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IS YOUR WEALTH PLAN READY FOR A NEW YEAR?

As we fully embrace the new year, it's a good time to do a pulse check on your current financial situation. Remember the goals you set when your financial plan was first created. How much progress have you made? Are there overlooked strategies that could accelerate your journey, or perhaps persistent challenges holding you back? Or have your goals changed altogether? As you begin to reassess your current strategy and how well it aligns with your goals, here are some points to consider.

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Think about maxing out your retirement account contributions.

If you are still working, contributing the maximum allowable amounts to tax-deferred retirement accounts like 401(k)s and IRAs can offer a significant opportunity to grow your retirement savings while potentially reducing your taxable income for the tax year.

Roth contributions may be beneficial if you're in a lower tax bracket.

Leveraging Roth IRAs can be a strategic move, particularly if you anticipate being in a higher tax bracket in the future. This is because by locking in the current lower tax rates on converted amounts, you set yourself up for tax-free withdrawals in retirement since qualified withdrawals from a Roth are generally income tax-free, unlike distributions from traditional IRAs, which are taxed as ordinary income. And if you don't need the money, you can leave a Roth IRA tax-free to heirs in most cases, while traditional IRAs require withdrawals be taken. In fact, non-spousal heirs must withdraw all funds within 10 years and pay ordinary taxes on the money inherited.

Each year has a Roth contribution limit, so keep that in mind in your plan. And while there are no limits on the amounts you can convert, it's essential to remember that the converted amount will be added to your gross income for the year, potentially affecting your overall tax situation. And Roth conversions cannot be undone. Therefore, you may want to speak with a tax advisor to fully understand the implications of your conversion and see if it aligns with your long-term financial strategy.

Be proactive in managing realized gains to avoid surprises at tax time.

Review your plan for realized gains. Any profit made from selling an asset or investment this past year will be included in your upcoming taxes. You'll want to assess these gains before year-end to identify potential strategies for offsetting them, such as harvesting losses (see below). Proactive planning can make a significant difference here. At the very least, staying aware of these can help you avoid surprises when tax season arrives each April.

Tax loss harvesting can help reduce your taxable income.

Following up on the previous point, if you're seeking to reduce your taxable capital gains, tax loss harvesting may be a strategy worth considering. This involves selling underperforming investments, such as stocks and mutual funds, to realize losses that can help offset any taxable gains you may have accrued throughout the year. For every dollar of capital loss you incur, you can offset a dollar of capital gain, effectively lowering your tax liability. If your total capital losses exceed your gains, you can use up to $3,000 of the excess losses to offset other types of income, such as wages or dividends. Any remaining losses beyond that threshold can be carried forward indefinitely to offset future gains or income in subsequent tax years.

Additionally, it's essential to be aware of the different types of losses, as short-term losses must first be applied to short-term gains before being used to offset long-term gains.

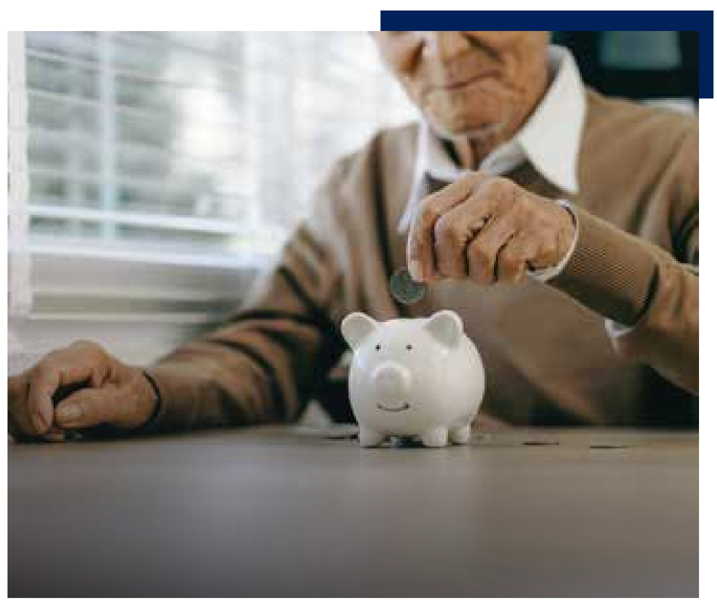
Business owners should review deductions and tax credits.

As a business owner, especially if you're self-employed, you have opportunities to help maximize tax efficiency and reduce the tax impact on your business income. Make sure your deductions are thoroughly documented and that you're well-informed about the tax credits available to you. Additionally, see if there are opportunities to leverage depreciation to further lower your taxable income. You'll want to discuss all of this with your CPA, but make sure to be proactive in initiating this conversation.

RMDs must be taken from certain retirement accounts to avoid penalties.

Required minimum distributions (RMDs) must be withdrawn from traditional retirement accounts like 401(vk)s and IRAs by December 31 each year beginning at age 73. There is no grace period to April 15 tax day; RMDs must be taken by December 31. Failure to adequately withdraw funds could result in a 25% excise tax in addition to taxes owed, and there are many rules to follow about amounts due as well as which accounts require withdrawals or can be aggregated for one withdrawal. This is why it's recommended that you work with your tax and financial professionals to do the calculations and implement the withdrawals on your behalf.

Even if you are not 73 or older, at least five to 10 years before you plan to retire you should start working with your financial advisor to calculate your future RMDs in case there are strategies you can implement now that can help you lower your overall tax burden in the future. Remember, all the money you have stocked away in traditional 401(k)s, IRAs, and similar qualified retirement accounts will require annual withdrawals, and ordinary income taxes will be due on the amounts withdrawn. According to the Social Security Administration, around 40% of Americans must pay federal income taxes on their Social Security benefits—up to 85%—because they have substantial income, like the income created by required minimum distributions.



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Evaluate your cash flow and reflect on spending to adjust future budget.

How much money is coming into your accounts, how much is going out, and where is it being allocated? You need to establish a clear understanding of your cash flow. Start by evaluating your income against your expenses, separating essentials from discretionary spending. With this insight, you can adjust your budget or financial plan to better align with your goals. Additionally, take a closer look at your spending habits to identify areas where you can cut back if you want to save more money.

Prioritize your financial planning.

The longer you put off financial planning, the more you potentially jeopardize your success. If it feels overwhelming, connecting with a financial advisor help you create a financial plan and keep it on track. Additionally, consulting a tax professional can help you identify strategies you can leverage to lessen your tax burden.

Whatever you do, don't let time pass you by, start planning for this upcoming tax season today! If you're not sure how these tips could be plugged into your overall financial plan, let's meet together with your tax professional.

Give Jason Noble a call today at (843) 743-2926 or call Andy Merchant at (316) 669-9413 to take the first step toward designing a portfolio tailored to you.