Year-end tax planning strategies to consider before 2022

Yes, tax law changes may still be coming, but year-end tax moves are still a good idea.

With possible tax law changes on the horizon, it can feel daunting to make any moves before knowing the outcome. But year-end is still a good time to get your financial house in order and fine-tune your long-term strategy to take advantage of tax savings opportunities.

As the Build Back Better Act gets finalized before heading to President Joe Biden's desk for signing, we're mindful that there may still be tax law changes.

Nonetheless, it's still important to look at different ways you could be saving money on taxes. By the fourth quarter, there's a lot more clarity on your income and investment gains and losses than there was at the beginning of the year. And with two months left in the year, there's still time to make the necessary changes.

Remember to consult with your tax advisor on your unique tax situation for personalized advice on what you should do. In addition, speak with your wealth advisor about possible changes to your estate planning and gifting strategies.

Check your withholding

At this point in the year, you should have a good grasp of your total income and can check to make sure that you've paid enough taxes throughout the year to avoid a big surprise tax bill in April. You can use the IRS's Tax Withholding Estimator to figure out if you have. You'll need your most recent pay stubs, your last tax return and an estimate of other sources of income.

If you haven't paid enough taxes throughout the year, there's still time to speed up withholdings by filing a new W-4 form with your employer. Consult with your accountant or tax professional to make sure you're filling out the form correctly.

Tax-loss harvesting

With another stock market bull run, you may be sitting on a mountain of capital gains on your investments. Consider selling securities in your portfolio that have declined in order to offset those losses. And remember to rebalance your portfolio after tax-loss harvesting so you stay on track with your investment goals.

Workplace flexible spending accounts

Review accounts such as flexible spending accounts (FSA) and dependent care FSA to make sure you spend down the balances before the required deadlines. Typically, FSA balances are forfeited if they're not used within the plan year, but the IRS extended some deadlines due to COVID-19, allowing employers to carry over employee balances into 2022 and use the money throughout that year.

It's up to each employer's discretion whether or not to use these provisions, so check with your human resources department to find out how much time you have left to use up FSA and dependent care FSA balances before the money leaves your account.

While there is still some uncertainty going into 2022 on the tax front, there's no uncertainty around the need for tax planning. Speak with your wealth advisor and tax advisor about what changes you should be looking at now to put yourself in the best possible position for 2022.

Continued

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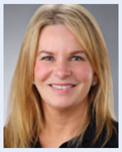

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Retirement planning

This is a good time to review your contributions to any retirement plans like 401(k) and individual retirement accounts to see if you can make additional contributions up to the maximum allowed. You can lower your tax bill by increasing your contribution to tax-deferred accounts.

Employees can contribute up to $19,500 in 401(k)s (those 50 and older can contribute an additional $6,500). Maximum contributions to IRAs are $6,000 (and an additional $1,000 catch-up provision for those 50 and older).

Gifting

In 2021, each taxpayer can gift $15,000 to an unlimited number of recipients tax-free without having to file a gift tax return. A married couple with two children and four grandchildren, for example, could gift $180,000 a year tax-free. That could yield tax savings of $72,000 a year in estate tax savings (assuming a 40% federal estate tax). A yearly gifting strategy can transfer a significant amount of assets out of an estate if done systematically.

Gifts of cash are easier and faster than gifting securities, which may take longer to process and run the risk of missing the December 31 deadline. And with a cash gift, make sure that the check is deposited in the recipient's account before December 31 in order for it to count for 2021.

CONSIDERATION *Gifting is likely to become a more important strategy if the federal estate tax exemption drops from today's $11.7 million per taxpayer (or $23.4 million per couple). Such a change was proposed in the Build Back Better Act; although that change did not survive, the exemption is still scheduled to drop at the end of 2025.*

Charitable contributions

In order to take a deduction for charitable gifts, it's important that checks are post-marked before Dec. 31 to take the deduction for 2021. If you make your gift by credit card, the donation is official once you make the charge, not when you pay the bill.

Consider donating appreciated capital gains assets rather than cash. By donating appreciating assets, you have the ability to take the tax deduction on the current value of the asset, even though your original investment may have been less.

Say you invested $10,000 in a stock five years ago. Today, it's worth $25,000, a gain of $15,000. By donating that asset, you are able to receive a deduction for the entire $25,000 amount and you can avoid having to pay capital gains tax on the appreciated amount.

Donor-advised funds (DAFs) make charitable giving simple and allow you to avoid the stress of mailing in checks. You can make gifts to a DAF in 2021 and receive the deduction this year. However, you can wait to distribute donations to your favorite charities at a later date when you might have more time to research organizations and formulate a giving plan.

If you do not currently have a DAF, leave enough time to set up the account if you intend to use a DAF in 2021.

CONSIDERATION *If you think you may fall into a higher tax bracket in 2022, it might be more beneficial to defer deductions to next year because the value of your deductions will be greater under a higher tax rate.*

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