VWG WEALTH MANAGEMENT
A Hightower Company

Year-End Planning

The complex financial environment of 2022 only further adds to the often-complex 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 2022 to ensure you are having enough (but not too much) federal and state taxes taken from your paycheck for 2023. Access a simple IRS withholding estimator: (https://www.irs.gov/individuals/tax-withholding-estimator).

☐ Ensure that you have taken any 2022 required minimum distributions (RMDs) from IRAs, 401(k)s, and inherited IRAs.

☐ Although tax planning usually focuses on reducing taxable income, certain individuals may want to maintain or even increase taxable income for 2022. 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 will be higher in the future.

☐ Consider harvesting losses in your taxable accounts – the practice of selling investments trading at a loss, and replacing them with similar assets (while being careful not to run afoul of the "wash sale"rule) and then offsetting gains with those losses. Net capital losses of $3,000 can be offset against ordinary income each year and any remainder is carried forward to future years.

☐ Maximize Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs). Review your current benefits and options, particularly for those whose employers' plans are in the open enrollment period for next year. 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.

2023 HSA contribution limits

The IRS announced an increase in health savings account (HSA) contribution limits for the 2023 tax year. Here is what you need to know about the HSA contribution limits for the 2023 calendar year:

- An individual with coverage under a qualifying high-deductible health plan (deductible not less than $1,500) can contribute up to $3,850 — up $200 from 2022 — for the year to their HSA. The maximum out-of-pocket has been capped at $7,500.
- An individual with family coverage under a qualifying high-deductible health plan (deductible not less than $3,000) can contribute up to $7,750 — up $450 from 2022 — for the year. The maximum out-of-pocket has been capped at $15,000.

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.

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 $20,500 for 2022, with a catch-up contribution of $6,500 for those age 50 and older. In 2023, the limits will increase to $22,500 for 401(k)s and the catch-up contribution will increase to $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.

- [ ] Employed individuals should maximize their contributions to Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs). 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.

- [ ] 2022 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 will 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.

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 the pandemic and other world events. They need all 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 2022 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" 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 2022, 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. 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 charitably inclined.

Family Gifting

☐ Consider year-end gifting to family members. The 2022 annual gift tax exclusion for individuals is $16,000. That means that the maximum a husband and wife can gift to a single person in one year is $32,000. The $16,000 annual gift limit can be exceeded if payments are for a loved one's medical care or educational tuition 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 2023, the annual gift tax exclusion limit will rise to $17,000 for an individual and $34,000 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 — up to $80,000 for single or $160,000 for married couples — to be contributed at once, provided that no other gifts are made within the next five-year period. For further information on 529 savings accounts, please reference our article in September 2019 Ponderings & Musings. (link)

Estate Planning

☐ If you plan on transferring significant wealth to your loved ones, consider taking advantage of increased exemption amounts (in 2022 $12.06 million per person and $24.12 million per married couple. In 2023 the exemption amount will rise to $12.92 million per individual and $25.84 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.

Reach out to us for help

For more detail 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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