Mesirow

Seven year-end planning tips

It is always important to review your financial plan every year to see if there are opportunities to make changes based on any life changes you or your family may have experienced. Depending on your unique situation, some of the tips listed below might make sense for you and your family.

Maximize your tax-deferred annual contributions

Are you maximizing the contributions allowed for your particular plan (401k, 403b, etc.)? One way to reduce taxable income is by maximizing contributions to your tax-deferred retirement plan(s). The 2023 contribution limits are $22,500 for a 401k or 403b plan, with a $7,500 catch-up contribution available if you are over the age of 50.[1] Remember that your 401k and 403b contributions must be deferred from current pay, so check with your employer before year-end.

Don't forget about IRAs! You can contribute $6,500 to your IRA in 2023, or $7,000 if you are age 50 or older, through April 15th of the following year.

Maximize your annual gifting

Have you made your annual exclusion gifts yet? During 2023, you may gift up to $17,000 to any individual free of gift or estate tax. A married couple may gift up to $34,000 per beneficiary during the calendar year.[2] In addition, you may pay directly for qualified educational and medical expenses in any amount without gift tax consequences. This is a great way to indirectly gift additional money to support the people you love.

Make charity contributions from your IRA

Did you know that you can make Qualified Charitable Distributions from your IRA? Anyone age 70 ½ or older can still distribute up to $100,000 (per taxpayer)[3] from their IRA account directly to a qualified charity. This allows you to satisfy your charitable obligations entirely with pre-tax dollars, as these QCDs are excluded from your adjusted gross income. This also allows standard deduction taxpayers to receive the full tax benefit of their charitable gift – itemizing your deductions is unnecessary. It is important to note that charitable commitments may also be satisfied by donating low-basis stock held for more than one year from a taxable account (which allows complete avoidance of taxable gains on the stock for you and the charity). We recommend discussing these alternatives with your Mesirow wealth advisor or CPA.

Bunch your charitable contributions

To maximize the tax benefit of itemized deductions for charitable giving, you may want to consider "bunching" your charitable deductions this year using a Donor Advised Fund (DAF). When you contribute to a DAF, you receive an income tax deduction for the entire contribution the year in which it was made (regardless of whether the funds are used for charitable purposes in the same year). Be careful; there are limitations to the amount of charitable deductions one can deduct in any given year, so make sure to discuss this with your advisor and CPA to determine what might be appropriate for you.

Convert your Traditional IRA to a Roth IRA

With the combination of low marginal tax rates and recent volatile market conditions, now may be an advantageous time to convert some pre-tax Traditional IRA money into a Roth IRA. While this would require paying income taxes on that pre-tax amount, it results in a tax-free account going forward. In addition, those who cannot make deductible IRA contributions should consider making a nondeductible contribution to their Traditional pre-tax IRA and converting it to a Roth IRA ("back door" Roth IRA). Be careful, though, if you have an existing IRA, you should consult your wealth advisor and accountant to determine if a Roth conversion is appropriate. If you have multiple IRA accounts, they are treated as one IRA for tax purposes. Therefore, the conversion would be considered a partial conversion of all IRA assets, not just the newly contributed funds, leading to a partially taxable conversion.

Minimize the tax impact on investment gains

Although periods of market volatility can often create anxiety, the gains and losses incurred during up and down markets can be leveraged to work together to minimize the taxes you pay on capital gains. Through a practice called “tax loss harvesting,” it’s possible to strategically reduce federal tax liabilities without impacting long-term investment plans. We can help you coordinate this across all of your accounts, not just your Mesirow accounts. When utilizing this strategy, it is imperative that you are aware of the “wash sale rule,” which prevents you from selling one security to recognize the loss and then buying back the same security within 31 days.

Discuss any changes in your life

Life is always changing. We adapt to social distancing, change jobs, upsize and downsize our homes, have children or grandchildren, become involved with new charitable organizations, adopt healthier lifestyles or struggle with illness, re-focus from child care to parent-care, and so many more events that contribute to – and sometimes challenge – our lives. Taking the time to discuss these changes with your advisor allows you to revisit your goals, redefine your desired outcome, and ensure that we take the necessary steps to achieve your vision.

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1. Deductibility of IRA contributions is subject to IRS income limitations. https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-401k-and-profit-sharing-plan-contribution-limits

2. https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes

3 https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds