00:00:04:14 - 00:00:24:07

Speaker #1

Hello, everyone, and welcome back to Share the Wealth. I'm your co-host, Leyah, and today we have a special episode focusing on year end financial strategies. With the end of the year approaching quickly, now is the perfect time to be discussing these topics. Joining me today is Amanda Herrick Smith, a certified Senior Advisor with extensive experience in financial planning. Welcome, Amanda.

00:00:24:08 - 00:00:30:00

Speaker #2

Thank you for having me, Leah and Lyndsey, I appreciate it. I'm looking forward to today's podcast.

00:00:31:00 – 00:00:32:00

Speaker 31

Great.

00:00:33:00 – 00:01:02:00

Speaker #3

But before we get started, let me read our disclaimer. This podcast is being recorded on November 20th, 2024. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice. It is important to discuss your strategies with a professional, as the situations discussed today may not be suitable for you specifically.

00:01:03:00 - 00:01:17:12

Speaker #3

So, Amanda, let's get started with RMDs today. I know they can be a bit confusing for people and the clients that we work with here. So why don't you explain and share a little bit about what they are and how they impact us in the future?

00:01:17:14 - 00:02:17:07

Speaker #2

So RMD stands for required minimum distribution. So what it is it's the minimum amount that needs to be withdrawn from a retirement account prior to year end. So December 31st and of course 2024 for this year and with a requirement of distribution, if you do not withdrawal the minimum amount there are penalties. So there is a 25% penalty on the amount that is not withdrawn by year end.

00:01:49:10 - 00:02:01:04

Speaker #1

Yeah, that's great information. One thing that's really shocking is a penalty that you said it's quite a large penalty. So what strategies can people use to manage their RMDs effectively and make sure they're not getting into the timeline where they're facing a penalty?

00:02:01:04 – 00:03:22:05

Speaker #2

Yeah. So the most important thing is to identify the amount that you have to have withdrawn prior to year end and make sure that you have good follow ups. Um, so that's something that we help our client base with, is to manage, and monitor all the distributions for all of our client accounts that we help with and also those accounts that are outside our management. So we actually keep a tracking. And as far as the individual person it's going to be important to like set up like the automatic withdrawals or just be mindful that you need to have it done by your end and communicate with your financial representative. And the other piece of the puzzle that's really important is withholding. So with required minimum distributions, for the most part they're taxable. Unless it's coming out of like a Roth IRA that's inherited because Roths aren't taxable. So for like a traditional IRA , 401K’s, 403 Bs, people contributed pretax contributions you get the privilege of paying tax when you go to do the withdrawal, which is subject to the marginal tax rate. So pretty much similar to wage income. So it's important to have the right withholding amount. So that way come tax time there's no big surprises.

00:03:22:05 – 00:03:25:11

Speaker #1

Great points.

00:03:25:11 - 00:03:36:22

Speaker #1

So Amanda, oftentimes we hear this thing called QCDs in order to satisfy your RMD requirement. Let's talk a little bit more about these. For those who may not be familiar, what exactly is a QCD and how might it benefit them.

00:03:36:22 – 00:04:23:24

Speaker #2

All right. So QCDs stand for qualified charitable distribution. So it is one method where a person can withdraw money from their retirement account, um typically it's a traditional IRA. And they send it directly to the charity. So what's really cool with this method is any money that goes directly to the charity, you don't have to include it in your income. So it's like a direct benefit, for making that donation. And you don't have to include the money on your taxes. So for someone that decides to donate, like, I'll just pick a number, $5,000, send it directly to the charity. Now they have $5,000 less to report on their taxes.

00:04:23:24 – 00:04:34:27

Speaker #3

Yeah, that sounds like a win win situation. When it comes to QCDs, are there any specific requirements or limitations that our listeners, might need to be aware of?

