



YOUR COMPLETE GUIDE TO YEAR-END PLANNING

The *Financial Principles Guidebook* is a comprehensive collection of our planners' insights to help you along your pursuit of financial independence.

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As we approach the end of the year, it leaves many wondering what they can do to improve their tax situation—especially in light of potential tax legislation changes on the horizon. We have prepared this Guidebook to provide you with some actionable planning tips as we head into the end of the year. While it may seem there is a lot to do as we approach December 31st, the good news is that *for our clients we are already doing the majority of this work within your portfolio behind the scenes. We hope that you find this information valuable. Should you have any questions, please do not hesitate to contact our office. If you have a friend, family member, colleague, or client who may benefit from this Guidebook, please do not hesitate to share it with them.*

We wish you a happy, healthy, and safe holiday season and all of the best for a prosperous New Year!

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

Capital Gains Tax

Tax payable on profits made on the sale of certain types of assets by a company or individual.

HAVE YOU REVIEWED YOUR CAPITAL GAINS?

Capital gains occur anytime you sell an investment for more than you paid to purchase it. For example, if you bought ABC company stock for \$10,000 and sold it this year for \$12,000, the \$2,000 difference is taxable as a capital gain. If you have sold any investments for a loss, those losses can be used to offset gains. If your capital losses exceed your capital gains, you may be able to use up to \$3,000 of those losses to reduce your taxable income. If you have more than \$3,000 in losses, the excess can be carried forward to future years and used to offset future capital gains and income.

HAVE YOU CONSIDERED TAX-LOSS HARVESTING?

For investors who have unrealized losses in their portfolio, they may want to consider selling those investments to realize a capital loss. For example, let's say you purchased XYZ Company stock for \$10,000 a few years ago and it is now only worth \$8,000. If you sell XYZ Company stock, you can use that \$2,000 of losses to offset other realized gains.

BE CAREFUL OF "WASH SALES!"

When harvesting losses in a portfolio, you must be careful to avoid a "wash sale." A "wash sale" occurs when you sell an investment at a loss and repurchase that investment within 31 days. If this occurs, it is considered a "wash sale" and the loss would be disallowed under IRS rules.

MONITOR FOR CAPITAL GAINS DISTRIBUTIONS FROM MUTUAL FUNDS

If you hold mutual funds in taxable (non-retirement) accounts, you should be mindful that if the manager of the mutual fund has realized capital gains within the mutual fund they will be passed through to you at year end as a distribution—*which will be taxable*. Monitor year-end capital gains distributions from mutual funds so that you are not surprised at tax time.

There are times (especially if you have not owned a mutual fund for a long time) that you may realize a smaller capital gain (or even a loss) by selling a mutual fund than if you were to receive the capital gains distribution. We monitor capital gains distributions from mutual funds for our clients and where appropriate take action to mitigate the tax bite of distributions.

GAINS—TO DEFER, OR NOT TO DEFER?

If you are liquidating any stocks that have been big winners, that gain will be taxable as a capital gain. If you defer some, or all, of those gains until January, the tax bill for those sales will not be due with your 2021 tax return (in April of 2022) and, in essence, you will have deferred that tax bill for as much as 15 months (until April of 2023). There has been a lot of talk within the Biden administration around raising capital gains tax rates on higher earning Americans. While there has been no action on this item, and it will likely be heavily negotiated in a divided Congress, it is worth noting that future tax rates will likely increase making an argument for taking gains in a potentially more favorable 2021 tax climate.



MAXIMIZE YOUR DEDUCTIONS AND CREDITS BEFORE YEAR-END

TAX DEDUCTIONS REDUCE YOUR TAXABLE INCOME, TO THE EXTENT ALLOWED, AND THEREFORE DECREASE THE AMOUNT OF TAX YOU OWE TO THE GOVERNMENT. EXAMPLES OF DEDUCTIONS INCLUDE PROPERTY TAXES, MEDICAL EXPENSES, EDUCATION EXPENSES, AND CERTAIN INTEREST EXPENSES. OF COURSE, DEDUCTIONS ARE SUBJECT TO IRS RULES.

