Year-End Planning Checklist

As the holiday season approaches, now is the perfect time to review your finances and make any necessary adjustments before the new year. Year-end planning not only helps optimize your tax situation, but also ensures you're prepared for potential changes in tax laws and financial goals. Whether it's making charitable donations, maximizing your retirement contributions, or updating your estate plan, acting before December 31 can make a significant difference in your financial outlook.

To help you stay on track, we've compiled a list of essential steps to take before the end of the year. We advise you to consult with your attorney and accountant about these and other planning steps you make take.

1 Make Charitable Donations

Making a year-end charitable gift can reduce your tax liability if you itemize your deductions. One of the most tax-efficient ways to make charitable donations is by contributing appreciated securities to a qualified charity, including a Donor-Advised Fund (DAF). Giving to a DAF allows you to avoid a capital gains tax on the appreciated securities and get a full deduction for the gift up to certain AGI limitations. If you're age 70½ or older, you can distribute up to $105,000 from your IRA directly to a qualified charity (but not a DAF or foundation). These Qualified Charitable Distributions may qualify as satisfying your RMD as well. Charitable donations must be completed before December 31, 2024, to count for this year. Be sure to retain a written acknowledgment of your gift for tax purposes.

2 Take Your RMD

Certain IRA owners must take Required Minimum Distributions (RMDs) from their retirement accounts by the end of the year. You must take an RMD from your traditional IRA by December 31, 2024, if you turned age 73 before January 1 of this year. If you turned 73 in 2024, you have until April 1, 2025, to take your RMD for this year. In addition, some beneficiaries of inherited IRAs (including inherited Roth IRAs) may have to take an RMD in 2024. The IRS recently announced a waiver of penalties if you fail to take an RMD from an IRA that you inherited after December 31, 2019 (i.e., one subject to the so called "10-year rule")—the waiver will not apply after this year, however. Check with your team to see if you need to take an RMD this year. And, as we mentioned in point 1 above, if you are age 70½ or older, you may be able to make a Qualified Charitable Distribution from your IRA that qualifies as your RMD.

3 Use Your Annual Gift Exclusion

The IRS allows you to make tax-free gifts up to $18,000 per year to an unlimited number of people. If you are married, you and your spouse can give twice this amount even if only one spouse is the source of the funds.[1] Further, gifting to minor children (or grandchildren) is possible by setting up a Uniform Transfers to Minors Account or a trust designed to receive such gifts. Gifts made after December 31, 2024, won't count for 2024. Next year, the annual exclusion amount is expected to jump to $19,000.[2]

4 Contribute to a 529 College Savings Account

A 529 College Savings Account is a very versatile savings vehicle. Tax-free withdrawals from a 529 are allowed for "qualified education expenses," which include college tuition, room and board, books and materials, as well as K-12 tuition expenses up to $10,000 per year. Under a special rule for 529s, you may give 5 times the annual exclusion amount to a 529 account in a single year if you make an election on a gift tax return to prorate the gift over 5 years. Further, contributions to a 529 account may be partially deductible for state tax purposes. Under a new rule that took effect in 2024, excess funds in a 529 (up to a lifetime cap of $35,000) may be rolled over to a Roth IRA if certain conditions are met.[3] Another aspect that makes 529s so versatile is that the beneficiary may be changed so that the funds can be used for another person's education expenses. Withdrawals of earnings from a 529 that don't qualify as education expenses are subject to income tax and a 10% penalty.

5 Contribute to Your IRA

As long as you have sufficient earned income, you may contribute up to $7,000 to an IRA in 2024 ($8,000 if you are 50 or older). The contribution deadline for 2024 is April 15, 2025. And if your income is less than $146,000 (for single filers) or $230,000 (for married couples filing jointly), you may contribute to a Roth IRA.[4] In addition, self-employed persons may contribute the lesser of 25% of compensation or $69,000 to a SEP IRA.[5] Moreover, the SEP contribution deadline can be extended as late as October 15, 2025, if a tax filing extension was obtained. Be sure to check with your accountant about this.

6 Consider a Roth Conversion

Converting a traditional IRA to a Roth IRA can be a good financial move if you have the means to pay the tax on the conversion from a source outside of the IRA. As long as certain conditions have been met, withdrawals from the Roth IRA will be tax-free and there will be no RMDs. Generally, the economic rewards of converting will start to accrue 5 to 7 years from the year of conversion. A Roth conversion is also subject to a few special rules. Withdrawals from the Roth IRA within 5 years of the conversion will trigger a tax on the earnings plus a 10% early withdrawal penalty if you are under age 59½.[6] Roth conversions can be done in batches over time which may allow you to take advantage of lower tax brackets each year.

