Year-end planning

Wealth Management

This is an ideal time to consider year-end strategies that may benefit you and to plan for the year ahead. Please discuss any ideas and questions with your financial advisor.

Traditional year-end planning focuses on deferring income into a future year and accelerating deductions into the current year to postpone tax payments. However, if you anticipate your marginal income tax rates increasing next year—whether due to increased income or changes to tax legislation—you may want to look for ways to accelerate income and defer deductions.

Income tax strategies

If you anticipate being in a **lower** taxable income bracket in 2024 and later:

- If possible, defer income and the sale of capital gain property to postpone taxable income to the following year.
- Bunch your itemized medical expenses in the current year to meet the threshold percentage of your adjusted gross income to claim such deductions.
- Make your January mortgage payment (i.e., the payment due no later than January 15) in December so you can deduct the interest on your 2023 tax return.
- If you can accept the risk of receiving payments over time, use installment sale agreements to spread out any potential capital gains among future taxable periods.

If you anticipate being in a **higher** taxable income bracket in 2024 and later:

- If possible, accelerate income and the sale of capital gain property to receive taxable income in the current tax year.
- Make your January mortgage payment after January 1 so you can deduct the interest on your 2024 tax return.

Additional income tax considerations:

- Consider using an RBC Credit Access Line offered by Royal Bank of Canada to cover any short-term income distribution gaps.
- Increase your W-2 federal withholding amount in preparation for a significant tax bill or to avoid the under-withholding tax penalty.
- If you have concerns that you may be subject to the alternative minimum tax (AMT), speak with your CPA or other tax advisor before deferring or accelerating income and/or deductions, as your AMT status could limit your ability to benefit from these actions.
- Be aware of the increased availability of residential clean energy tax credits.
- Be sure to alert your CPA or tax preparer if you have income or gains from cryptocurrency in 2023.

Tax-related investment strategies:

- Harvest your losses by selling taxable investments that may have unrealized losses to offset those losses against other gains.
- Harvest your gains by selling taxable investments if you have capital loss carryovers or year-to-date losses for the current year. Short-term losses are most effective at offsetting capital gains. Note: Wait at least 31 days before buying back a holding sold for a loss to avoid the IRS wash sale rule.
- Evaluate if you should delay purchasing mutual fund shares until 2024 to avoid capital gains distributions on brand new investments.

Retirement planning—seize opportunities and avoid missteps

- Maximize your IRA contributions. You may be able to deduct annual contributions of up to $6,500 to your traditional IRA and $6,500 to your spouse's IRA for the 2023 tax year. If you are 50 or older, take advantage of catching up on IRA contributions. You may be able to contribute and deduct an additional $1,000. This catch-up contribution will be indexed for inflation beginning in 2024.
- Consider increasing or maximizing your 401(k) and other retirement account contributions. These contribution limits have increased for the 2023 tax year as well—$22,500 for the standard contribution limit and an increased catch-up contribution limit of $7,500.
- Confirm with your tax advisor that you have withdrawn the appropriate amount from your retirement accounts as required minimum distributions before year-end. Note that the required beginning date for retirement account distributions increased to age 73 as of January 1, 2023. Therefore, if you reached age 72 after December 31, 2022, you most likely are not required to take retirement account distributions this year.
- Consider contributions to a Roth 401(k) plan (if your employer offers such a plan, and you are in a lower income tax bracket now than you expect to be in the future).
- Avoid mandatory tax withholding by making a direct rollover distribution to an eligible retirement plan, including an IRA.
- Avoid taking IRA distributions prior to age 59½ or a 10% early withdrawal penalty may apply.
- Consider setting up a Roth IRA for each of your children who have earned income.
- Consider converting from a traditional IRA to a Roth IRA if you are in a low marginal income tax bracket. Partial Roth IRA conversions are permissible.
- Explore taking employer stock from tax-deferred accounts (i.e., a net unrealized appreciation strategy) to take advantage of capital gains tax rules.
- Determine the optimal time to begin taking Social Security benefits, which you can apply for between ages 62 and 70.
- If you have business losses that flow through to your individual tax return, consider a Roth conversion or harvest capital gains to create income that is offset by the business loss.
- Make a Roth IRA contribution if under the applicable earnings limitation.
- Beginning in 2024, it will become possible for a beneficiary to convert a portion of unused 529 plan assets to a Roth IRA under certain circumstances. Check with your tax advisor to determine the extent to which you may take advantage of this strategy.