00:04:34:27 – 00:06:17:04

Speaker #2

Very good point. So the age in which you can actually begin doing qualified charitable distributions is 70.5. Yes, we talked about required minimum distributions. And that age was between 72 and 75. So that means you can actually begin doing the qualified charitable distributions before your required minimum distribution age. So I actually have a client right now who's turning 70.5 end of this month, November. So we're actually waiting to send in the paperwork until he is 70.5, because that is one of the major rules. So as far as the limitation on the amount of qualified charitable distributions you can do, it's a $105,000 per person. So it could be a wonderful way to give back to different charities you're supporting in a way that is very impactful to you financially. It's it's a great way of contributing and getting a direct benefit. Another thing to keep in mind is for those that are receiving Medicare over 65 years old, there is a Medicare Part B, which is the doctor component of Medicare, and Medicare Part D, which is the drug component of an excess premium that you have the privilege of paying depending on your address and gross income. So it's factored into tiers. So by doing a qualified charitable distribution, you can actually reduce your adjusted gross income, which could, you know, positively impact, the excess Medicare premium or hopefully none, meaning no Medicare premium excess to pay. So it could be a great way for a tax planning standpoint.

00:06:17:04 – 00:06:40:17

Speaker #3

Yeah, $105,000 is, a significant number. And I'm sure, you know, you've seen with clients, it's easy to maybe pull out the list from last year and fill in the blanks if there's, you know, a long list of charities that you donate to. And, utilizing your financial advisor and your tax advisor is crucial.

00:06:40:17 – 00:07:29:24

Speaker #2

Yeah. Very important. In fact, I'm working with a client right now where, they've been giving cash in the past to different charities, and we calculated out how much they're donating to each of their charities. And looking at a qualified charitable donation is another method that they can begin next year. So instead of contributing monthly, they'll just contribute one big lump sum to that organization and receive that direct benefit. So since the tax law changes back in 2018, most people typically don't itemize anymore, at least from what I'm finding. So because they're taking the standard deduction and not itemizing, they're not receiving any benefits for making those charitable contributions.

00:07:29:24 – 00:07:43:19

Speaker #3

So, Amanda, since we're on the topic of gifting, how can individuals make the most of the annual gift exclusion? And what are some strategies to utilize within this wealth transfer?

00:07:43:19 – 00:08:25:12

Speaker #2

So a so an individual can gift another individual up to $18,000 per person per year without having to file a gift tax return and use part of their gift tax or lifetime exclusion amount. So for a married couple, they can gift $18,000 each. So that's a total of $36,000 that you can gift to a person if they elect a gift splitting. And what's really cool about that is it's a wealth transfer strategy. So it removes that. It removes that money out of the person's estate. So hopefully reducing that, especially if they have a taxable estate.

00:08:25:12 - 00:08:48:24

Speaker #3

Yeah. That is a very good way to utilize the taxable estate when it comes to writing those checks it would need to be from a joint account, correct? Or would it need to be from each individual if they're going to do the $36,000, because you wouldn't want to have someone writing a check for $36,000, that it's just their name on it.

00:08:48:24 - 00:09:05:10

Speaker #2

Exactly. So, and we encourage people if they're going to do the $36,000 that it come from a joint account. And, both parties actually sign the check because it's very transparent then that both are, you know, providing that $18,000 gift.

00:09:05:10 – 00:09:11:04

Speaker #3

Yeah. To ensure you can avoid, you know, preparing the extra gift tax return and recording.

00:09:11:04 – 00:09:21:27

Speaker #1

I think a great example of this that we often see sometimes is parents trying to help out their children, maybe purchasing their first home or paying for a wedding or something like that. So knowing this information is really helpful.

00:09:21:27 – 00:09:23:15

Speaker #2

Absolutely.

00:09:23:15 - 00:09:38:18

Speaker #3

So Amanda, we know that you should aim to contribute to retirement accounts throughout the year, but can you touch base a little bit on retirement contributions with 401K's versus an IRA and when those come into play at year end?

