YEAR-END WEALTH MANAGEMENT CONSIDERATIONS

As the year winds to a close, you may have Halloween, Thanksgiving, and the Holiday Season in your sights. Here at Wigand Integrated Wealth, we are thinking through and working with clients on wrapping up year-end wealth management considerations.

Here's our list of common items that we'll be working with our clients on this year as year-end approaches....

Tax Legislation Changes

Seemingly every day a news article is published with newly proposed changes to tax legislation. In our many conversations with our clients' tax advisors and estate planning attorneys the consensus is that while many changes have been proposed, until the documents are written into law, no one will know exactly what those changes may be - if there are any at all - for 2021. That said, some of the many proposed changes that we are discussing with clients are potential capital gain tax rate increases, increased tax rates for high income earners and businesses, limiting the lifetime gifting exclusion down from the current $11.7M, and potential restrictions on both Roth and backdoor conversions. It's also important to understand that there has been mention that some of these changes may be retroactive, meaning it could already be too late to act.

Estimating Your 2021 Tax Liability

Working with your tax and financial advisor to estimate your tax liability for the current year is the first step for many year-end planning activities. Understanding what marginal tax bracket you are currently in allows for an informed decision-making process when thinking through potential Roth conversions, capital gain/loss harvesting, and many other wealth management considerations. As estimating taxes is essential for certain year-end planning measures, be sure to coordinate and disclose any financial changes when completing this exercise with your tax and financial advisor.

Tax Gain/Loss Harvesting

Tax gain harvesting, while seemingly counterintuitive, can potentially reduce your future tax liability and keep your portfolio in balance. Especially this year, with looming proposed changes to capital gain rates in the future, harvesting gains may provide an opportunity to pay taxes at a lower rate than you would in the future if the investments weren't sold. Tax-Loss harvesting can be a great way to offset gains in your portfolio. Loss harvesting may be limited due to strong overall market performance in this current year, but opportunities may still exist. Unlike with tax gain harvesting, be careful to avoid a wash sale when tax loss harvesting.

Required Minimum Distributions (RMDs)

While the CARES Act waived RMDs for 2020, they are once again required for 2021. If your 70th birthday was July 1, 2019 or after, you don't have to start taking required minimum distributions (RMD) until the age of 72. For persons who turned 70 before July 1, 2019, RMDs started at the age of 70½ (RMDs were waived in 2020 and are not required for Roth IRAs). RMDs are calculated based on your life expectancy per IRS life expectancy tables. While taking the RMD is a must, carefully consider your options if you plan on taking more than your RMD out of your IRA. Selecting the appropriate liquidation strategy can have a great impact on your overall financial and estate plans.

Qualified Charitable Distributions

Most individuals over 70½ will find that the best way to make a charitable contribution is to make a qualified charitable distribution (QCD) from a traditional IRA. This distribution, capped at $100,000, will satisfy a required minimum distribution and, as a charitable contribution, does not count as taxable income, even if you don't itemize deductions

IRA/Roth Contributions

The 2021 traditional and Roth IRA contribution limit is $6,000 if you are under the age of 50, and $7,000 if you are age 50 or older. Remember that Roth contributions or the deductibility of traditional IRA contributions may be limited based on your income and participation in a retirement plan at work.

Backdoor Roth Conversions

Individuals who are not eligible for Roth IRA contributions may be able to make a "backdoor" Roth IRA contribution from a traditional IRA. Note that you may face tax consequences if you try this while you have ***any*** other IRAs (traditional IRAs, rollover IRAs, SIMPLE IRAs, and SEP-IRAs) with a balance. As the rules for utilizing a backdoor Roth can be tricky, it's worth consulting a financial advisor to ensure you have taken the appropriate steps.

Roth Conversions

Unlike the Backdoor Roth, the goal of a Roth conversion is to convert money from your traditional IRA(s) into your Roth IRA at a lower tax rate than you would be taxed when you begin or are forced to take distributions (Note, RMD's are not required for Roth accounts). While you will owe the tax on the full conversion amount in the current year, it can be a great tool to lower your overall tax burden in retirement. Further, Roth conversions should be taken into consideration when looking at estate planning, as IRAs and Roth's must be withdrawn over a 10-year period after the passing of the original owner when inherited by a non-spouse. That means that if you have a large balance in your IRA, your children's tax bracket could be increased during the period in which they must withdraw the assets in your account.

Retirement Plan Contributions and Allocations

Make any catch-up contributions that you can to any 401(k) and IRA accounts that you are eligible for. Try to qualify for the maximum qualified matching contribution from your employer to your 401(k). Consider the asset allocations within the retirement accounts and adjust for any changes in time frame and risk tolerance.

Donor Advised Fund Establishment and Contributions

If you want to enjoy a large deduction this year on your future charitable contributions, consider depositing several years' worth of donations into a donor-advised fund (DAF) to benefit from the deduction in 2021. If you consistently give to charities each year and have a relatively high-income year compared to your future outlook (e.g. a high income earner who is retiring within the next few years), a DAF may be a great fit.

Annual Gifting for Estate Planning

If your estate planning includes annual gifting to shield wealth from estate taxes, make sure you make your gifts by the end of the year. The 2021 annual exclusion is $15,000, meaning that any individual can gift any recipient up to $15,000 by the end of 2021 without tax implications. This includes spouses who file jointly, so parents could gift a child and the child's spouse $30,000 apiece ($15K from each spouse to each giftee) to pass a total of $60,000 on to the child's family without tax implications.

Lifetime Exclusion Gifting for Estate Planning

For 2021, the lifetime exclusion for gifting is $11.7 million. If you suspect that your lifetime gifting may exceed or have exceeded $11.7 million, consult your estate attorney and financial advisor before attempting to make any further gifts with the intention of shielding the gifted assets from taxation.

Business Year-End Tax Planning

Businesses have a variety of tax credits they can take advantage of in 2021, including emergency sick leave credits, family and medical leave credits, FFCRA health insurance credits, employee retention credits, Section 129 disaster relief, and 100% deductibility of meals. Be sure to consult your tax advisor for any other changes that have taken place in 2021.

529 Funding

Check the tax benefits offered by your state for any 529 education savings plan you might contribute to. If you don't have an automated investment plan (AIP) in place, make sure you know the deadline for your contribution to be received in order to claim the benefit. 529's can also be a useful estate planning tool. Contact your financial advisor to learn more.

2022 Budgeting, Savings Goals and Objectives

If you made a budget for 2021, check your year-end expense summaries and see how close you came to them. Even if you didn't have a budget, review how much you spent and how much you saved. Did you meet your savings goals and objectives, or did you fall short? If you didn't reach your savings goals, or if you want to save more in 2022, consider creating a budget *or* adjusting your budget so you have more income available to save.