Gifting strategies

Give to loved ones

- Consider making gifts of up to $17,000 per person as allowed under the federal annual gift tax exclusion. Use assets likely to appreciate significantly for optimum income tax savings. This annual exclusion figure may increase in 2024.
- Make sure that your estate plan is up to date, and that you have a will, revocable trust, health care directive and power of attorney in place.

Give to those in need—charity

- Make a charitable donation before the end of the year. Remember to keep all your receipts from the recipient charity. If the charitable contribution is made very close to year end, consider using a credit card so that you have a clear record of the date of the contribution.
- Use appreciated stock rather than cash when contributing to charities. This may help you avoid income tax on the built-in gain in the stock, while maximizing your charitable deduction.
- If you are over 70½ and would like to donate to charity from your IRA, you can donate up to $100,000 each year directly to qualified charities using a qualified charitable distribution. You avoid taxes through a direct transfer of funds from your IRA custodian to qualified charities. It is a particularly effective way to direct your required minimum distribution.
- Set up a donor-advised fund for an immediate income tax deduction and provide immediate and future benefits to charity over time.
- Consider bunching several years of charitable contributions into one year with a gift to a donor-advised fund to make your contributions more tax-efficient.

Itemize personal residence and mortgage interest

- Up to $250,000 ($500,000 for married couples filing jointly) of the gain from the sale of your principal residence can be excluded from federal income tax if certain requirements are met.
- Interest on up to $750,000 of mortgage indebtedness incurred after December 14, 2017, is allowed as an itemized deduction if used to purchase or improve a home.

- For mortgages incurred December 14, 2017, or earlier, interest will be deductible on up to $1,000,000 of debt (the old cap), even if refinanced after December 14, 2017.

Set yourself up for success in the upcoming year

Wrap up 2023

- Send capital gains and investment income information to your accountant for a more accurate year-end projection.
- Check your health savings account contributions for 2023. If you qualify, you can contribute up to $3,850 (individually) or $7,750 (family), and an additional $1,000 catch-up if you are age 55 or older. Confirm you've spent the entire balance in your flexible spending accounts for the year.
- Revisit contribution amounts to your 529 plan accounts.
- Open an RBC Credit Access Line to be ready for unexpected opportunities or events.
- Review your Medicare Part D and supplemental coverage plan to potentially make a change during open enrollment, which begins in October.
- Check with your financial advisor and tax advisor about the possible year-end impact of SECURE 2.0 Act and related regulations. These regulations may impact how and when you must take distributions from inherited IRAs.

Planning for 2024

- Discuss major life events with your financial advisor to confirm you have clarity in your current situation and direction for tomorrow. This includes family, job or employment changes and significant elective expenses (real estate purchases, college tuition payments, etc.).
- Plan your health savings account contributions for 2024. If you qualify, you can contribute up to $4,150 (individually) or $8,300 (family), and an additional $1,000 catch-up if you are age 55 or older.
- Check that your account preferences, risk tolerance and investment objectives are up to date with your financial advisor.
- Double check your beneficiary designations (employer-sponsored retirement plans, 401(k)s, IRAs, Roth IRAs, annuities, life insurance policies, deferred compensation plans, etc.), transfer on death (TOD) designations and payable on death (POD) designations. They should be updated as necessary and align with your estate plan.
- Review whether you have designated a trusted contact person on each of your accounts to help protect your assets against fraud and financial exploitation.

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