Mariner
WEALTH ADVISORS

Year-end Planning

5 Strategies to Maximize Savings While Reducing Your Taxable Income

As the year wraps up, you've most likely met with your wealth advisor about tax-advantaged moves to make by Dec. 31. You still have time to max out retirement savings and employ proactive strategies to minimize the taxes you'll owe next year. Plus, you can leverage these strategies as you set wealth goals for 2023.

5 Proactive Year-end Planning Strategies:

1. **Maximize Retirement Plan Contributions**
2. **Convert a Traditional IRA to a Roth IRA**
3. **Give to Charitable Organizations**
4. **Gift Monetary Assets**
5. **Harvest Investment Tax Losses**

1. Maximize Retirement Plan Contributions

If you participate in an employer-sponsored retirement plan like a 401(k) or 403(b), you can contribute up to $20,500 in 2022 ($22,500 in 2023). Those age 50 and older can make "catch-up" contributions of $6,500 ($7,500 in 2023), for a total of $27,000 this year ($30,000 in 2023). Note that employer matching 401(k) contributions don't count toward the limits, and combined employee and employer contributions can't exceed $61,000 in 2022 ($67,500 with catch-up) and $66,000 in 2023 ($73,500 with catch-up).[1]

Unlike 401(k) and 403(b) contributions, which must be made at the end of each plan year, you can contribute to your IRA until next year's April tax filing deadline. The 2022 contribution limit for traditional and Roth IRAs is $6,000 ($6,500 in 2023), or $7,000 ($7,500 in 2023) for individuals age 50 or older.[2]

2. Convert a Traditional IRA to a Roth IRA

If you've been thinking about converting a portion or all of your traditional IRA to a Roth IRA, this may be an opportune time to do so given the steep downturn in the markets this year. Although the funds you convert are treated as a taxable distribution, you'll pay tax on the lower asset value, thereby reducing your tax burden. The converted funds will grow tax free, and qualified distributions are also exempt from taxes. What's more, required minimum distribution rules don't apply to Roth IRAs.

It's a good idea to pay the tax due on the conversion from sources other than your IRA to keep your retirement assets invested and working for you.

3. Give to Charitable Organizations

With increases in the standard deduction, some may find it makes more sense not to itemize, so you'll want to consult with your tax professional about your individual situation. However, if you're close to the standard deduction of $12,950 for single filers in 2022 ($13,850 in 2023) and $25,900 for joint filers ($27,700 in 2023)[3], you might consider "bunching" charitable contributions.

A bunching strategy allows you to make larger contributions less often, for example, every other year, to exceed your deduction limit and potentially benefit from an additional deduction that year. A donor-advised fund can be an effective tool for bunching charitable contributions, offering an immediate tax benefit and the opportunity to defer your decision of which eligible charity will be the beneficiary of the funds.

Individuals age 70½ and older can also make qualified charitable contributions of up to $100,000 annually from their IRAs directly to qualified charities.[4]

4. Gift Monetary Assets

Another strategy to reduce your taxable estate is to give monetary gifts by year-end. In 2022, you can gift up to $16,000 ($17,000 in 2023) tax free to an individual without it counting against your lifetime gift tax exemption. That lifetime exemption, which this year is $12.06 million for single filers ($12.92 million in 2023) and $24.12 million for joint filers ($25.84 million in 2023), allows you to maximize the wealth you transfer to heirs.[5]

Parents and grandparents may wish to support a child's education by making monetary gifts to 529 plans. Not only do the funds in these plans grow tax deferred over time, but they also can be withdrawn tax free to pay for the child's qualified educational costs. Gifts to a 529 plan in 2022 are subject to the $16,000 annual exclusion amount ($17,000 in 2023). However, a unique feature of these plans enables donors to front-load accounts with up to five years' worth of gifts, or $80,000 per person in 2022 ($85,000 in 2023).

You'll want to work with your advisor to make sure any gifting strategy you're considering is coordinated with your overall wealth plan.

5. Harvest Investment Tax Losses

It's wise to take advantage of opportunities to potentially cut your tax bill by selling assets that have lost value to offset realized capital gains—a strategy called tax-loss harvesting. If your capital losses are greater than your capital gains, you could deduct up to $3,000 of the excess loss against other income, and any remaining capital losses could be carried forward.

Note that if you want to repurchase a security you sold at a loss or buy one defined as "substantially identical" by the IRS within 30 days of selling it, your loss will be disallowed under the IRS's wash-sale rule.

Meet With Your Advisor

Before the year is out, it's important to meet with your advisor to review your wealth plan and opportunities to minimize your tax burden. At Mariner Wealth Advisors, our in-house tax professionals will collaborate with your advisor to implement proactive planning strategies that make sense for you.

For more information visit: marinerwealthadvisors.com

1 "401(k) limit increases to $22,500 for 2023"

2 "IRA Contribution Limits"

3 "IRS provides tax inflation adjustments for tax year 2023"

4 "What is a qualified charitable distribution?"

5 "Estate and Gift Tax"