MAKING CHARITABLE CONTRIBUTIONS? CONSIDER GIFTING APPRECIATED STOCK OR EVEN YOUR RMD!

If you itemize deductions, charitable contributions are (generally) deductible. If you are charitably inclined, you should make sure to make your charitable gifts before the end of the year to preserve your tax deduction. If you are making gifts to charity you should consider donating appreciated stocks and securities from your investment portfolio instead of cash. **When you gift appreciated securities (so long as you have owned them for more than one year) you not only receive a tax deduction for the value of the gift, but you also don't have to pay the tax on the unrealized capital gain.** Gifting appreciated securities is better than gifting cash! Generous donors should consult their tax advisor prior to making gifts as the IRS limits deductions for charitable gifts. Any excess, however, can generally be carried forward and deducted in a future year.

[For more on making charitable contributions more tax efficiently, check out our blog post on this item!](#)

CONSIDER MAKING YOUR JANUARY MORTGAGE PAYMENT, FIRST QUARTER PROPERTY TAX PAYMENT, OR YOUR FOURTH QUARTER ESTIMATED STATE INCOME TAX PAYMENT EARLY!

If you itemize deductions, your mortgage interest, state income taxes, and local property taxes are deductible (subject to limitations). If you make your January mortgage payment in calendar year 2021, the interest portion of that payment will be deductible in 2021. You can also make your first and second quarter 2022 property tax payments early by visiting your local municipal tax collector's office. Finally, if you pay estimated state income tax payments, the fourth quarter payment is not due until January but is deductible if made before year end. Be careful though! The SALT (State and Local Tax) deduction is limited to \$10,000 in combined property, income, and sales taxes. Therefore, if you have already paid \$10,000 in state and local taxes in 2021 you will receive no benefit by accelerating your 2022 payments. The SALT deduction is a big bargaining chip for members of Congress from traditionally higher tax states—we hope (and expect) to see the SALT deduction limits raised as part of any tax packages put forward.

PAY THOSE MEDICAL BILLS

If you had any medical procedures or sizeable medical expenses this year, consider paying those bills before year end. The IRS allows you to deduct any medical expenses more than 7.5% of your income.

CONSIDER “BUNCHING” DEDUCTIONS INTO ONE TAX YEAR

“Bunching” is the practice of accelerating, or delaying, certain deductions so that you realize more of the deduction in one tax year, and less in the other. Business owners should always review their expenses to see if “bunching” can improve their tax position. With the Tax Cuts and Jobs Act doubling the standard deduction, it will reduce the number of tax filers who will itemize their deductions. For many filers whose deductions are close to the new higher standard deduction, it presents a unique opportunity for “bunching” deductions into 2021 and utilizing the standard deduction in 2022.

It is worth noting that President Biden has discussed raising income tax rates on those earning more than \$400,000 per year. While there has still been no formal tax proposal voted on, it is worth noting that future tax rates will likely increase making an argument for deferring, not accelerating deductions so that incomes will be lower in a potentially less favorable tax climate in 2022.



HAVE YOU MADE YOUR RETIREMENT PLAN CONTRIBUTIONS?



YOU SHOULD MAKE SURE THAT YOU HAVE MAXIMIZED YOUR RETIREMENT PLAN CONTRIBUTIONS, AND THE POTENTIAL TAX BENEFITS THAT COME ALONG WITH THOSE CONTRIBUTIONS

ARE YOU SELF-EMPLOYED?

If you are self-employed, make sure that you have begun to plan around making your SEP IRA or Individual K Contributions. For 2021, you can defer 25% of net self-employment income up to a maximum contribution of \$58,000 (in 2022, this limit will rise to \$61,000). You have until the tax filing deadline to open and fund a SEP IRA, but if you are considering the Individual K the account must be opened and your employee contribution must be made by December 31st. If you are self-employed and considering a SEP IRA, or Individual K, [check out our blog discussing the difference between the two types of accounts.](#)

HAVE YOU MAXIMIZED YOUR CONTRIBUTIONS TO WORKPLACE PLANS?

The elective deferral limit for employees participating in 401(k), 403(b), most 457 plans, and the Thrift Savings Plan is \$19,500. for 2021. In addition, those aged 50 and older can contribute an additional \$6,500. For those participating in the Simple IRA, you can defer \$13,500 and an additional \$3,000 if aged 50 or older. If you have not yet maximized your contribution to these plans, you still have time to defer more of your pay between now and the end of the year. If you turned 50 this year, you should make sure that you made a catch-up contribution. *In 2022, the limits for deferrals will increase (\$20,500 and \$14,000, respectively). You should meet with your Human Resources department to make sure your 2022 per pay deferrals are right to make sure you maximize your contributions!*

Some plans allow for Roth contributions. Roth contributions will not reduce your taxable income, but future growth on these contributions can be withdrawn tax-free after age 59. In addition, some plans allow for additional “after-tax” contributions to be made above your deferral limits. Those “after-tax contributions” can later be transferred to a Roth IRA after your separation of service (the earnings on those contributions can be rolled over to an IRA). If your cash flow allows, you should consider making the maximum contributions that your plan allows.

WHEN WAS THE LAST TIME YOU REVIEWED YOUR RETIREMENT PLAN ALLOCATIONS?

You should review your asset allocation in your retirement plan, at least annually, to ensure that it is consistent with your risk tolerance and overall financial plan. After the strong equity market returns over the last several years, your equity allocation may have risen thereby exposing your overall portfolio to more equity risk than may be appropriate for you. If you have any questions regarding your retirement plan, please do not hesitate to contact our office.

HAVE YOU MADE YOUR 2021 IRA CONTRIBUTIONS?

In 2021, you can contribute the lesser of 100% of income or \$6,000 to a Traditional IRA or Roth IRA. In addition, those aged 50 and older can make an additional \$1,000 catch-up contribution. Please note that based upon your level of income and participation in a workplace retirement plan, your tax deduction for contributions to a Traditional IRA may be limited. Likewise, depending on your income, contributions directly to a Roth IRA may be limited. Your contribution to an IRA does not need to be made by December 31. You can contribute up to the tax-filing deadline. *For 2022, contribution limits will remain the same.*



HAVE YOU CONSIDERED A ROTH CONVERSION?

You have up until December 31st to convert money from an IRA into a Roth IRA for the 2021 year. You pay taxes on the conversion. However, you'll be able to withdraw the money tax-free from the Roth after age 59. Since conversions will increase your taxable income, many investors will make partial conversions over time to avoid increasing their income enough to push them into a higher bracket. You should note that after the Tax Cuts and Jobs Act, a Roth conversion is an irrevocable decision. If you have any questions regarding Roth IRA conversions and how a Roth may benefit you, please do not hesitate to contact our office.

DO YOU HAVE TO TAKE A REQUIRED MINIMUM DISTRIBUTION (RMD)?

For 2021, if you reached the age of 70½ in 2019, or earlier, you will need to take an RMD. If you reach age 70 ½ in 2020 or later, you must take your first RMD by April 1 of the year after you reach 72. If you reach RMD age in 2021, you have until April 1, 2022 to take your first RMD. However, if you wait until 2022 to take your RMD, you will need to take two RMD's (2021 and 2022) in the 2022 tax year (and therefore may pay higher taxes). If you have inherited an IRA, regardless of the type, you will likely be required to take an RMD. If you inherited an IRA from someone who passed away in 2019, or earlier, you must take an annual RMD, and can stretch those payments over your life expectancy. If you inherited an IRA from someone who passed away in 2020, or later, you must distribute the account within 10 years of their date of death (with certain exceptions). *You want to make sure that you pay attention to your RMD requirements because a missed RMD carries a 50% penalty by the IRS.*

REVIEW YOUR HEALTH BENEFITS



IT IS THE OPEN ENROLLMENT PERIOD FOR EMPLOYER PROVIDED INSURANCE PLANS. YOU SHOULD PAY CLOSE ATTENTION TO ANY CHANGES IN YOUR HEALTH INSURANCE COVERAGE. LIKEWISE, IF MORE THAN ONE PLAN IS OFFERED YOU SHOULD COMPARE THE COSTS AND BENEFITS FOR EACH OPTION THAT IS AVAILABLE TO YOU.

