

End-of-Year Tax Planning Tips

There are some important tax strategies to consider adding to your checklist as you approach the end of the year.

Proactive tax-planning tactics can have a cumulative effect and could generate significant savings in the long term, increase or preserve wealth, and improve your financial plan. Your tax and financial advisors can help evaluate your unique tax situation.

The impact of the items on your list may vary based on your situation, but everyone can benefit from considering at least a few of the following suggestions.

Income Deferral and Acceleration Strategies

One foundational aspect of end-of-year tax planning involves strategically managing when to recognize your income as earned and when to defer it. This can make a substantial difference for high earners, especially those who are subject to the highest marginal tax rates. The decision to defer or accelerate income depends on anticipated changes in personal tax rates, potential legislative tax changes, and investment income projections.

â??The questions we typically ask clients focus on where their income is coming from and how that compares to last year,â?• says Lindsay Allen, senior team leader of wealth planning at CAPTRUST. â??We also want to know if theyâ??ll be itemizing deductions or taking the standard deduction.â?• The answers to these questions will help determine if a client should decrease or increase their income that year and which tax strategies they could potentially use.

If you anticipate being in a lower tax bracket next year, or foresee tax legislation that can reduce rates, deferring income can reduce your current-year liability. These strategies can include:

- **Deferring bonuses**. If youâ??re expecting a year-end bonus, negotiating for its disbursement in January could shift the taxable event to the following year.
- **Evaluating stock options**. For executives with nonqualified stock options (NSOs), exercising options may push you into a higher tax bracket. Consider exercising these options the following year if that aligns with tax rate projections.
- **Contributing to qualified retirement plans**. Maximizing pretax or deductible contributions to retirement accounts, such as a 401(k) or 403(b) plan, not only defers income but also gives it the opportunity to grow tax-deferred until retirement, when you may be in a lower tax bracket. First, confirm that you meet retirement plan contributions that have a year-end deadline, and then consider contributions with a later deadline, such as those made to individual retirement accounts (IRAs), health savings accounts (HSAs), and simplified employee pension (SEP) IRAs. Many of these savings options can count toward previous-year taxes as long as you make your contributions before the tax deadline in April. Allen advises clients to consider maxing out their tax-advantaged savings vehicles, like 401(k)s and HSAs. In 2025, the maximum contribution for 401(k)s is $23,500 (plus $7,500 if youâ??re age 50 or older), and for HSAs, itâ??s $4,300 ($8,550 for families).
- **Harvesting losses**. If you have underperforming assets, sellingâ??also known as harvestingâ??capital losses before year-end can help offset capital gains, thereby reducing taxable income. Any unused capital losses can be carried forward in future years indefinitely, offsetting up to $3,000 of ordinary income annually. Investors should also be aware of wash-sale rules before harvesting losses.

Charitable Giving

While fulfilling their philanthropic goals, high-net-worth individuals who are itemizing deductions can also use charitable contributions as a strategic tool to impact taxable income. There are several tax-efficient ways to structure charitable giving.

A donor-advised fund (DAF) allows you to make a charitable contribution, receive an immediate tax deduction, and then direct the DAF to make grants to your chosen charities over time. DAFs can be particularly advantageous in years with significant income events, such as the sale of a business or large capital gain, as you can prefund future giving and secure a large deduction in the current year.

Donating appreciated securities instead of cash allows you to avoid capital gains tax on the appreciation while still receiving a charitable deduction based on the current fair market value. This is often a highly tax-efficient strategy for individuals with substantial stock portfolios.

â??For IRA investors who are over the age of 70 1/2, they may want to consider gifting a required minimum distribution to charity directly from their IRA. This is limited to $108,000 per person per

year,â?• says Allen.

Increasing Taxable Income

Conversely, accelerating income may be beneficial if you expect to be in a higher bracket next year or face legislative changes that could increase tax rates, such as when the Tax Cuts and Jobs Act is slated to end in 2025. You can recognize gains this year to lock in lower rates, particularly if youâ??re planning to retire and expect a drop in income, if you expect higher taxes in the future, or if youâ??re in the final year of a significant bonus cycle and want to avoid future surcharges.

Long-term capital gains are taxed at preferential rates (0 percent, 15 percent, or 20 percent, depending on your income and filing status). High earners are subject to the 3.8 percent net investment income tax on top of the capital gains tax.

If youâ??re in a lower tax bracket this year than you expect to be in the future, consider harvesting some capital gains to take advantage of lower tax rates before year-end.

Roth conversions can be beneficial for investors who expect higher tax ratesâ??or a higher tax bracketâ??in the future.

â??Think about your taxes cumulatively, throughout your life versus just this year,â?• says Allen. â??With projections, you can take advantage of opportunities in lower-tax-bracket years, such as Roth conversions. Youâ??ll pay taxes for the year the money is converted, but any future growth on those funds can be withdrawn tax-free in retirement, assuming you meet the withdrawal rules.â?• Also, Roth accounts arenâ??t subject to required minimum distributions.

For executives with NSOs, exercising stock options may push you into a higher tax bracket. Consider this as a strategy to take advantage of lower tax rates than may exist in future years.

State and Local Tax Planning

While the 2017 Tax Cuts and Jobs Act has limited state and local tax deductions to $10,000 for federal taxes, individuals who have higher state taxes may have other deductions they can take advantage of.

In some states, you can make charitable contributions to specific state-approved organizations and receive a state tax credit in return. This can reduce your state tax liability while providing a federal deduction for the charitable contribution. Consult with your financial advisor for more details about your state.

Some states allow for a state tax deduction for 529 plan contributions made to their state plan. The rules on whether a deduction exists and to what extent vary by state but can be a great way to save for education and capture a state tax deduction.

Additional Tax Strategy Tips

Although they may not impact your current yearâ??s taxes, these strategies can have a significant impact on the creation and preservation of wealth. They may be impactful as part of a long-term tax strategy that considers cumulative tax benefits.

Each year, you can give up to $19,000 per recipient without the gift counting toward your lifetime exemption. These gifts can remove assets from your estate, lowering your taxable assets and reducing future estate tax liability. This amount is indexed each year.

If you exceed the income limits for contributing directly to a Roth IRA, you can use a backdoor Roth strategy. This involves making a nondeductible contribution to a traditional IRA (which is not subject to income limits) and then converting the account to a Roth IRA. Since the contribution is nondeductible, you need to pay taxes only on any growth that was converted. Future withdrawals from the Roth account would be tax-free, making this an excellent strategy for building tax-advantaged wealth over time. It is important to understand the pro-rata rules for IRAs before engaging in this strategy.

End-of-year tax planning requires a nuanced approach to managing income, investments, charitable giving, and estate planning. By leveraging these advanced strategies, itâ??s possible to preserve wealth, reduce tax liabilities, and help ensure your financial legacy.

Work closely with your trusted tax advisor or wealth planner for help navigating the complexities of the tax code and optimizing strategies that are tailored to your individual financial goals and circumstances.

Have questions? Need help? Call the CAPTRUST at Work Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

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