VWG WEALTH MANAGEMENT
A Hightower Company

Year-End Planning

The complex financial environment of 2023 only further adds to the often difficult process of year-end tax planning, retirement funding, and gifting. VWG is here to help. Here is a checklist of topics and specific strategies that should serve as a catalyst for conversations with our team.

Tax Planning

- [ ] Review your payroll tax withholding for 2023 to ensure you are having enough (but not too much) federal and state taxes taken from your paycheck for 2024. Access a simple IRS withholding estimator – (https://www.irs.gov/individuals/tax-withholding-estimator)

- [ ] Ensure that you have taken any 2023 required minimum distributions (RMDs) from IRAs, 401(k)s, and inherited IRAs.

- [ ] Effective for IRAs inherited after 2019, designated beneficiaries can no longer stretch their taxable distributions based on the beneficiary's life expectancy. The SECURE Act now requires that the entire balance of the participant's inherited IRA account be distributed or withdrawn within 10 years of the death of the original owner. Consult your VWG Advisor to review distribution options if you have inherited an IRA after 2019.

- [ ] Although tax planning usually focuses on reducing taxable income, certain individuals may want to maintain or even increase taxable income for 2023. Those in lower tax brackets should consider taking IRA distributions, or even consider doing Roth IRA conversions. Federal tax rates are historically low. It is likely that tax rates for medium and higher income households could be higher in the future.

- [ ] Consider harvesting losses in your taxable accounts – the practice of selling investments trading at a loss and temporarily replacing them with similar assets (while being careful not to run afoul of the "wash sale" rule). Realized losses of $3,000 can offset ordinary income each year and any remainder is carried forward to future years.

2024 HSA contribution limits

The IRS announced an increase in health savings account (HSA) contribution limits for the 2024 tax year.

- An individual with coverage under a qualifying high-deductible health plan (deductible not less than $1,600) can contribute up to $4,150 – up $300 from 2023 – for the year to their HSA. The maximum out-of-pocket has been capped at $8,050.
- An individual with family coverage under a qualifying high-deductible health plan (deductible not less than $3,200) can contribute up to $8,300 – up $550 from 2023 – for the year. The maximum out-of-pocket has been capped at $16,100.

And remember, if you are age 55 or older, you can contribute an additional catch-up contribution of $1,000 per year. If your spouse is also 55 or older, he or she may establish a separate HSA and make a "catch-up" contribution to that account.

- [ ] Employed individuals should maximize their contributions to Health Savings Accounts (HSAs). HSAs (associated with high-deductible health plans), can also be used to expand salary deferral as a savings vehicle that can be used in later years or in retirement. Your contributions are tax-deductible, and these funds can be invested for tax-free growth if used for future healthcare expenses. Your HSA will stay with you, regardless of whether you change employers or insurance. However, you are not able to contribute to an HSA after you start Medicare.

Funding and Taking Distributions from Retirement Accounts

- [ ] If still working, confirm that you have made the 401(k) maximum contribution this year. The maximum contribution is $22,500 for 2023, with a catch-up contribution of $7,500 for those age 50 and older. In 2024, the projected limits will increase to $23,000 for 401(k)s and the catch-up contribution limit will remain the same at $7,500. Self-employed individuals have further options in which they could defer larger amounts of earnings. These actions have the dual benefit of increasing your retirement savings and potentially reducing this year's tax liability.

- [ ] If you have earned income, another way to contribute to your retirement savings is through an IRA account. The maximum contribution is $6,500 in 2023 ($7,500 if age 50 or older). If you are covered by a retirement plan at work, an IRA contribution can be deductible (if single in 2023 and your modified adjusted gross income is under $73,000 or married filing jointly and your income is under $116,000). If your income is above limits set by the IRS, then you can make a non-deductible IRA contribution. You may be able to utilize a strategy where you immediately convert the IRA contribution to a Roth IRA, which is called a "back-door" Roth. A child can also contribute to a Roth IRA, as long as they have earned income. A parent can contribute on the child's behalf, up to the limit of the child's earned income, not to exceed the 2023 limit.

- [ ] 2023 could be an opportune time for converting IRAs or pre-tax 401(k) funds to Roth IRAs. Although conversions generate immediate taxable income, federal tax rates could likely rise in the future. Generally speaking, Roth conversions may be beneficial in scenarios where your income tax rate is relatively low (e.g., in retirement), when asset prices are depressed and/or if you don't expect to need your Roth IRA assets during your lifetime. Please consult your advisor to discuss this strategy. VWG has access to tax planning software that can model different Roth conversion strategies.

