



Christmas is a time of great joy and celebration. With holiday parties, shopping, and family events filling up the calendar, it may also be a busy time for many. Whether you've already finished your Christmas shopping or are just getting started, we encourage you to set aside some time for year-end financial planning.

It will help put an exclamation point on 2023 and prepare you for the new year.

5 smart planning strategies

1. RMDs—Required Minimum Distributions from your traditional IRA

Required means just that—required. You must take **your first required minimum distribution (RMD)** for the year in which you reach age 72 (73 if you reach 72 after Dec. 31, 2022).

However, you can delay that first RMD until April 1 of the following year, which means that if you turned 72 in 2022, you must take (already have taken) your first RMD no later than April 1, 2023.

You will also be required to take a second RMD by December 31, 2023. Going forward, you will take an RMD in 2024, 2025, etc. If you are older than 72, you must take your annual RMD by December 31.

Here's where it gets a little bit tricky for a few folks. Last year, Congress passed legislation that raised the age you must take an RMD from 72 to 73 years old starting in 2023.

Therefore, if you turned 72 in 2022, you fall under the old rules described above.

If you turn 72 in 2023, you won't have to take an RMD until the 2024 tax year (when you turn 73), which will be due by April 1, 2025.

If you hold multiple IRAs, you must calculate the RMD separately for each IRA you own but can withdraw the total amount from one or more of the IRAs.

Similarly, a 403b owner must calculate the RMD separately for each 403b contract that you own but can take the total amount from one or more of the 403b contracts.

However, RMDs required from other types of retirement plans, such as 401k and 457b plans, must be taken separately from each account.

Most 401k plans allow you to **postpone RMDs** from your current employer's plan until no later than April 1 of the year after you stop working. If you have a 401(k) from your prior employer, you may be subject to an RMD. Check with your plan administrator in both instances.

According to the IRS, penalties for failing to take an RMD "may be waived if the account owner establishes that the shortfall in distributions was due to reasonable error and that reasonable steps are being taken to remedy the shortfall." However, it's best to avoid the hassle and stick with the deadlines.

2. Cut your tax bill

Most likely, you have gains and losses in taxable accounts, and now might be a good time to match any losses against gains. This is what is called "harvesting losses."

For example. You have a \$30,000 short-term loss (a stock held less than one year), and a \$25,000 gain in another stock held less than a year. If you sell both positions and net the gain against the loss, you will have a short-term loss of \$5,000.

You may reduce your ordinary income up to \$3,000 in tax year 2023 and carry over the remaining loss of \$2,000 in tax year 2024. While we caution against using tax policy to drive a buy/sell decision, in this example, we booked a profit in one security and used the loss on another security to avoid paying any taxes on the capital gain.

Just be aware of the **wash-sale rule** that will typically disallow the loss for tax purposes if you sell a security at a loss and buy the same or a "substantially identical" security within 30 days before or after the sale.

3. Harvest your gains

As with tax loss harvesting, you wouldn't do this in an IRA account (because they are not subject to taxes as long as assets remain in the account), but you may be able to harvest a long-term gain and avoid any federal income tax in a taxable account.

For 2023, individuals with taxable income below \$44,625 (\$89,250 for married couples) pay no federal tax on a long-term capital gain.

So, if you are single with a taxable income of \$34,625, you could strategically sell a stock with a long-term gain of up to \$10,000 and pay no federal income tax.

If you repurchased that investment, you have reset the cost basis to a higher level, which potentially reduces your future tax burden.

Just be careful. If you must sell at a profit in less than one year, you'll have taxable short-term gain.

In some states, you have raised your taxable income and you may owe state income tax on the profit from the sale. You may also boost your modified adjusted gross income, which can impact certain tax deductions or credits.

And don't forget to consider any mutual fund distributions, which could significantly affect your taxable income.

4. Invest in your retirement

The is \$22,500 for employee contributions and \$66,000 for combined employee and

employer contributions.

Subject to income limits if you have a company retirement plan, if you're age 50 or older, you're eligible for an additional \$7,500 in catch-up contributions, raising your employee contribution limit to \$30,000. The IRA contribution limit for 2023 is \$6,500 for those under age 50 and \$7,500 for those age 50 or older.

You can contribute to your IRA for the year 2023 until the tax filing deadline in April.

5. Benefiting others through charitable giving

The deadline is December 31st to give a gift and itemize on your 2023 tax return.

Consider a donor-advised fund or DAF. It is a charitable investment account for the purpose of supporting charities.

Your donation to the fund grows tax-free and is eligible for a tax deduction. At the time you choose, you may donate to your favorite charity.

Should you convert your traditional IRA into a Roth IRA?

It may be a great idea if you don't believe you will need the converted Roth funds for at least five years (if withdrawals are taken within five years of the conversion or before age 59½ you'll be penalized), you live in a state that doesn't have an income tax but may retire to a state that has a state income tax, and you believe you will be in the same or a higher tax bracket during retirement.

However, you will owe federal and state income taxes on the dollar amount you convert. It's best to pay the taxes on the converted dollar amount without using retirement funds.

We hope that these planning ideas have been helpful to you. If you have questions, please don't hesitate to contact us. We are always here to assist you. If you have specific tax questions, you may also want to check in with us.

As always, it's a privilege and a humbling experience to know that you have chosen us as your financial advisor. Thank you for the trust you have placed in us.

Your Gragg Financial Team



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