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Year-End Financial Planning Ideas

This time of year is great for spending as much time as we can with our family and friends. We should also spend time making saving and investing decisions before the year ends. It will affect not only long-term goals but also the amount of taxes owed next April. It's a good time to sit with your financial advisor and make strategic decisions.

BALANCE THE SCALES

Volatility can be jarring when it happens. It does more than just rattle our nerves… it also upsets the balance in our portfolio. Different securities, sectors, and asset classes move at varying rates in both up and down markets. This movement means that some parts of our portfolios may gain while others lose… and over time a portfolio can become overconcentrated in certain areas.

Recognize that you are also a year older than the previous year. Children have grown. Marital statuses may have changed, and family members may have been lost or gained. All of these may suggest changes to a portfolio allocation. Making changes can be tricky.

REBALANCING WITH A CHARITABLE TWIST

If securities have grown, selling them can make for a painful tax season. Failing to sell them may allow the portfolio to drift further from the desired asset allocation. Even worse, if the securities have been held for less than a year, realizing the gains will generate taxable income rather than the more favorable capital gains rates. What can be done? If charitably inclined, consider donating shares of appreciated assets to qualified charities to help reduce exposure to the security, receive a charitable tax deduction (if eligible), and save available cash for the emergency fund or current budget needs.

Giving the gift of appreciated securities to children can help with rebalancing a portfolio and be a great stocking-stuffer. A child's assets are taxed differently. Be aware that unearned income above $2,200 (in 2019) triggers the "Kiddie Tax" where unfavorable trust and estate tax brackets are used. Each spouse can give up to $15,000 to each recipient to preserve their future gift and estate tax exclusion.

If securities have fallen in value, consider selling to realize those losses. Short-term losses offset short-term gains and long-term losses offset long-term gains. Remaining losses cross over to cancel out the remaining gains. Leftover losses may offset up to $3,000 of ordinary income and be carried over to future years until exhausted. If it was a security intended to be held for the long-term, you may buy it (or related derivative products) back outside of a 31-day window around the sale so "Wash Sale" rules don't cancel out the harvested losses.

If making a charitable donation of securities that are worth less than when purchased, only its market value may be deducted, not what was paid for it. You might be better off selling this security to take the loss for your taxes and then get the charitable deduction for the donation of the cash proceeds.

BE SELECTIVE WHEN SELLING SHARES

Each security purchase has its own cost-basis. If a position has been filled over time, there could be significant variation. All the shares of a particular security will have the same current market value but some of the shares may have gained since purchase and some may have fallen. When selling securities to maximize tax advantage, target specifically the shares with the highest cost-basis. As a side note to the charitable discussion above, when donating appreciated shares, generally the best tax benefit comes from donating those with the lowest cost-basis.

KNOW YOUR ACCOUNTS

Think about which investments make sense to hold in tax-advantaged vs taxable accounts. For example, it doesn't make much sense to hold tax-free investments in tax-deferred account, you don't get extra points for more layers of tax-protection.

MANAGE INCOME

A business owner may have some control over income and expenses. Consider accelerating expenses that would otherwise been paid next year to this year if this year's income is higher than average. Consider delaying the billing of clients until after the first of the year for the same reason. Bonuses may also be delayed as a tool for managing income. In certain circumstances, it may be possible for the full cost of last-minute purchases of equipment to be deducted currently by taking advantage of Section 179 deductions.

It's a good idea to sit down with your advisor at least once each year to catch up on changes in family and working situations. Some of these changing situations will generate discussions like the ones above. Bear in mind, though, that this short article can't cover every possibility. Let your advisor advise you. Make sure to speak with a qualified tax professional on tax questions.

Patrick Yanke is a Raleigh-based financial advisor. Opinions expressed here are mine and not necessarily those of RJFS. The information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Investing involves risk and you may incur a profit or loss regardless of strategy or asset allocation selected. www.yankefinancial.com.