Year-end checklist

Wealth Management

Now 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 to increase next year, whether due to increased income or changes to tax legislation, you may want to look to ways to accelerate income and defer deductions.

Income tax strategies

If you anticipate being in a **lower** taxable income bracket in 2023 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 in order 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 2022 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 2023 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 2023 tax return.

Additional income tax considerations:

- ☐ Consider using an RBC Credit Access Line 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.
- ☐ If you received a coronavirus-related distribution from a retirement account in 2020, be aware that you may have to report taxable income from that distribution on your 2022 tax returns. Confirm that you have paid adequate estimated taxes to cover that additional income.
- ☐ Speak to your tax advisor about changes to the Child Tax Credit and Child and Dependent Care Credit. Both credits have been reduced for the 2022 tax year and may impact your overall 2022 tax bill.
- ☐ Be aware of the increased availability of Residential Clean Energy tax credits.

Tax-related investment strategies

- ☐ Harvest your losses by selling taxable investments that may have unrealized losses.
- ☐ 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 2023 to avoid capital gains on brand new investments.

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Retirement planning—seize opportunities and avoid missteps

☐ Maximize your IRA contributions. You may be able to deduct annual contributions of up to $6,000 for 2022, increasing to $6,500 in 2023, for your traditional IRA and your spouse's IRA. If you are 50 or older, take advantage of catching up on IRA contributions and certain qualified retirement plans. You may be able to contribute and deduct an additional $1,000.

☐ 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 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.

☐ 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.

Gifting strategies

Give to loved ones

☐ Consider making gifts of up to $16,000 per person as allowed under the 2022 federal annual gift tax exclusion. This limit is increasing to $17,000 in 2023. Use assets likely to appreciate annually.

☐ 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 of 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 make a donation 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.

☐ Be aware that the "above-the-line" charitable deduction ($300 for individuals and $600 for married filers) formerly available to taxpayers who normally claim the standard deduction is no longer available in 2022.

☐ Charitable contributions of cash to qualifying organizations may **no longer** be deducted up to a limit of 100% of your adjusted gross income in 2022. The threshold for deducting such contributions has reverted to the former limit of 60% of adjusted gross income.

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.

* Interest on mortgage or home equity debt not used to purchase or improve a personal residence is no longer allowable as an itemized deduction.

RBC Wealth Management does not provide tax advice. All decisions regarding the tax implications of your investments should be made in consultation with your independent tax advisor.

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Set yourself up for success in the upcoming year

Wrap up 2022

☐ Send capital gains and investment income information to your accountant for a more accurate year-end projection.

☐ Check your Health Savings Account contributions for 2022. If you qualify, you can contribute up to $3,650 (individually) or $7,300 (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 (education savings) accounts.

☐ Open up an RBC Credit Access Line to be ready for unexpected opportunities or events.

☐ Review Medicare Part D 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 Act proposed regulations. These regulations may impact how and when you must take distributions from inherited IRAs.

Planning for 2023

☐ Discuss major life events with your 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 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.

☐ Check that your account preferences, risk tolerance and investment objectives are up to date with your 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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