explore advanced planning opportunities, we recommend a discussion with your estate planning attorney and Truxton Wealth Advisor as soon as possible.

Consider Charitable and Annual Giving Strategies:

What better way to spread holiday cheer than a monetary gift to family members or a beloved charity? ***Well-executed gifting strategies are great tools to reduce transfer and income taxes.***

The 2023 annual gift tax limit per donee is $17,000 per individual donor and $34,000 for married couples. Most gifts under the aforementioned limits do not require a gift tax return, however married couples electing to split gifts are required to file Form 709. Always inform your tax advisor of gifts made during the year. A consistent annual gifting strategy can be very effective in reducing transfer taxes.

If a donor desires to make a significant gift to a loved one for education, a contribution to a tax advantaged 529 plan may be attractive. Individuals may gift $17,000 and married couples may gift $34,000 to a 529 for an individual beneficiary under the annual exclusion amount. The 529 “superfunding rule” also allows for up to five years’ worth of annual contributions in a single year to a 529 for an individual beneficiary. In 2023, an individual wishing to superfund a 529 can contribute up to $85,000 and married couples can contribute $170,000 to a 529 for an individual beneficiary.

Qualified Charitable Distributions “QCD”, are an attractive way to make gifts for IRA account holders who are charitably inclined. The amount of the QCD gift can satisfy your RMD but is excluded from income, which reduces Adjusted Gross Income, a figure used to limit other deductions, just as medical expenses. Be careful not to also deduct the contribution on Schedule A, a prevalent double-dip mistake. A few QCD rules include:

i. The account holder must be 70 ½ years of age or older
ii. The maximum allowable amount for QCDs is $100,000 for 2023
iii. A QCD must be made directly from your IRA to the selected qualified charity

Many charitable organizations can accept gifts of appreciated securities. Gifting appreciated securities from a taxable account to a qualified charity is an attractive option for many donors. The donor receives a tax deduction for the market value of the gift and also avoids realized capital gains that would have been associated with a sale of the securities. Before making a gift to charity, we recommend you verify the charity’s ability to accept the securities you wish to give. Donor Advised Funds may also be used to gift appreciated stock.

Prepare for Quarterly Estimated Tax Payments:

If you make quarterly estimated tax payments, the fourth and final payment opportunity deadline is January 15, 2024. ***Speaking with your tax preparer to ensure 2023 quarterly estimates fulfill the IRS requirements can protect you and your family from unwanted underpayment penalties in the new year.*** The underpayment penalty is expressed and charged as an interest rate, which has risen dramatically over the past 18 months. To avoid underpayment penalties, taxpayers must meet one of two “safe harbor” exceptions; payment of 90% of their current year tax liability, or 100% of the prior year tax liability (110% if prior year AGI is more than $150,000 for married couples), through equal estimated tax payments, or withholding, or a combination thereof.

Continue to Plan for Retirement:

No matter your age, contributions to tax advantaged retirement plans can yield significant financial benefits. ***When retirement contributions are made early and often in your career, the potential to compound wealth is substantial.***

In 2023, 401(k), 403(b) and most 457 plans have an annual maximum contribution of $22,500, with an additional $7,500 catch-up contribution for those over 50 years of age. Be sure to take full advantage of any employer matching benefits that may be available. The annual mix of employee and employer contributions cannot exceed $66,000 in a given calendar year. A review of your unique employer plan is recommended to ensure you are maximizing the benefits.

Traditional IRA contributions are limited to $6,500 with an additional $1,000 catch-up for those over 50 in 2023. Although far less than the available contribution of an employer plan, this is an attractive alternative for those without such an option and appropriate earned income.

Required Minimum Distributions (RMDs) are minimum amounts you must withdraw from your retirement account by December 31st. Generally, RMDs go into effect when the account holder reaches 73 years of age. RMDs are calculated for each individual based on an updated life expectancy factor provided by the IRS each year. An RMD can be fulfilled in several ways:

i. Direct Distributions to the account holder’s checking, savings, or investment account,
ii. Qualified Charitable Distribution (QCD)
iii. Tax Withholding
iv. A mixture of the previously mentioned methods.

If the full RMD is not distributed by December 31st, hefty IRS penalties may be applied. If you are required to take an RMD, we recommend reaching out to your Truxton Wealth Advisor to confirm the obligation has been fulfilled or make arrangements to complete the RMD based on your distribution preferences.

Following recent legislation, the rules for non-Spousal inherited traditional IRAs have grown more complex and require extra attention. “Non-Eligible” Designated Beneficiaries, such as adult children or grandchildren, are now subject to the “10-Year Rule” which requires the entirety of an inherited IRA be distributed by the end of the 10th year following the passing of the original account holder. ***Special attention should be paid to the amount and timing of IRA distributions within this 10-year period to optimize tax efficiency.***

Let’s Get Started

A thoughtful and organized approach to the above considerations can reap short- and long-term financial prosperity. Truxton strives to provide clients with the highest level of customized and personal service throughout the year. We encourage you to contact us with any questions you have about the reminders above and to discuss your individualized year-end planning needs. ▪