ANNUAL TAX PLANNING REMINDERS

There's no getting around the fact that we must pay taxes throughout our lives. Implementing strategies to help control and manage those taxes is a critical component of your overall financial plan. By taking advantage of opportunities to reduce your taxable income and potentially maximize tax deductions, you can redirect money to your other financial goals. In addition, leveraging tax efficient investing strategies can potentially reduce the taxes you pay in retirement.

As we approach the end of the year, consider this list of tax planning strategies. While not all of them may be appropriate for your situation right now, it's worth discussing with your Financial Advisor how they might fit within your financial plan now and in the years ahead.

RETIREMENT SAVING STRATEGIES

- Make enough retirement plan contributions to at least capture the maximum employer match and reduce your taxable income.
- If you are married, and only one of you is currently working, the working spouse can still make Spousal IRA contributions by April 15th of the following year (subject to certain rules).
- Consider contributions to Roth savings vehicles for potentially tax-free withdrawals during retirement if you qualify.
- Don't ignore the long-term benefits of a non-qualified investment portfolio funded with after-tax savings. Only your long-term capital gains and qualified dividends are taxed, which is a lower rate than your ordinary income tax rate on IRA withdrawals.
- In lower income years, consider converting traditional pre-tax retirement accounts to Roth accounts. The upfront tax bill may be offset by the potential future growth through tax-deferred compounding. In addition, Roth accounts have no RMD (Required Minimum Distribution) requirement and withdrawals may be tax-free.

MORE WAYS TO SAVE

- Contribute to Flexible Spending Accounts (FSAs) or Health Savings Accounts (HSAs) at work. Your contributions are made with pre-tax dollars and distributions for qualified medical expenses are not taxable.
- Review taxable investment accounts for losses to realize. Such losses can offset current year gains and up to $3,000 of ordinary income. Remaining losses can be carried forward to offset future gains.
- Hold investments longer than one year for preferential long-term capital gains tax treatment.
- "Bunch" charitable contributions. This strategy involves contributing multiple years' worth of your donations in one year to surpass the standard deduction threshold. In off-years, you could take the standard deduction.
- Consider a Donor Advised Fund (DAF) to make a tax-deductible charitable gift and let the DAF administrator manage the distribution to your favorite charities over several years.
- Consider donating highly appreciated stock. Besides claiming the charitable deduction, you also avoid paying capital gains taxes.

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- If you are 70½ or older, consider Qualified Charitable Distributions (QCDs). A QCD is a direct transfer of funds from your IRA to a qualified charity. QCDs can be counted toward satisfying your required minimum distributions (RMDs) for the year, as long as certain rules are met, and excludes the amount donated from taxable income.
- If you plan on itemizing, consider making an extra mortgage payment in December to get more interest deduction. Check to see if you can use the same strategy for other deductions, like big medical expenses.
- Consider establishing 529 accounts for potential tax benefits. Although your contribution is not tax-deductible, the growth in 529 accounts you own is not taxable when used for qualified education expenses. 529 balances over $10,000 reduce financial aid by 5.64% but it's still one of the best ways to save for education due to the tax advantages. Your 529 beneficiary can be anyone, both family and non-family members. 529 accounts owned by grandparents or others are not included on the FAFSA. Leftover funds can be rolled into a Roth IRA for the benefit of the beneficiary, subject to certain rules.
- Consider strategies and vehicles that allow you to invest more tax-efficiently, known as "asset location." For example, municipal bonds are generally free from taxes at the federal, state and local (if applicable) level and make sense in a taxable account. Stock mutual funds with high turnover might be more appropriate in a tax-deferred or tax-free account, due to the taxation on short term gains (often the same rate as your ordinary income tax rate).

- Depending on your income, consider a residency change to low- or no-income tax states. Get legal guidance and research all the taxes in these states. Be aware that some states make up for low income taxes with higher sales and property taxes. For more information, go to: https://taxfoundation.org/data/all/state/2023-state-tax-data/.

This list is not comprehensive and is not meant to be tax advice. Consult your tax professional and financial advisor for advice appropriate to your individual situation.

Resources: https://www.letsmakeaplan.org/financial-topics/articles/tax-planning/tax-planning-strategies-to-lower-your-2023-tax-bill; Internal Revenue Service (irs.gov); kitches.com; Wall Street Journal Tax Guide 2023; Savingforcollege.com: "Can You Contribute to a Non-Family Member's 529 Plan?".

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA. A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

Asset allocation does not ensure a profit or protect against a loss.

Investing in mutual funds involves risk, including possible loss of principal. Fund value will fluctuate with market conditions and it may not achieve its investment objective.

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