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5 year-end planning opportunities for your portfolio

Year-end is a great time to take advantage of timely financial planning opportunities. Here are five key strategies to consider between now and the end of the year.

1 Evaluate unrealized capital gains/losses, mindful of the wash sale rule

Before this year ends, consider recognizing selective capital gains and losses in investment portfolios as a way of lowering a total 2024 tax bill. Keep in mind the power of losses, which can be used dollar-for-dollar against gains (tax loss harvesting). Losses can also be used against ordinary income up to a maximum of $3,000 for investors who file jointly. Any amount in excess of $3,000 gets carried forward indefinitely.*

When harvesting losses, consider the wash sale rule, which prohibits the repurchasing of a security within 30 days for the purposes of recognizing a capital loss. Some options include 1) liquidate the position and repurchase it 31 days later, 2) double up on the position with a goal of selling the original position 31 days later and prior to December 31, or 3) sell the asset held today and buy a similar entity that maintains the client's asset class exposure (or risk exposure) while booking the capital loss.

2 Fund charitable contributions

Charitable giving provides investors with the opportunity to create a meaningful legacy and support the social causes that are important to them. Charitable contributions remain deductible for investors who itemize their deductions.

As you approach year-end, consider how to gift charitably to achieve the maximum benefit. While writing a check might be advantageous, that check may or may not provide a full income tax deduction. One of the best ways to fulfill tax-smart charitable giving is through a donor-advised fund, a structured vehicle that allows investors to bunch giving in a single calendar year. For example: An investor who writes a check for $10,000 each year to an education provider may not be maximizing (or even receiving) a deduction, depending on the individual's tax circumstances. But if instead the investor were to bunch 10 years of future contributions into a single calendar year, that $100,000 contribution would far exceed the standard

* Source: IRS. Amounts and ranges are subject to annual IRS inflation adjustments.

deduction and may provide a full income tax deduction in the year in which the contribution was made.

3 Take advantage of the annual gift tax exclusion

Annual gifting is a strategy that may provide significant tax advantages without a lot of complexity, legal cost, or financial risk. The annual federal gift exclusion for 2024 is $18,000 per donor per year.** In a very simplistic example, a husband and wife with three married children each with three children can leverage the opportunity of gift exclusion this year by making gifts totaling up to $540,000. In that example, the wife gives each child and spouse (six people total) $18,000 and gives each of the nine grandchildren $18,000, and the husband does the same, for a grand total of $540,000.

Utilizing the annual gift tax exclusion is an easy way to reduce taxable estates, and it offers a potential way to lower income tax or capital gains bills. It helps shift assets – and the appreciation of those assets – outside of a taxable estate, and thus help reduce or avoid estate taxes later. Gifts can be made to anyone, not just heirs or relatives.

Please keep in mind that the cost basis of any property gifted under this strategy transfers to the recipient, so while it may make sense to transfer property with a capital gain, in many instances it may not make sense to transfer property with a loss. In most circumstances a investor would be better off booking the loss for tax purposes, and then transferring the net proceeds as a gift to the recipient.

4 Maximize retirement account contributions

Prior to the end of the year, be sure to review retirement contribution limits to invest the maximum. Investors over the age of 50 should take advantage of catch-up contributions. At a minimum, investors should review retirement accounts with employers to ensure that they are 1) contributing the maximum amount available, 2) receiving the company match if and when made available, and 3) investing retirement savings in an appropriate asset allocation that balances with their non-retirement assets. Think of retirement account funding as a use-it-or-lose-it proposition to save money on a tax-advantaged basis.

MARK YOUR CALENDAR

NOVEMBER

Pay attention to annual distribution of capital gains (and losses) to shareholders; note record date and ex-dividend date to avoid purchasing new mutual funds with large expected capital gains distributions. Pay particular attention when rebalancing portfolios at year-end to avoid buying into capital gains distributions.

FRIDAY, NOVEMBER 29

This is the last day to double up on a security for 2024 to avoid violating the wash sale rule. To "double up" on a security refers to the practice of buying the same amount of shares of a security as an investor's original lot. In order to recognize a loss in 2024, the investor would sell the original lot on December 31 and still benefit from any potential appreciation during the period. Reminder: During the doubled up period, the investor has twice as much exposure to the security and therefore faces twice as much potential gain or loss.

TUESDAY, DECEMBER 31

This is the last day to sell stock to harvest gains or losses. Keep in mind the wash sale rule if a security has been purchased within the past 30 days.

** Source: IRS. Amounts and ranges are subject to annual IRS inflation adjustments.

5 Remember to take retirement account distributions

Investors who are aged 73 or above must take a required minimum distribution (RMD) from their retirement accounts between now and year-end. This applies to employer-sponsored retirement plans as well as IRAs. RMDs are calculated using the IRS uniform lifetime table.*** These distributions must be withdrawn each year by December 31, and keep in mind there is a penalty of 25% of the amount not taken if investors fail to take this required distribution prior to the year-end deadline.

Consider a Roth conversion for investors who are aged 73 and whose RMD deadline is approaching but has no immediate need for the money, which will be subject to ordinary income tax. A Roth conversion allows the investor to reallocate these dollars into a tax-free account that doesn't require RMDs at age 73.

Year-end is a busy time but don't let these timely financial planning opportunities fall through the cracks. Consider these thoughtful year-end strategies, between now and December 31.

*** Source: IRS. Amounts and ranges are subject to annual IRS inflation adjustments.

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