Shobe Insights

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Make Your Tax-Saving Moves Before Year-End

Tax Planning

Proactive investors know that the months before year-end can be an ideal time to make strategic adjustments.

While keeping in mind your long-term investment goals, meet with your advisor and coordinate with your tax professional to examine nuances and changes that could impact your typical year-end planning.

Mind your RMDs

Be thoughtful about required minimum distributions (RMDs) to ensure that you comply with the rules – especially as some of those rules have shifted throughout the course of the pandemic.

Last year, the CARES Act waived all RMD obligations. But **for 2021, requirements are back to normal.** Investors that reach a certain age – 70 1/2 for those born before July 1, 1949; 72 for those born after – are required to take RMDs from their IRAs. You'll face a hefty 50% tax penalty on amounts not withdrawn from your IRA to meet the RMD, so be sure to speak with your advisor to ensure you've met your obligations.

A few reminders for future distribution planning:

- RMDs can be automated with your advisor to help ensure you don't miss applicable deadlines.
- Your first RMD can be delayed until April 1 of the year after you turn 72. If you delay, however, you must also take your second RMD in the same tax year. This can inflate your income, which may affect your tax bracket.
- Subsequent RMDs must be taken no later than December 31 of each calendar year.
- Qualified charitable distributions allow traditional IRA owners who transfer RMDs to qualified charities to exclude the amount donated from their adjusted gross incomes, up to $100,000.
- Be mindful of how taking a distribution will impact your taxable income or tax bracket. If you have space left in your bracket or a down income year, you may want to consider taking additional distributions.

To harvest or not to harvest

Evaluate whether you could benefit from tax-loss harvesting – selling a losing investment to offset gains. The first $3,000 (single or married filing jointly) offsets ordinary income. Excess losses also can be carried forward to future years. With your advisor, examine the following subtleties when aiming to decrease your tax bill:

- Short-term gains are taxed at a higher marginal rate; aim to reduce those first.

- Don’t disrupt your long-term investment strategy when harvesting losses.
- Be aware of “wash sale” rules that affect new purchases before and after the sale of a security. If you sell a security at a loss but purchase another “substantially identical” security – within 30 days before or after the sale date – the IRS likely will consider that a wash sale and disallow the loss deduction. The IRS will look at all your accounts – 401(k), IRA, etc. – when determining if a wash sale occurred.

Manage your income and deductions

Those at or near the next tax bracket should pay close attention to anything that might bump them up and plan to reduce taxable income before the end of the year.

- Determine if it makes sense to accelerate deductions or defer income, potentially allowing you to minimize your current tax liability. Some companies may give you an opportunity to defer bonuses and so forth into a future year as well.
- Certain retirement plans also can help you defer taxes. Contributing to a traditional 401(k) allows you to pay income tax only when you withdraw money from the plan in the future, at which point your income and tax rate may be lower or you may have more deductions available to offset the income.*
- Evaluate your income sources – earned income, corporate bonds, municipal bonds, qualified dividends, etc. – to help reduce the overall tax impact.

Evaluate life changes

From welcoming a new family member to moving to a new state, any number of life changes may have impacted your circumstances over the past year. Bring your financial advisor up to speed on major life changes and ask how they could affect your year-end planning.

- Moving can significantly impact tax and estate planning, especially if you’ve relocated from a high income tax state to a low income tax state, from a state with a state income tax to one without (or vice versa), or if you’ve moved to a state with increased asset protection. Note that moving expenses themselves are no longer deductible for most taxpayers.
- Give thought to your family members’ life changes as well as your own – job changes, births, deaths, weddings and divorces, for example, can all necessitate changes – and consider updating your estate documents accordingly.

Next steps

Consider these to-dos as you prepare to make the most of year-end financial moves, and discuss with your financial advisor and tax professional:

- Manage your income and deductions, paying close atten-tion to your marginal tax bracket.
- Evaluate your investments, keeping in mind whether you could benefit from tax-loss harvesting.
- Make a list of the life changes you and your family have experienced during the year.

*Withdrawals prior to age 59 1/2 may also be subject to a 10% federal penalty tax. RMDs are generally subject to federal income tax and may be subject to state taxes. Consult your tax advisor to assess your situation. Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.

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