TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

December 2023

Tenon Financial Happenings

- Return of the podcast

Retirement Planning Happenings

- Year-end tax planning tips

Tenon Financial Happenings

The Retirement Planning Education podcast is coming back!

The holiday season is officially in full swing. With that said, I hope you all had a great Thanksgiving.

For the third year in a row, my family and I volunteered at a Thanksgiving morning charity breakfast along the parade route of the Macy's Thanksgiving Day parade in New York City.

The annual breakfast is run by The First Responders Children's Foundation, which is a fantastic organization that helps support children and families of first responders harmed or killed in the line of duty.

If you squint really hard, you can see me in this picture standing up along the back wall. I'm the one with the black coat and read shirt under it.

In other news, I'll be firing up the Retirement Planning Education podcast again in January. Try to contain your excitement!

I'm going to change up the format a bit and give it more structure. I'm thinking an episode each month will be a certain format; one week will be a Q&A, one will be me doing a deep dive into a certain topic, one will be a discussion with a fellow retirement planner, and one will be to spotlight and chat with a "real" person going through their own retirement planning.

Make sure you don't miss it. And if you haven't already, you can catch up on old episodes and subscribe here.

I hope you have a happy and healthy end of 2023, and I'll see you in 2024!

-Andy

Retirement Planning Happenings

2023 year-end tax planning tips and to-dos

I just realized I don't know the proper way to pluralize the word "to do." Part of me thinks it should be "to do's." But another part of me feels the apostrophe doesn't seem right. Whatever. I'm going with "to dos." English was never my strongest subject.

But more seriously, as we get near the end of 2023, it's important to keep in mind some potentially valuable tax planning tips and timelines.

Not all of these will apply to you (maybe NONE of them will), but for those that do, hopefully you find this list helpful.

Here are some things to consider in this final month of 2023:

Contributions to qualified plans – If you are eligible to make contributions to qualified retirement plans such as IRAs, Roth IRAs, 401(k)s, 403(b)s, 457s or the federal Thrift Savings Plan ("TSP"), or if you are eligible to contribute to a Health Savings Account ("HSA"), now would be a good time to check to see if you've made (or will make) all of the contributions you planned for the year.

The deadline to make 2023 contributions to IRAs, Roth IRAs and HSAs is April 15, 2024. Specifically, you have until you file your tax return (assuming you file your return on time!) to make a contribution for the 2023 tax year.

The deadline to make contributions to the various employer-sponsored retirement plans (i.e. 401(k)s, 403(b), 457 or the TSP) is December 31, 2023. While the technical deadline is December 31, the practical deadline is whenever your last paycheck is for the year, as contributions need to be made via payroll deductions.

Roth conversions – if doing Roth conversions is part of your 2023 tax plan, be sure to get the conversion(s) done by close of business December 29th, which is the last business day of 2023.

Qualified plan distributions – if you plan on doing 2023 distributions from any of your qualified retirement plans (e.g. IRA, 401(k), etc.), be sure to do them prior to end of December 29th.

Required Minimum Distributions ("RMDs") – similar to the point above about qualified plan distributions, if you are required to take RMDs from a qualified plan, be sure to take it prior to the end of December 29th.

RMDs may apply on your own qualified retirement plans, or on qualified plans you inherited from someone else. There are penalties for not taking RMDs when you were supposed to, so be sure to get them in before the end of the year, if applicable.

Tax loss or tax gain harvesting – Tax loss harvesting is when you consciously sell a position at a loss in a nonqualified (i.e. regular) brokerage account. Conversely, tax gain harvesting is when you consciously sell something at a gain in a nonqualified brokerage account.

There is more to it than this but, in a nutshell, tax loss harvesting is when you want to realize the loss on a position in the current year to help reduce a realized gain you have for the year on another position, or to help reduce the taxability of the rest of your income (as you can typically deduct up to $3k of net realized loss against your other sources of income on your tax return).

Tax gain harvesting is when you sell a position to intentionally recognize that gain in the current tax year. One of the more common and beneficial applications of tax gain harvesting is for people with otherwise really low income, where they can realize some long-term capital gains (i.e. gains on positions held more than 12 months) at a federal tax rate of zero.

Charitable donations – if you're charitably inclined and are in a position where you can benefit from itemizing your donations on your tax return (i.e. you will have enough itemized deductions to exceed your standard deduction), be sure to make the donation(s) before the end of the year.

Making large gifts – if you plan on gifting large sums of money, securities, etc. to family or friends (not charities), consider trying to break up your gifts into multiple years to try to not exceed each year's annual gift exclusion. If/when you gift to someone more than the respective year's gift exclusion amount, you need to file a Form 709 gift tax return to report the gift. It likely won't be taxable, but it is nonetheless required to be reported to the IRS.

For 2023, the annual gift exclusion amount in making gifts to any one person is $17k (for 2024 the limit will be $18k). For example, assume you plan on soon giving your child $30k to buy a car. Instead of giving him or her $30k in one shot, thus triggering the requirement for you to file a gift tax return, consider breaking it up into two; one gift of no more than $17k in 2023, and then another gift of no more than $18k in 2024.

Prepare a pro forma 2023 tax return – while potentially complicated to do (at least to do accurately), doing a preliminary mock up of what your 2023 tax return can be a helpful exercise.

It can show if you are thus far short on paying taxes or having taxes withheld, if your income is above or below certain limits (such as if you're trying to "fill up" a certain tax bracket with Roth conversions and finding out you still have some room left to convert more), if you're close to being able to itemize deductions and therefore maybe pull some future year donations into the current year, etc.

If you realize you need to pay more tax, you can do so by making estimated payments, or potentially by having taxes withheld from certain income sources. Specifically, you can have taxes withheld from wages, pensions, IRA distributions, Social Security and a few other less common sources. However, at this point in the year, it may be difficult to have withholdings updated in time. It's likely too late to update your Social Security withholdings, and chances are it's cutting it close to update your payroll withholdings at this point. However, if you will be making IRA distributions, you can definitely increase your withholdings on those.

If you don't have income sources from which you can have taxes withheld, you can also manually make an estimated payment via sending a check or doing an online ACH bank transfer to the government (i.e. either the US Department of Treasury for federal income tax and/or your state's respective taxing authority for state income tax).

Another thing to keep in mind with some of the deadlines above – especially those that require some sort of action from your account's custodian prior to the end of the year, such as in the case of doing a Roth conversion – is to not cut it too close.

Financial firms and custodians get REAL busy late in the year with people trying to jam through last minute distributions, Roth conversions, charitable donations of securities, etc. While each firm has its own formal policy and deadlines, assume if you submit any sort of manual request after mid-December there is a non-trivial chance the request won't get processed before the end of the year!