- [ ] As part of the SECURE Act 2.0, Congress increased the age to begin required minimum distributions from 72 to 73 in 2023. That age will increase to 75 in 2033.

Charitable Gifts and Tax-Smart Gifting Strategies

- [ ] Start planning your year-end charitable donations now. Many swaths of our society, and the charitable organizations that support them, have been severely impacted by world events. They need all of our help. Keep records of all donations. For larger gifts, consider gifting highly appreciated stocks, funds, or other assets, instead of cash.

- [ ] Taxpayers who expect to claim the standard deduction in 2023 can consider "bunching" multiple years of charitable gifts into one year so that they can qualify for a tax deduction. If one is nearing retirement and expects to be in a lower tax bracket in the future, "bunching" now can provide greater tax savings. "Bunching" charitable contributions can also be used to help offset taxable income generated from making a Roth IRA conversion. Large "lump-sum" contributions can be placed into a Donor Advised Fund (DAF), from which you can easily disperse smaller "grants" to multiple IRS-approved public charities at your discretion over the coming years.

- [ ] For 2023, those age 70 1/2 and older may consider making a charitable contribution to a qualified charity directly from their IRA. This qualified charitable distribution (QCD) is limited to $100,000. This amount will be indexed for inflation starting in 2024. A QCD counts toward satisfying your required minimum distributions (RMDs) for the tax year, but is not deemed to be taxable income. This approach is an extremely efficient method of gifting for those that are charitably inclined.

Family Gifting

- [ ] Consider year-end gifting to family members. The 2023 annual gift tax exclusion for individuals is $17,000. That means that the maximum a married couple can gift to a single person in one year is $34,000. The $17,000 annual gift limit can be exceeded if payments are for a loved one's medical care or education expenses, and payment is made directly to the medical provider or school. This applies only to deductible medical costs, care and services, medical insurance, and prescription medicine. Educational expenses must only be tuition. In 2024, the annual gift tax exclusion limit is estimated to rise to $18,000 for an individual and $36,000 per couple.

- [ ] If you intend on making a very large gift to a child - for example helping with a home down payment - consider spreading your gifting between the end of this year and the beginning of next year. A special 529-exclusion allows five years' worth of gifts – in 2023 up to $85,000 for single or $170,000 for married couples – to be contributed at once, provided that no other gifts are made within the next five-year period.

- [ ] Be aware of changes to the "Grandparent loophole" Previously, any money that grandparents gave a grandchild for college had to be reported as student untaxed income on the FAFSA, potentially lowering the student's eligibility for financial aid. Under the upcoming changes beginning with the 2024-2025 school year, any distributions from a third-party-owned 529 need not be reported on the FAFSA.

- [ ] In 2024, another feature of the SECURE Act 2.0, is that after 15 years, leftover 529 plan assets can be rolled over to a Roth IRA for the beneficiary, subject to annual Roth Contribution limits and an aggregate lifetime limit of $35,000. The beneficiary must have earned income, and the amount that can be rolled over is the lesser of earned income or the IRA contribution limit. Therefore, if the beneficiary is not working, no rollover is available because there is no earned income.

Property & Casualty Insurance

- [ ] It is good to review your coverages at least once a year. Review your property limits, vehicle coverage, umbrella limits and whether any additional coverage should be added for things such as valuable articles or cyber coverage. If you have any questions, please discuss with your advisor.

Estate Planning

- [ ] If you plan on transferring significant wealth to your loved ones, consider taking advantage of increased exemption amounts (in 2023 $12.92 million per person and $25.84 million per married couple. In 2024 the exemption is projected to rise to $13.61 million per individual and $27.22 million per married couple), which will be cut roughly in half when these limits expire at the end of 2025. There are several tax efficient estate planning strategies to consider, including grantor retained annuity trusts (GRATs) and other types of grantor trusts, gifting stocks, and intrafamily transactions and installment sales – techniques that are potentially more efficient this year, given lower asset values.

- [ ] Review beneficiary designations on your IRAs, retirement plans and insurance policies. Do these designations coordinate with your overall estate plan? Your wills, trust, and powers of attorney should be reviewed every 5 years or so or when there is a change to your circumstances (i.e. a new child, moving to another state etc)

Reach out to us for help

For more details on any of the above strategies, or for additional tax planning ideas, please reach out to us and we can collaborate with you and your tax advisor. We look forward to hearing from you soon.

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