00:09:38:18 – 00:12:52:28

Speaker #2

Very good question. So with a 401K, 403B, those are forms of retiree plans retirement plans with your employment. And so a person can contribute up to $30,500 if they're over age 50. And if they're under, it's $23,000 a year. So a lot of times when the 401K, 403B plans, you can either make traditional IRA contributions or Roth IRA contributions. So with the traditional IRA contribution, you're donating pretax dollars, which means you're getting the tax benefit now. So that means in retirement when you go to withdrawal you get the privilege of paying tax. So with a Roth IRA contribution, you don't get the benefit now because you're paying, you're contributing with after tax dollars. So you're paying tax on those dollars going in. But what's really cool is if there's a really long investment horizon, that all of that growth is tax free so when a person goes to retire, they withdraw the money from the roth portion of their 401K, 403B and they don't pay any tax. And another point too is kind of building those two buckets for retirement purposes. So when the person goes to retire, they can actually strip out the traditional piece and then strip out the Roth piece and then get to pick and choose which bucket to withdraw from. And things like the excess Medicare premium called IRMAA we touched on earlier, which that stands, by the way, for income related monthly adjustment amount, A.K.A more tax. You get to pay based on your income. So by picking and choosing which bucket to withdraw from, you can actually keep your adjusted gross income under certain limits to hopefully pay less tax. And is far is like a Roth IRA, traditional IRA, one of the things sometimes our clients get confused of is they might be eligible to contribute to both their 401K, 403B, either the plan with their employer and also contribute to a Roth IRA or a traditional IRA. So and that's their own account. It's an individual retirement account. That's what IRA stands for. And that would be held outside of their employer plan. They can open up an account at whatever institution they please and make those contributions. So with a Roth IRA, to contribute, there is income limits. So it's important to be mindful of them. And for a traditional IRA, you can actually make contributions that are tax deductible based on income limits. Or you can also make what's called a non deductible IRA contribution. And there's no income limits, which is really great. So between those two accounts you can contribute up to $7,000 for the year or $8,000 if you're over age 50. But you do have to have income. So it's whatever is, the least or the most amount there is. If you had income of like $5,000, for example, you can only contribute $5,000. You can't contribute the $7,000 if you're under age 50.

00:12:52:28 – 00:13:13:12

Speaker #1

 Yeah. That's a great point that you mentioned. I think it's also good to stress the importance of just contributing to these accounts. I mean, if you if you're just starting off your career and you're opening up these accounts for the first time, contributing as much as you can at that time, and, you know, with the holidays coming up, maybe you're getting some extra funds from family members that you don't need. This is a good way to put those funds to use by contributing your end to these accounts.

00:13:13:12 – 00:13:36:06

Speaker #2

Yeah, absolutely. And when I first, was hired here at the firm, I actually opened up my own Roth IRA in kind of my view on that is it's almost like a back up, back up emergency fund, because you can actually withdraw what you contributed kind of at any time. Once the accounts open for a five year period. So it could be kind of a backup to your own emergency fund that everyone should have anyway.

00:13:36:06 -00:13:51:08

Speaker #1

Yes. So we talked a little bit about traditional IRAs and Roth IRAs. What are the potential benefits and consideration when converting a portion of your traditional IRA into a Roth IRA right before the year end?

00:13:51:08 - 00:15:11:00

Speaker #2

Very good question. So that's called a Roth conversion. I enjoy saving people money over time. It makes me really happy when I get to do that. So with a Roth conversion, what you would be doing is taking a portion of your traditional IRA, converting it into the Roth, which means you have to pay tax on the money that you contribute or you convert over. So if you convert $20,000 and put it into a Roth IRA and there's no limit to the conversion, so that $20,000 would be taxable income, no different than your wage income. So subject to those tax brackets. So the reason why you would potentially want to pay taxes now and not later is maybe you have a year that your income's lower and you want to take advantage of that. You know 12% federal tax bracket. That's a pretty great tax bracket to be in. So I'm actually working on a couple of Roth conversion calculations, to make sure our clients are taking advantage of that 12% bracket, because with our, federal debt that we have, tax rates are probably going to go up in the future. We're not sure, but why not pay tax now at a lower level? Let that Roth IRA grow tax free and then those withdrawals in retirement, you don't have to pay tax on.

