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10 Tax-Savvy Steps to Consider Taking *Before* New Year's Eve

Best not to wait until the last minute,

so we've made a list and checked it twice. Each step may bring you closer to preserving or enhancing your assets, leaving you more to enjoy or share with those who matter most, but decisions are best made with guidance of your professional advisors.

Together, you and your team can put your wealth plans, liquidity solutions, and investment portfolios to the test to see if they can withstand the stress of scenarios that are different from what you anticipate.

And if 2020 has taught us anything, it's that the future is unpredictable.

With that in mind, here's your tax-savvy 2020 consideration list:

1

Take advantage of gifting to family

Every individual may make tax-free annual exclusion gifts of up to $15,000 ($30,000 for a married couple) to as many people as desired, without counting toward the taxpayer's lifetime exemption from estate and gift tax. One gift to consider is a 529 plan for a child or grandchild. Special rules allow for a transfer of five times this amount, meaning that a married couple may make one gift of $150,000 per beneficiary (but no additional gift for the next four years). The earlier a 529 plan is funded, the more time it has to grow tax free for the benefit of the student, and outside of your estate.

For additional year-end planning strategies, read Year-End Estate and Tax Planning: More Important than Ever in 2020.

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2

Make maximum pre-tax contributions to 401(k)s and Health Savings Accounts (HSAs)

Pre-tax contributions to employer sponsored 401(k) plans in 2020 are limited to $19,500 per individual, with an additional $6,500 "catch up" allowed for taxpayers over age 50. Growth within a 401(k) is tax free, and taxes are incurred when distributions are made, which must begin at age 72, but may occur beginning at age 59½. HSAs are available to taxpayers with high-deductible health insurance plans ($1,400 deductible per individual or $2,800 for a family), and allow for the contribution of pre-tax dollars to fund future health care expenses. Growth within the HSA is income tax free, and withdrawals are also tax free if used for qualifying expenses. Contributions in 2020 are limited to $3,550 for an individual, $7,100 for a family, and a "catch up" contribution of $1,000 for individuals over age 55.

3

Look at opportunities for education payments

Payments may be made directly to qualifying educational institutions for the tuition expenses of a student, without counting toward annual gifting limits or lifetime exemption from estate and gift tax. Tuition for primary, secondary, university, and college is included, but not other expenses such as room and board or books and supplies. In order to qualify, the payment must be made directly to the institution, not to the student or the student's parents.

4

Examine your long-term care options to help manage financial risk

A long-term care strategy can be an important part of any solid financial plan, no matter what stage of life you may be in. Long-Term Care insurance helps manage financial risk to protect your life savings and assets and may allow you to pay for the costs of care without exhausting these assets. In some cases, it is possible to structure a plan where no money can be lost, allowing your heirs to receive premiums back plus a small death benefit if a Long-Term Care claim benefit was never paid. By doing so, these types of policies become a nearly cost-free hedge against possible future care expenses, potentially providing double-digit returns with little or no downside risk. Think of these tax-deductible policies as a simple estate preservation technique that can benefit your heirs and charitable bequests for generations to come. Although the recent pandemic caused temporary changes to the underwriting process for those seeking Long-Term Care coverage aged 65 and above, as of July 1 we have seen many companies relaxing these restrictions and going back to more traditional guidelines.

For more insights on long-term care options, listen to Life Insurance May Provide Stability in an Uncertain Environment.

5

Prepare for the unexpected with a liquidity plan

Having a solid cash flow plan for any unexpected cash needs, such as tax payments, medical or other family expenses—or even to pursue a lifestyle purchase—may be an important component of your overall wealth plan. If you want to make a cash offer for a costly item, are you able to do so without disrupting your current investment portfolio? Using your securities as collateral for a line of credit allows you to have access to liquidity without disrupting your

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portfolio (and potentially incurring capital gains). This can be particularly important in a volatile market, allowing you to access cash without selling into a declining market and locking in losses. Alternatively, you can use a line of credit to fund an expense in lieu of using cash held on the sidelines for potential buying opportunities. Setting up a securities-based line of credit may afford you convenience and flexibility, and provide a potential safety net for any unplanned expenses.

To learn more about liquidity solutions, explore 7 Ways to Make Tax Time Less Taxing.

6

Review your entire balance sheet, not just your assets

For wealthy individuals, many times business and personal balance sheets intersect. As you review your balance sheets, you may want to consider the borrowing power of assets such as investor real estate, yachts, or aircraft, and how leverage may impact your overall tax picture. You could also review floating rates for existing loans on significant lifestyle assets and evaluate whether an interest rate swap would be appropriate given the lower rate environment. In addition, now is also a good time to identify any LIBOR-based loans that you may have. LIBOR (London Interbank Offered Rate) will be phased out by the end of 2021. The Federal Reserve-sponsored Alternative Reference Rates Committee—a group of private market participants convened to address the LIBOR transition—has identified the Secured Overnight Financing Rate (SOFR) as the recommended replacement for U.S. Dollar LIBOR. Identifying these loans now with your advisors can help you better prepare for the shift to SOFR.

7

Time your charitable giving

Taxpayers who itemize are allowed deductions ranging from 20% to 60% of adjusted gross income (AGI), depending on the type of asset gifted and whether the gift is made to a public charity or private foundation, with the limit of up to 60% of AGI for cash gifts to public charities. For 2020 only, the CARES Act increased this limit to 100% of AGI for itemizers, and also allowed a $300 “above the line” deduction for non-itemizers. Be sure to time gifts appropriately so that they may be received and recorded by the charity by December 31. Gifts of assets other than cash take more time for charities to process.

8

Select the right asset to gift to charity

Gifting appreciated stock that has been held more than one year is a strategic plan that can benefit both the recipient charity and the taxpayer. By making a gift of the stock, you receive a deduction for the fair market value of the shares at the date of the gift but do not incur the capital gains tax that would apply if you first sold the stock then donated the proceeds.

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9

Consider harvesting tax losses

It is important to understand the unrealized capital gains/losses in your portfolio and take advantage of any opportunities to minimize taxes by selling assets at a loss and upgrading your strategies to investments that may benefit in the current market environment. You typically never want to sell an investment solely for tax reasons. The decision could be made as part of rebalancing and stress-testing your portfolio. Our powerful software, PARAGON®—Portfolio Analysis, Risk Assessment, and Goals Optimization—can help see if portfolio adjustments are in lockstep with a client's goals, risk level, and time horizon. Involve your tax professional and investment advisor to help you decide whether harvesting tax losses is right for your situation.

To learn more about the importance of portfolio stress testing, read Can Your Portfolio, Balance Sheet, and Wealth Plan Pass the Test?

10

Analyze capital gain distributions

Funds typically make capital gain distributions toward the end of the year. The distribution represents the proceeds of the sale of stock or other assets by the fund's managers throughout the course of the tax year. These distributions can come when you do not have an overall gain in the fund itself, or even if you are holding a fund at a loss. By analyzing when and how much a fund is going to pay out as a capital gain distribution, you can determine whether it makes sense to continue to "hold"—or "fold" and swap the fund for a more tax-efficient vehicle in a timely manner.

Next steps:

Reach out to your advisor to see how these actions may help benefit and protect your wealth, investment, and liquidity plans before we ring in the new year. And remember, stress testing your portfolios and plans can be an integral part of helping you stay on track through both challenging and opportunistic climates.

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