HAVE A FLEX SPENDING ACCOUNT (FSA)?

If you have a Flexible Spending Account (FSA) for medical expenses, be careful of the “use it or lose it” policy for FSA's. If you do not use the funds in your FSA, you will lose the funds. Some plans offer a grace period into the New Year to spend the funds. Make sure you understand your plan and your choices.

ELIGIBLE FOR AN HSA?

If you are enrolled in a High Deductible Health Plan you are eligible to contribute to a Health Savings Account (HSA). The HSA is a special type of savings account which, like an IRA, offers a tax deduction for contributions, and offers tax-free growth until the funds are withdrawn for eligible healthcare expenses. Individuals can contribute \$3,600 to an HSA in 2021, while families can contribute \$7,200. Those aged 55 and older can contribute an additional \$1,000. In 2022, the limits rise to \$3,650 and \$7,300, respectively (the catchup does not change). Contributions will reduce your income dollar for dollar. Funds in an HSA can be invested and any earnings will not be taxed when withdrawn for qualified medical expenses. The HSA is a great “back-door” way to deduct medical expenses, as contributions are fully tax-deductible and are not taxed on withdrawal to pay for medical expenses.



There is also no requirement that you withdraw funds from your HSA when you incur medical expenses and after age 65 distributions can be taken from an HSA without penalty for any reason. Therefore, many people will also use the HSA as a supplemental retirement savings vehicle.

REVIEW YOUR TRUSTS, ESTATE PLAN, AND GIFTING STRATEGY



IF YOU HAVE TRUSTS OR ARE CARRYING OUT A GIFTING STRATEGY AS PART OF YOUR ESTATE PLAN, YEAR-END IS AN IMPORTANT TIME!

WHEN WAS THE LAST TIME YOU REVIEWED YOUR ESTATE PLAN?



An estate plan should be reviewed whenever there is a marriage, death, divorce, change of financial circumstance, or a change in tax laws. As a rule of thumb, an estate plan should be revisited at least every five years to ensure nothing is missed. The 2018 year brought sweeping tax changes including much more generous lifetime exemptions. If you have not yet had a conversation with your financial advisor or estate planning attorney recently, you should put it on your list for 2022.

You should also review your ownership and beneficiaries on all insurance, annuity, and retirement accounts each year to ensure that they are consistent with your current wishes. Remember, any beneficiary designations on these types of accounts supersede what is stated in your Will. [Check out our Estate Planning Guidebook for more on estate planning!](#)

CONSIDERATIONS FOR THOSE WITH TRUSTS

HAVE YOU MADE DISTRIBUTIONS TO BENEFICIARIES?

Some trusts require that income distributions be made each year. Others do not. For trusts that do not require income be distributed to beneficiaries, you may want to make a year-end distribution to beneficiaries to reduce the taxes due. A trust reaches the highest marginal tax bracket after generating only \$13,051 in income (which is not very hard to do for even a modestly sized trust). When beneficiaries receive a distribution from the trust, those

distributed earnings are taxed at their personal income tax rates. Even for high wage earners, there will likely be less tax due when the beneficiary recognizes the income rather than the trust.

DID YOU FORGET THE CRUMMEY?

If you are making annual gifts to an irrevocable trust, don't forget to send an annual Crummey notice to the beneficiaries. By sending a Crummey notice, the gifted assets would be subject to the annual gift tax exclusion and therefore will not reduce your lifetime exemption for estate planning purposes. With the Federal Exemption now at \$11.70 million (per person), concerns over the Crummey notices are becoming less relevant. However, tax laws are subject to change and, President-Elect Biden has indicated that he will make the estate tax exemptions (as well as the step-up in cost basis on death) a part of his tax proposals and if the generous exemptions are rolled back, you don't want to harm your thoughtful estate planning over an administrative oversight.

