RBC Wealth Management

The Crescent Group

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November 2019 Monthly Commentary

We hope that you and your family had a wonderful Thanksgiving! The holiday season has always been a great time to reflect on what's important in life, and to look to the future with anticipation. Amidst all of the festivities, we want to make sure we remind our clients of the various year-end financial planning considerations that they can potentially take action on.

Retirement account contributions

Maxing out your contributions to tax-deferred retirement accounts is probably the first step towards staying on track with your retirement goals. December 31st is the last day you can make 2019 contributions to employer-sponsored retirement plans, such as 401K and 403b plans. As of January 1st, you will lose the ability to make your 2019 contribution and any contributions will count towards 2020. For 2019, you can contribute up to $19,000 to your employer-sponsored plan, and an additional $6,000 if you turned 50 this year.

For those who would like to contribute to an IRA or Roth IRA, you have until the tax-filing deadline (expected to be April 15th 2020) to make contributions for 2019. The amount you can contribute to these accounts varies depending on your income and age. Currently, you can contribute up to $6,000 and an additional $1,000 if you're over the age of 50. For full details of retirement account contribution limits, click here.

Tax planning

No one likes paying taxes, and the end of the year is a good time to consider steps you can take to reduce your tax liability. We already mentioned maximizing contributions to tax-deferred investment accounts in the above section. When taking additional steps to minimize taxes with investments, it's important to proceed with caution. Tax savings should not be the primary driver of investment decisions. To quote Charlie Munger, Vice Chairman of Berkshire Hathaway: "But in terms of business mistakes that I've seen over a long lifetime, I would say that trying to minimize taxes too much is one of the great standard causes of really dumb mistakes. I see terrible mistakes from people being overly motivated by tax considerations." Well, we can always count on Mr. Munger to bluntly share his opinion. That said, and proceeding carefully, one option to reduce your tax liability is to sell an investment at a temporary loss in a taxable account. You can then offset that loss against taxable investment gains realized throughout the year. You can also use any losses over the amount of your gains to offset up to $3,000 of ordinary income, or you can carry it forward to reduce your taxes in future years. Our Group proactively takes advantage of offsetting short-term losses against gains throughout the year[1].

Review beneficiaries

Do you want to make any changes to beneficiaries of your retirement accounts (401K, 403b, IRAs)? What about wills and trusts? Also consider life and other insurance policies, which you may have purchased at a time when your needs differed from today.

Gifting

Many people consider making charitable contributions at the end of the year. While the motivation for such contributions typically comes from a desire to help those in need, charitable contributions can also result in tax deductions. If you want to ensure that your contribution is tax deductible, it's important to consult with a CPA, since the standard deduction can be high and your charitable contribution may not end up resulting in a tax deduction. Contact our Group if you would like us to connect you with one of the CPAs we partner with.

One additional contribution and tax benefit if you're over the age of $70\ 1/2$ is to donate your Required Minimum Distribution from your IRA directly to a qualified charitable institution. This will prevent the payment from inclusion in taxable income on your tax return.

One can also make financial gifts to family members at the end of the year, which can be used to help fund college or fulfill another need. Doing so can also help reduce the size of your estate. Currently, the IRS allows every taxpayer to gift up to $15,000 to an individual recipient per year. There is no limit to how many recipients you can gift to, but there is a maximum lifetime exemption of $11.4 million.

We know that year-end and holiday festivities can rightfully distract you from the above financial planning considerations. If you have any questions about this, don't hesitate to contact our Group. Wishing you and your family continued well-being and wealth.

Best Regards,

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<u>Sources:</u>

(1) Charlie Munger 1994 USC Commencement Speech