So-called "back-door" Roth conversions are ones where an individual (who is not otherwise eligible to contribute to a Roth IRA due to income limitations) makes a non-deductible contribution to a traditional IRA and then converts the funds over to a Roth IRA. The tax on the conversion is minimal because the owner has a high basis in the IRA--only the earnings would be taxed on the conversion. Again, we advise checking with your accountant about a Roth conversion.

7 Tax Loss Harvesting

Capital gains realized in 2024 can be offset by realized losses. Consider taking losses this year to reduce your net capital gains. The top capital gains rate applies to irrevocable trusts that pay taxes starting at just $15,450. The top federal capital gains tax rate is 20%. A 3.8% Net Investment Income Tax could also apply if your income exceeds $200,000, or $250,000 if you are married and filing jointly.

8 Consider Funding an Irrevocable Trust

The federal lifetime estate and gift tax exemption (currently $13.61 million) could be cut in half as of January 1, 2026, if the current tax rules expire as they are scheduled to do. Much depends, though, on the outcome of the 2024 elections. This, of course, is a big unknown as of now. Nevertheless, for persons with sufficient wealth who are concerned about a potential estate tax when they die, we recommend speaking with an estate planning attorney about your options. One technique that some people have used is to fund a Spousal Lifetime Access Trust (or SLAT). This type of trust allows an independent trustee to pay funds from the trust to your spouse if he or she may need access to the money it in the future. That way, you can make a competed gift now, and lock-in your exemption before it possibly gets reduced, but your spouse can still benefit from the trust.

9 Update Your Estate Plan

It's always a good idea to review your estate plan every 5 to 10 years or if you have recently experienced a major life event. As 2025 approaches, this is an especially good time to start the conversation with your attorney and other advisors about your estate plan. We recommend that every client have an up-to-date will, revocable trust, durable power of attorney and health care directive. One reason people are so focused on estate planning now is that the federal lifetime estate and gift tax exemption (currently $13.61 million) could be cut in half on January 1, 2026. Estate planners are very busy working with clients on how to plan for that possibility. So, we urge you to speak to your lawyer sooner rather than later.

10 Review Year-End Health Care Elections

As 2024 winds down, you may be able to make certain elections in your employee benefit plans, such as modifying your health insurance coverage, or contributing to a Health Savings Account (HSA) or flexible spending account. In some instances, prior year elections may not automatically roll over. So, be sure to double check and make sure you have made all of your healthcare elections before the window of opportunity closes. Similarly, for those eligible for Medicare, Open Enrollment ends on December 7, 2024. Now is a good time to review your health care options.

2025 will be a busy year for tax maneuvers and estate planning. It's wise not to put off your planning moves any longer. At 1919 Investment Counsel, we welcome your questions about planning steps that you can make. We also encourage you to consult your attorney and accountant about these and other planning steps that may fit your situation. If you are interested in learning more about the financial steps you should consider before the year closes, we encourage you to consult your Portfolio Manager or Client Advisor at 1919 to discuss your year-end check list and take the next step towards setting yourself up for financial success.

FOOTNOTES

[1] This is known as "gift-splitting" and may be done if elected on a gift tax return.

[2] Additional gift tax exclusions apply to the payment of tuition or medical expenses.

[3] The 529 must have existed for at least 15 years. The annual rollover limit is the normal IRA contribution limit; the beneficiary must have sufficient earned income as well.

[4] The contribution limit phases out for single filers with income between $146,000 and $161,000 ($230,000 and $240,000 if married filing jointly).

[5] The contribution limit for a solo 401(k) is the lesser of $69,000 or 100% of compensation; and for people who are age 50 or older, the limit is $76,500.

[6] Note that a separate 5-year rule applies to contributions to a Roth IRA. Some exceptions may apply.

As of October 30, 2024 unless otherwise indicated.

About 1919 Investment Counsel

1919 Investment Counsel is a registered investment advisor. Its mission for more than 100 years has been to provide investment counsel and insight that helps families, individuals, and institutions achieve their financial goals. The firm is headquartered in Baltimore and has offices across the country in Birmingham, Cincinnati, New York, Philadelphia, San Francisco and Vero Beach. 1919 Investment Counsel seeks to consistently deliver an extraordinary client experience through its independent thinking, expertise and personalized service. To learn more, please visit our website at 1919ic.com.

Disclosure

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