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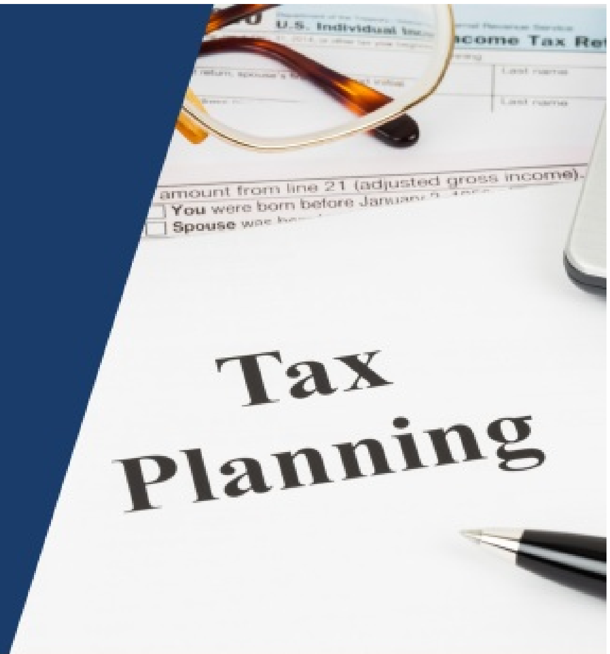
WEALTH WISDOM

MONTHLY FINANCIAL INSIGHTS



Welcome

Welcome to "NEIRG Wealth Wisdom: Monthly Financial Insights," your go-to source for insightful and educational content on various financial topics. Designed for the informed investor, our goal is to empower you with clear and concise knowledge, helping you stay ahead in the complex financial world.

2023 Year-end Tax and Financial Planning

As we approach the end of 2023, it's important to take a closer look at your tax and financial plans to identify opportunities for reducing, deferring, or accelerating tax obligations to help you pay the least amount of taxes over time. There has been a lot of political attention to inflation, raising interest rates, and environmental sustainability, however, a lack of political compromise has led to little impact on individual taxes this year. In last month's Wealth Wisdom, we reviewed the potential 2026 tax law sunset, paying special attention to the estate tax changes. We will continue to closely monitor any potential extensions or changes in tax legislation and will update you accordingly.

In the meantime, here is a look at some issues impacting individuals to consider as we approach year-end. Please do not hesitate to contact us to discuss further.

Charitable Gifting

Donor Advised Funds (DAF) are appealing to many individuals as they allow for a tax-deductible gift in the current year and the ability to distribute funds to multiple charities over several years. For taxpayers who do not typically itemize on their tax returns, it may make sense to use a "bunching strategy" whereby a taxpayer gives multiple years' worth of charitable gifts in a single tax year to itemize deductions in that year and then foregoes charitable gifts in the following years while taking the standard deduction.

For investors with taxable accounts, another strategy that can be used is the gifting of highly appreciated securities. From a tax planning standpoint, this is a very efficient charitable giving strategy as the charity receives the same economic benefit as a cash donation, while the taxpayer receives a tax deduction for the full market value of the gift. In addition to helping investors achieve their philanthropic goals, the gifting of highly appreciated securities allows investors the ability to rebalance a portfolio that may have become overweight to equities back to a target allocation without having to sell securities and realize capital gains taxes.

Keep in mind that charitable gifts of long-term appreciated securities to qualified public charities (including donor-advised funds) are limited to 30 percent of adjusted gross income (AGI) while similar gifts to a private foundation are limited to 20 percent of AGI. Charitable gifts in excess of the AGI limits result in a charitable carryforward which can be used over the next 5 years. Regardless of the strategy used, it is always important to have adequate documentation of all donations, including a letter from the charity for donations of $250 or more.

Required Minimum Distributions (RMDs) and Qualified Charitable Distributions (QCDs)

Unfortunately, funds invested in qualified retirement accounts cannot remain in the account indefinitely. Beginning at a certain age, which is currently either age 73 or 75, depending on the account owner's year of birth, individuals with qualified retirement accounts are required to withdraw a certain amount from their accounts annually. These required withdrawals are called Required Minimum Distributions (RMDs). The amount is calculated each year using the appropriate IRS Life Expectancy table. As with any withdrawal from a pre-tax retirement account, withdrawals taken to satisfy an RMD are taxed as ordinary income. Additionally, failure to satisfy an RMD can result in penalties in the form of additional taxes.

For individuals with RMDs who are attempting to limit their income in a given tax year, the ability to make a Qualified Charitable Distribution (QCD) provides an opportunity to satisfy their RMD without incurring any income tax as a result of the distribution.

Under this provision, a taxpayer may gift up to $100,000 each year from an IRA to qualified 501(c)(3) charitable organizations (donor-advised funds, private foundations, and supporting organizations are excluded). A qualified charitable distribution neither counts as an itemized deduction nor as taxable income, though it does count towards satisfying the RMD for that year.

Consider a Roth Conversion

Individuals who believe their future tax rate might be higher than their current tax rate might consider converting Traditional IRA assets to a Roth IRA. Assuming the Traditional IRAs have no basis, the amount of the conversion is treated as ordinary income. Following the conversion, the Roth IRA grows tax-free, and qualified distributions are also tax-free.

This strategy can be particularly beneficial for individuals with a taxable estate, as the tax cost of the conversion effectively reduces the size of the estate, while the named beneficiaries one day receive a very tax-favorable asset, compared to inheriting a Traditional IRA. In some cases, high-net-worth individuals might pair a Roth conversion with accelerated charitable giving, as the charitable deduction will help to offset the effective tax cost of the conversion.

Harvest Losses

Review unrealized gains and losses in taxable investment accounts and harvest losses where available. Realized losses can offset other realized gains. To the extent that realized losses exceed realized gains, net realized losses can offset up to $3,000 of ordinary income with any remainder resulting in a loss carryforward to be used in future years.

Beware of the “wash sale rule” which states that a loss cannot be realized for tax purposes if a substantially identical position was bought within 30 days before or after the sale. As a practical example, an investor could sell an actively managed equity fund and could redeploy the sales proceeds to an equity index fund. In doing so, the investor recognizes a tax loss while also keeping similar, but not identical, portfolio exposure to capture a subsequent market recovery.

Energy Tax Credits

From electric vehicles to solar panels, “going green” continues to provide tax incentives. The Inflation Reduction Act of 2022 included new and newly expanded tax credits for solar panels, electric vehicles, and energy-efficient home improvements. Many elements of the law became effective in 2023, however, the rules are complex so careful research and planning now can be beneficial.

Retirement Plan Contributions

You may be able to reduce your tax liability by contributing as much as you can to IRAs and employer-sponsored retirement plans. These contributions are subject to the following limits:

- IRA Contributions: The maximum you can contribute to all your traditional and Roth IRAs for 2023 is $6,500 ($7,500 if you are 50 or older). Remember, you can make contributions to your IRA until April 15, 2024, for the 2023 tax year. For 2024, these limits increased to $7,000 ($8,000 if you are 50 or older).

- 401(k) or 403(b) Contributions: The 2023 employee deferral limit on 401(k) or 403(b) contributions is $22,500 (plus an additional $7,500 if you are 50 or older). For 2024 these limits are $23,000 and $7,500 respectively. For those with multiple jobs, it is important to note that these are combined limits for all 403(k) or 403(b) plans. You cannot contribute the maximum amount to more than one plan.

End-of-year planning really kicks off the tax season. If any of these strategies are a potential fit for you, please reach out to your advisor at NEIRG to help coordinate!

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