INVESTOR'S EDGE

Plan now to help yourself in new year

You could reduce your tax obligation. Be sure to perform financial maintenance items.

"Good fortune often happens when opportunity meets preparation."
— Thomas Edison

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This January will mark the start of my 16th year writing our Investor's Edge column. That's almost 200 articles that I have penned for my valued readers. I hope you have enjoyed reading these as much as I have enjoyed writing them. I always seek to add financial value on each and every one!

This month, I'm excited to share some critical year-end financial planning suggestions for you and your family to review. These can put you in great financial shape for the start of the new year.

Let's get after it.

Tax loss harvesting: If there's one positive takeaway from 2022's down market, it's the opportunity to take investment losses. Readers can use realized losses to offset realized capital gains, and losses that exceed gains can be used to offset up to $3,000 of ordinary annual income. Furthermore, excess losses can be carried forward to future years and do not expire.

So, if you have a need to lower your tax bill this year or just want to take advantage of the down market, assess your portfolio for loss harvesting opportunities. However, don't just sell anything that has a "minus" mark next to it.

Do a thoughtful analysis that considers your taxes, your investment horizon, and of course, the investments themselves. When in doubt, consult your advisor or tax professional for assistance.

Gifting opportunities: As we head into the end of year, readers should not forget about the annual gift exclusion. This allows individuals to gift up to $16,000 ($32,000 for married couples) per beneficiary tax free each year, without the gift counting toward your lifetime exemption. This gift can include appreciated stock.

Gifting stock allows you to avoid long-term capital gains on appreciated holdings, remove assets from your estate, and gift the asset to a younger heir who is likely in a lower tax bracket than you, making the transfer tax efficient.

If you have children or grandchildren who are new to investing, gifting stock can be a valuable introduction to investing and the importance of stock ownership.

Charitable giving: Investors have multiple tools at their disposal for charitable giving from their investments, which are often done towards the end of the year. Here are a few options:

First, gifting highly appreciated stock provides the dual benefit that allows you to avoid paying long-term capital gains tax and gives you a deduction for the full fair market value of the investment off your income for the year. One rule to remember is that the deduction for donating stock is limited to 30% of your adjusted gross income.

Second, if you do some tax loss harvesting like I mentioned above, you can also donate the cash proceeds from the sale of stock that are at a loss. With this strategy you benefit from both realizing the loss and the charitable deduction you receive for your cash donation. The deduction for donating cash is limited to 60% of your AGI.

Third, retirees with traditional IRAs must begin taking required minimum distributions at age 72. The IRS allows up to $100,000 of your RMD to be donated directly to a charity in the form of a qualified charitable distribution. Charitably inclined donors avoid owing income tax on the distribution and may avoid being pushed into a higher tax bracket.

Health insurance: It's open enrollment time for most employer health insurance plans. Make sure you are not "rubber stamping" your plan selection year to year. Do a thorough analysis of you and your family's health insurance needs before selecting next year's plan.

If you typically don't have a lot of health care expenses, you might want to explore a high deductible plan, which allows you to take advantage of a health savings account.

Contributions to an HSA are tax deductible, can be invested tax deferred, and withdrawn tax free for qualified medical expenses.

General financial maintenance: Finally, here are some more general checklist items for you to review heading into the new year:

- Be certain to take your Required Minimum Distribution if you are of age before Dec. 31. You could face a 50% penalty from the good ole' IRS if you forget.
- Take advantage of company sponsored retirement plans and individual retirement accounts, if able.
- Ensure you have an adequate cash emergency fund built — I typically recommend having six months of living expenses set aside in cash savings.
- Review beneficiaries on investment and retirement accounts and make sure they are accurate and up to date.
- Ensure your will and estate plan is updated and in accordance with your most current wishes.
- Pay off expensive debt first. Credit card interest rates on outstanding balances range from 15% to over 25%.
- Have a well-thought-out savings and investment plan for 2023. Set goals for how much money you wish to invest and stick with it — or exceed it!
- From an investment standpoint, I believe 2023 will be a better year for stock market investors. This column gives you some practical ideas you can take to prep your finances for 2023 and beyond.
- Stay bullish. The best is yet to come!
- Have a wonderful holiday season.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

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