DO YOU MAKE ANNUAL GIFTS TO CHILDREN, GRANDCHILDREN, AND OTHERS AS PART OF YOUR ESTATE PLAN?

DID YOU MAKE YOUR 2021 GIFTS?

If you make annual gifts to a child, grandchild, or anybody else, you can give up to \$15,000 to any individual without reducing their Federal Lifetime Exemption. For a married couple, you can give up to \$30,000 per year to any individual. In 2022 the annual gifting limit will increase to \$16,000.

CONSIDER MAKING ANNUAL GIFTS TO A ROTH IRA

If you are making annual gifts to your children or grandchildren, help them get an early start on their retirement savings! Consider making an annual gift to a Roth IRA for any children or grandchildren who are not funding their own retirement account. A small gift today can make a potentially substantial impact for their future. For example, if you make a \$6,000 contribution to your 15-year-old grandchild's Roth IRA today, that could be worth more than \$176,000 at age 65 which they could withdraw tax-free (assuming a hypothetical 7% investment return, not indicative of any specific investment).

YOU CAN ACCELERATE GIFTS USING A SECTION 529 COLLEGE SAVINGS PLAN

A 529 Plan offers potentially tax-free growth when contributions are withdrawn for qualified education expenses. With a 529 Plan you can accelerate up to five years of gifting. In 2021, you can transfer \$75,000 (\$150,000 for a married couple) into a 529 Plan without using up any of your lifetime gift tax exemption. For anyone who owns a 529 Plan for a beneficiary who is not their child (i.e. a grandchild, niece/nephew, or godchild), you should review the ownership of the plan. If the child is nearing college, a non-parent owned 529 can affect the student's financial aid eligibility.

ARE YOU READY FOR 2022?

As we close the books on 2021 and prepare to start the new year, it is the perfect time to get a jump start on reviewing your spending, prepare a budget, and consider setting your savings goals for 2022. We will be publishing our 2022 budgeting and saving Guidebook soon. Contact our office today if you would like a copy of our expense organizer to get a head start on your 2022 budgeting.

WE WISH YOU ALL A HAPPY, HEALTHY, AND SAFE HOLIDAY SEASON AND ALL OF THE BEST FOR A PROSPEROUS NEW YEAR!



**HAVE A TOPIC YOU WANT TO
SEE COVERED IN THE
GUIDEBOOK?**

Call or email your advisor with a suggestion for a topic to be covered in The Guidebook. If we have covered it, we will send you that edition. If we haven't, we will cover it!



**HAVE A FRIEND, NEIGHBOR,
COWORKER, OR RELATIVE
WHO COULD BENEFIT FROM
THIS GUIDEBOOK?**

Feel free to forward our Guidebook to anyone you feel would benefit from this information. We would be happy to speak with them and answer any questions that they may have.



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Financial Principles, LLC

FINANCIAL PRINCIPLES, LLC
A HIGHTOWER WEALTH MANAGEMENT PRACTICE

310 PASSAIC AVENUE, SUITE 203, FAIRFIELD, NJ 07004
505 FIFTH AVENUE, 4TH FLOOR, NEW YORK, NY 10017
973-582-1000
WWW.FINANCIALPRINCIPLES.COM

FOCUSED ON YOUR FINANCIAL INDEPENDENCE



Bradley H. Bofford, CLU[®], ChFC[®], CFP[®]
Managing Director, Partner
973-582-1002
bbofford@hightoweradvisors.com



Michael Flower, CFP[®]
Managing Director, Partner
973-582-1004
mflower@hightoweradvisors.com



Daniel Trout
Partner
973-582-1006
dtrout@hightoweradvisors.com



Steven Gelber, AIF[®]
Associate Wealth Advisor
973-582-1015
sgelber@hightoweradvisors.com



Andrew Olivier, CFP[®]
Associate Wealth Advisor
973-582-1005
aolivier@hightoweradvisors.com

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