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10 Year End Planning Considerations

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As the end of the year approaches, there are financial topics that are important to revisit. Our custodians (TD Ameritrade, Fidelity, and Charles Schwab) are requesting that year-end action items be submitted as soon as possible, as the custodians are experiencing processing delays within their back offices. Below are some year-end action items that you may want to consider.

1. EMPLOYER RETIREMENT PLANS / IRA CONTRIBUTIONS

If you participate in a retirement plan (such as a 401(k) or 403(b)) through your employer, be sure to check your contribution amounts to ensure you have contributed enough to take full advantage of your employer matching contribution. If cash flow allows, the maximum amount you can contribute for 2021 is $19,500, plus an additional $6,500 "catch up" contribution for those over age 50. The IRS has recently announced changes for 2022, which will increase the contribution limit to $20,500 (the $6,500 catch-up contribution will remain the same).

If you have an IRA/Roth IRA, you have until April 15,2022 to contribute up to $6,000 (subject to eligibility requirements), plus an additional $1,000 "catch up" contribution for those age 50 and over. Eligibility and deductibility limits can be complex, depending on your employment status and income levels, so be sure to check with your tax or financial advisor to confirm your eligibility for contributions.

2. CONSIDER A ROTH CONVERSION

With the possibility of higher tax rates in the future, in addition to recent changes from the SECURE Act, which require non-spouses who inherit an IRA to deplete the account within 10 years (rather than spread over one's life expectancy, as was the case in the past), many are considering the potential advantages of converting money from their Traditional IRA to a Roth IRA.

If your earnings in 2021 are lower, as compared to previous years, or are lower than you expect your earnings to be in future years, it may make sense to take advantage of your lower tax bracket and convert funds from your Traditional IRA into a Roth IRA. Unlike Traditional IRAs, Roth IRAs allow for tax free growth, and distributions and are not subject to

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Required Minimum Distribution (RMD) rules.

Just remember, any amount converted to a Roth IRA will be subject to ordinary income taxes in the year the conversion is processed. It is important to work with your tax advisor to ensure you are not converting too much, which could push you into a higher tax bracket or subject you to higher Medicare premiums.

3. REVIEW BENEFICIARY DESIGNATIONS AND ACCOUNT TITLING

It is important to periodically review your beneficiary designations, especially if your family circumstances have changed. Remember, this doesn't just apply to your retirement accounts. Also consider your life insurance policies, investment accounts, and bank accounts. If you have a Will in place, the beneficiaries listed on your accounts are how the assets will be distributed, regardless of what your Will states. If you haven't done so already, you should also consider adding contingent beneficiaries. That way, if the primary beneficiary you listed has passed away, there are instructions for who is next in line to inherit the assets.

If you have a Trust established, it is important to consider whether any non-IRA assets should be titled in the name of the Trust, and if the Trust should be listed as a beneficiary of your accounts. As you review your account titling and beneficiaries, check with your estate planning attorney to ensure assets are titled correctly and that beneficiaries are structured appropriately. If any updates are required, please reach out to us so that we can process those updates for you.

4. TAX-LOSS HARVESTING

If you are self-managing any of your non-qualified investment accounts, tax-loss harvesting is an important year-end consideration. This process involves selling an investment for a loss, which can then be used to offset realized capital gains. Beyond offsetting realized gains, it can also be used to offset up to $3,000 of income generated throughout the year, and if your net losses exceed $3,000, the losses can be carried forward to be used in future years.

5. FLEXIBLE SPENDING ACCOUNTS

If you contribute to a Flexible Spending Account (FSA), you have until the end of the year to spend the money on eligible medical expenses. Most plans allow account holders to carry $550 into the following year, but any other funds that are not used are lost. Check with your employer on this as some do allow for a grace period after year-end.

6. REQUIRED MINIMUM DISTRIBUTIONS

While Required Minimum Distributions (RMDs) were waived in 2020, they are required again for 2021. Ensure that your RMDs have been processed or are scheduled to be processed before year-end. There can be significant tax penalties for missing this deadline.

Remember that RMDs can be gifted to charities through a Qualified Charitable Distribution (QCD). This allows you to satisfy your RMD requirement, while avoiding income taxes on any amount given directly to charity (up to $100K). An important reminder: if you are writing checks from your IRA to charities, the charity must cash the check by the end of 2021 in order to qualify as a QCD. It's also important to keep record of these gifts, as the custodians do not indicate charitable gifts on your year-end tax forms. You will have to provide that information separately when you file your taxes

in order to benefit from the tax savings.

7. REVIEW YOUR CREDIT REPORT

We have all seen a rise in identity theft cases. It is important to periodically check your credit report to ensure there is no suspicious activity. A great resource for this is www.annualcreditreport.com, which allows you to run one free credit report per year.

8. GIFTING

The 2021 annual gift tax exclusion remains at $15,000 per person. Remember, if you are trying to reduce your taxable estate, you can give $15,000 per person to as many people as you would like. Gifting can be done in the form of cash or appreciated securities. The IRS has recently announced changes for 2022, which will increase the annual exclusion gift limit to $16,000 per person.

9. CHARITABLE GIVING

If you are charitably inclined but are not eligible to make QCDs from your IRA (you must be 70½ or older to do so), consider making charitable gifts of long-term appreciated securities (held for one year or longer) from non-qualified accounts. If you are currently taking the standard deduction and would not otherwise benefit from making the charitable gift by itemizing deductions, consider "bunching" annual charitable gifts into a single tax year to allow for itemizing your tax deductions. A Donor Advised Fund (DAF) can be an effective tool to use with a "bunching" strategy. If this strategy is of interest to you, it's best to speak with your tax advisor.

10. BACK DOOR ROTH IRA

A backdoor Roth IRA is not a type of retirement account, but rather a strategy to convert funds in a non-deductible Traditional IRA to a Roth IRA. This strategy can also be implemented in some employer 401(k) plans, using after-tax contributions, which can then be converted to a Roth IRA (known as a Mega Backdoor Roth IRA). The potential elimination of backdoor Roth IRA conversions has popped in and out of the latest version of the House Democrats' tax and spending bill, so, if you are currently taking advantage of this strategy, consider completing the conversion by year-end.

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