00:15:11:00 – 00:15:18:03

Speaker #1

Yeah, that's a great point that you mentioned. It's always nice to have an extra bucket there, especially that you can withdraw from without paying taxes on.

00:15:18:03 – 00:15:28:14

Speaker #2

Absolutely I couldn't agree more. And that all kind of goes back full circle again to the excess Medicare premium. That's just one example to try to keep your adjusted gross income under certain levels.

00:115:28:14 – 00:15:47:00

Speaker #1

Yeah. So Amanda we talked briefly before about withholding. This is an important topic as it can get some clients worrisome about that come the end of the year. So why is it so important to be reviewing your withholding and making sure that you make those estimated tax payments before the year end? And what are the potential consequences of not doing so?

00:15:47:00 - 00:17:45:24

Speaker #2

All right. So unfortunately the consequences paying taxes but more importantly is paying penalty. So there is a amount it's called safe harbor. If you meet the safe harbor definition, which simply means you have enough paid in through withholding or estimated tax payments, where you avoid paying that penalty for under withholding. So we like to, you know, encourage our clients to meet that safe harbor requirement, which simply means, paying like it's either 100% or 110%, depending on the adjusted gross income amount of the prior year's tax return filing. So that would be 2023 or 90% of the current year, which is still unknown. So most often we encourage our clients to do either 100% or 110% of the prior year because we know that number. It's very defined. And if our clients meet that safe harbor definition, if they won the lottery, for example, they can win millions and they don't have to worry about paying a penalty on those, winnings. But they probably would have a tax balance due come year end. And so it is important to make sure there's enough federal and state withholding. So that way, come tax time, there's no surprises. So people can either do withholding through like their, required minimum distribution withdrawals. We mentioned about that earlier. If they're still working, they would have withholding through their earned income wages. Maybe they're self-employed. So self-employed people, there's not direct withholding through that income. So typically they will make estimated tax payments, which those are done on a quarterly basis. And as long is all of the withholding, estimated tax payments, calculated in is enough to meet safe harbor, then they're in good shape, at least from a penalty standpoint.

00:17:45:24 - 00:17:56:212

Speaker #1

So another tax strategy that could be considered for some investors is tax loss harvesting. Could you explain the concept of what this is and how it can be beneficial at the end of the year?

00:17:56:12 – 00:18:59:12

Speaker #2

Yeah. So tax loss harvesting is when a stock or bond is or investment for that matter, exchange traded fund, mutual fund if there's anything at a loss. And if you go to sell that loss, prior to year end, as long as you wait 31 days before you purchase that holding again, you can actually realize that loss on your income tax return. So with any stock that's sold in a non retirement account or, you know, other investment that sold in a non retirement account, you get the privilege of paying tax on the gain. So these losses can help offset the gain. So it's less taxes paid. So this is something that we do for our clients. Come this time of year we will go through our client accounts. And for you know any investments that are at a certain percentage loss, we will sell them, wait the 31 days and if we still like the holding, we might purchase it back so it's a great tax avenue, to hopefully pay less income tax.

00:18:59:12 – 00:19:01:13

Speaker #1

Yeah, it's a great strategy.

00:19:01:13 - 00:19:16:15

Speaker #1

So Amanda, another financial strategy to look at when it comes closer to the year and is using up your flexible spending account that you have. What is the importance of using these funds before the deadline and what expenses might qualify for using them?

