November 27, 2023 – Wealth Planning Commentary

10 Tax Moves to Make Before Year's End

2023 is quickly coming to an end and there are still opportunities to save on taxes. When many people hear the word 'tax' they usually think of income tax, but it's important to consider gift and estate tax as well. Here are our top 10 strategies for income, gift, and estate tax savings this December:

Income Tax Reminders

Estimated Tax Payments: For those who intentionally or unintentionally missed estimated tax payments this year – it's rarely possible to undo the penalties, but additional penalties are preventable. Those experiencing constraints on liquidity may consider performing an IRA rollover to pay estimated taxes. To use this strategy, withdraw the outstanding liability from the IRA and withhold taxes on the entire amount. This action will stop penalties from accumulating. The taxpayer may use this strategy as a bridge until a bonus is paid. The money must be returned or rolled over to another IRA within 60 days or taxes are owed. An IRA rollover is limited to one every 12 months.

A lesser-known strategy is to withhold the estimated tax amount from your required minimum distributions (RMD). The IRS considers the taxes withheld from IRA distributions as paid evenly throughout the year, even if the distribution is a lump sum payment at year-end. So, if an RMD is large enough to cover the entire tax bill, a retiree can hold onto funds in the IRA until year-end. A word of caution: the RMD withholding strategy might not work for estimated state taxes. Some IRA sponsors cannot withhold state income taxes.

Deferrals to **Company** Retirement Plans: Typically, salary deferrals to company retirement plans must be completed by year-end to count for 2023. Some plans permit a 100% salary deferral. Deferring a large amount in the last month of the year may help close in on the allowable annual amount of $22,500. Those with solo 401(k) plans may contribute profit-sharing and salary deferral amounts until the tax filing date in 2024 and still attribute them to 2023.

529 Plans Contributions: Some states offer tax deductions for 529 contributions. Taxpayers who are fortunate enough to live in these states should contribute to 529 plans by year-end to qualify for a deduction in 2023. 529 plan contributions are also a great way to take advantage of the annual gift tax exclusion.

Qualified Charitable Distributions: Here's an important fact about Qualified Charitable Distributions (QCD) - If the custodian writes the check or transfers the funds before Dec. 31st, the donation is attributable to 2023. The timing of the donation does not depend on when the charity cashes the check or receives the funds. On the other hand, if the taxpayer is writing a check from the IRA and the charity does not deposit it by year-end, the donation is not attributable to 2023.

SALT Cap Workaround: Currently, there is a $10,000 limit for state and local tax deductions on individual federal returns; this is known as the SALT cap. Since businesses are not subject to the SALT cap, taxpayers who receive income via pass-through entities may have the ability to shift personal tax liability to their business. However, some pass-through entity elections must be renewed annually depending on the state. Taxpayers should ask their accountant to double check if they are properly taking advantage of the SALT cap workaround or if there is an opportunity to do so.

Gift and Estate Tax Reminders

Annual Gift Tax Exclusion: Gifts must be made by year-end to count for 2023. The annual exclusion is $17,000 per recipient or $34,000 if the gift is from a married couple. Gifts via check must be deposited by December 31st to count toward the annual exclusion in 2023. For this reason, it's best to give as soon as possible and remind the recipient to deposit the check.

Tax-Free Gifts beyond the Annual Exclusion: The IRS does not levy a gift tax on payments for medical and education expenses that are paid directly to the institution. This is another way to shift assets out of an estate without having to dip into the annual exclusion or the lifetime exemption.

Roth Conversions: A Roth conversion might not make sense for income tax purposes. However, a Roth account is probably the most advantageous asset an heir can inherit. Converting a taxable IRA to a non-taxable Roth is a commonly used estate planning strategy. The funds must be converted from the IRA by Dec. 31st to count for the 2023 tax year. Custodians are typically backed up at the end of the year so please plan accordingly.

Irrevocable Trusts and Promissory Notes: Take a moment to review GRATs, other Irrevocable Trusts, and Promissory Notes. If a GRAT has performed well, consider locking in the gain. Check-in with the Trustee of Irrevocable Trusts regarding distributions to ensure that they are accurate and on schedule. The 65-day rule allows distributions from a trust to its beneficiaries to be treated as prior-year distributions if performed within the first 65 days of the year. The 65-day rule gives the Trustee more time to optimize the trust and beneficiaries' tax liability. This strategy is available until March 5th, 2024. Also, review promissory note payments, especially for intra-family loans, as the IRS is focusing on these transactions.

Please reach out to your Wealth Manager with any questions regarding year-end tax planning.