WEALTH MANAGEMENT

Year-End Tax Planning Strategies

Jefferies

WEALTH PLANNING

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Alan Wolberg | Managing Director, Financial Planner

As the year winds down and tax deadlines loom just around the corner, taking a proactive approach to year-end tax planning can make a significant financial impact. From a wealth planning perspective, there are four main areas to consider when looking to maximize your savings and minimize your tax liability. Below we share some strategic moves to consider in each before the clock strikes midnight on December 31, 2024.

Investments

Utilize Tax Loss Harvesting

Offset gains from other investments by selling securities that have declined in value. Capital losses can be used to offset capital gains dollar-for-dollar, reducing your taxable income in 2024.

Review Your Investment Portfolio

Avoid investing in mutual funds late in the year if they are about to make large capital gains distributions. Instead, consider tax-efficient investments like tax-free municipal bonds or life insurance to manage your taxable income effectively.

Plan for Capital Gains

If your portfolio has grown significantly and has large unrealized capital gains, consider realizing the gains and spreading them across multiple years to reduce the immediate tax impact or come up with a plan to offset them with tax-loss harvesting.

Consider Series I Savings Bonds

These bonds offer a relatively safe investment option with tax advantages. Interest earned is exempt from state and local taxes and can be deferred for federal taxes until redemption.

Retirement and Savings Accounts

Maximize Retirement Contributions

Contribute the maximum to retirement accounts like IRAs, Roth IRAs, and 401(k)s to reduce your taxable income. Contribution limits for 2024 are:

- IRAs/Roth IRAs: $7,000 (under age 50); $8,000 (50 and older)
- 401(k)s: $23,000 (under age 50); $30,500 (50 and older, including catch-up contributions)

Consider Roth IRA Conversions

If you anticipate being in a higher tax bracket in the future, consider converting a traditional IRA to a Roth IRA. Taxes will apply to the converted amount this year, but withdrawals after five years are tax-free. Partial Roth IRA conversions can also help manage the tax impact.

Review Required Minimum Distributions (RMDs)

If you're 73 or older, you must take RMDs from retirement accounts or face hefty penalties. You might consider donating up to $105,000 of your RMD to a qualified public charity which would be considered a tax-free distribution.

Leverage Health Savings Accounts (HSAs)

Maximize contributions to HSAs to benefit from tax-deductible contributions and tax-free withdrawals for qualified medical expenses. For 2024, the family contribution limit is $8,300.

Utilize Flexible Spending Accounts (FSAs)

Ensure you use any remaining FSA funds before year-end, as unused funds may be forfeited. And take time to evaluate your needs for the next year. In 2025, employees can contribute up to $3,300 for medical and dependent care expenses.

Charitable and Family Gifting

Increase Charitable Contributions

Donating cash or stock to qualified charities can reduce your taxable income. Deduction limits vary:

- **Public charities (cash):** Up to 60% of adjusted gross income (AGI)
- **Public charities (stock):** Up to 30% of AGI
- **Private charities (cash):** Up to 30% of AGI
- **Private charities (stock):** Up to 20% of AGI

Use Annual Gifting

Gift up to $18,000 per recipient ($36,000 for married couples) in 2024 to reduce your taxable estate. This can benefit family members or friends while lowering your estate tax exposure.

Leverage Education Savings

Contribute to 529 plans to benefit from tax-free growth and withdrawals for qualified education expenses. Married couples can gift up to $180,000 per beneficiary in 2024, using the five-year gifting rule.

Next Steps

Review Tax Withholding

Ensure your withholding aligns with your projected tax liability. Adjusting your withholding can help you avoid underpayment penalties or overpayment of taxes.

Plan for State and Local Taxes

Consider prepaying property taxes or making estimated income tax payments to mitigate your state and local tax obligations.

Optimize Estate Planning

Review and update your estate plan, including wills, trusts, and beneficiary designations, to reflect your current wishes and take advantage of available tax benefits.

Conclusion

Implementing strategies like these can help you optimize your tax situation and potentially save a significant amount of money. Because tax laws are complex and ever-changing, it is essential to review your financial situation with a qualified professional. Stay informed and consult your financial advisor or tax professional to make the most of your opportunities.

If you have questions or need assistance, please contact your Jefferies financial advisor.

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