00:19:16:15 – 00:19:50:27

Speaker #2

Yeah. So with the flex spending account, most often, if those funds aren’t used in a timely manner, most times by year end, I think there might be like an additional month you might be able to use those funds for, they're typically completely depleted or gone if you don't use them. So if you don't use them, you lose them. So one, way of using those funds is for medical purposes. So a lot of times people might need some, you know, eyeglass wear or maybe they need to go to the dentist. So those type of expenses would qualify for the flex spending account.

00:19:50:27 – 00:19:59:12

Speaker #3

Yeah. And then moving on to how the health savings account, you know, what are some things to keep in mind at year end with this?

00:19:59:12 – 00:22:14:13

Speaker #2

So with a health savings account it's a little different than a flex spending a clown because these accounts are the individual person's account so it's no different kind of than a checking account that's set aside for medical purposes. So we get to keep those year after year. So as we make contributions, which for this year, the limit is $4,150 for individual coverage. And for a family plan, it's $8,300 that you could contribute into your health savings account, by the filing of your tax return, which would be April, 15th of 2025 for us for the 2024 tax year. And, those contributions, if they are made kind of out of the, money in our pocket, you get a tax deduction. Some people also make payroll contributions into their health savings account, and those monies already go in pretax. So you get an instant benefit. You don't pay the taxes on that income. So for the health savings account, there's also $1,000 catch up contribution that can be made for those individuals over 55. So if the, two spouses end up opening up their own health savings account, they each can contribute the thousand dollars if they're over 55. But if there's only one health savings account, then only the thousand dollars can be contributed. And, so for that type of account, very similar to the flex spending account, those withdrawals can be made, for medical purposes such as like purchasing eyeglasses, maybe paying for co-pays when you go to the doctor's, your prescriptions when you go pick up your prescriptions. So it could be a really great avenue to put away money that you can use in the future. Another thing people will do a lot of times is kind of max out those contributions. So I like to call the health savings account kind of like a Roth on steroids. So you get the tax deductions for any contributions made, and as long as the withdrawals are for medical purposes, you don't pay tax when you're going to withdrawal, too. So you get the benefit kind of on both ends, which is really great.

00:22:14:13 – 00:22:15:09

Speaker #3

Yeah.

00:22:15:09 - 00:22:32:18

Speaker #1

So now as we begin to wrap up, we just want to thank you, Amanda, so much for coming on today and sharing your insights on these various topics that we've talked about. The maximizing your charitable giving, managing your RMDs, navigating QCDs. These have all been incredibly valuable, especially as we approach the year end.

00:22:32:18 – 00:22:37:29

Speaker #2

Oh, it’s my pleasure. I appreciate you both having me, today on the podcast.

00:22:37:29 - 00:22:51:26

Speaker #3

Yeah. And to our listeners, thank you for tuning in to this episode of Share the Wealth. We hope you enjoyed this discussion on all of the different year end planning strategies that you should utilize with your financial advisor.

00:22:51:26 – 00:23:35:03

Speaker #1

Keep in mind, if you are considering making these charitable giving donations, or you need any guidance on managing your RMDs and your QCDs, don't hesitate to reach out to a financial advisor for their help. They can provide personalized advice tailored to your specific situation as we talked about here today, ensuring that you are maximizing your benefits and reaching your financial goals. So as we wrap up for the year, we begin for the new one and look forward. Please reach out to us with any questions or topics that you might like us to cover in our future episodes. We love hearing from our listeners and are here to help navigate you throughout your financial journey. We hope you enjoyed your Thanksgiving holiday and are looking forward to the upcoming holidays as well. And as always..

00:23:35:03 – 00:23:36:05

Speaker #3

Don't forget.

00:23:36:05 – 00:23:37:24

Speaker #1, #2 & #3

 Share The Wealth!

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**Speaker #2 – Amanda Herrick Smith, CFP®**

**Speaker #3 – Lyndsey Payne, MBA**