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CHECKING IT TWICE: YOUR YEAR-END FINANCIAL TO-DO LIST WITH A DASH OF WIT

By Kelly L. Olczak, CFP®

'Tis the season of merriment and jubilation! As we jingle all the way through holiday parties, festive shopping sprees, and heartwarming family gatherings that light up our calendars, we know it can be a whirlwind. Whether you've wrapped up your Christmas shopping early or are just beginning to deck the halls, why not take a merry moment to add a dash of year-end financial planning to your holiday checklist?

It's the perfect way to add an exclamation point to 2023 and ensure you're sleighing into the new year with financial cheer!

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 age 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 other 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 your tax advisor.

BRIEF MARKET UPDATE

A dose of humilty

Wall Street firms strive to hire the best and brightest. But the best and brightest don't have a clear read on the future.

Consistently pinpointing where the stock market will land in 12 months is almost impossible. Look no further than the 2023 consensus forecast among analysts. According to Bloomberg, forecasters, on average, expected the S&P 500 Index would register a decline of about 2% this year, the first projected decline of the 21st century.

It's unusual for analysts to project a market decline. For starters, markets tend to rise over time. Moreover, analysts rarely predict market declines due to an inherent bias since they work for firms that sell stocks.

Key Index Returns

Index	MTD %	YTD %
Dow Jones Industrial Average	8.8	8.5
Nasdaq Composite	10.7	35.9
S&P 500 Index	8.9	19.0
Russell 2000 Index	8.8	2.7
MSCI World ex-U.S.A*	9.2	8.9
MSCI Emerging Markets*	7.9	3.2
Bloomberg Barclays U.S. Aggregate Bond TR USD	4.5	1.6

Source: Wall Street Journal, MSCI.com, MarketWatch, Bloomberg
MTD returns: October 31, 2023–November 30, 2023 YTD returns: December 30, 2022–November 30, 2023*U.S.D.

A wide margin of error

IStrategists hoping to forecast the S&P 500 have missed their target by a wide margin in 12 of the last 13 years, according to Bloomberg and Macrotrends.

The median Wall Street forecast between 2000 to 2020 missed the mark by an average of 12.9 percentage points a year (CNBC/NY Times).

Over the longer term, stocks have a strong track record, but the long-term upward march isn't a straight line. We expect downturns. Since 1999, the S&P 500 Index (excluding re-invested dividends) has finished lower seven times, according to data from Macrotrends.

Weakness is usually short-lived.

What went wrong this year

"Usually, recessions sneak up on us. CEOs never talk about recessions," economist Mark Zandi of Moody's Analytics said in late 2022.

"Now it seems CEOs are falling over themselves to say we're falling into a recession. … Every person on TV says recession. Every economist says recession. I've never seen anything like it," he added.

Market weakness was predicated on a 2023 recession. Without a recession, a stiff headwind to stocks never materialized.
The sharpest rise in interest rates in decades has yet to put the brakes on the consumer.

Many people were able to secure low interest rates before the Federal Reserve started taking measures to curb inflation.
While estimates vary, some still have funds from the stimulus payments they received in 2020 and 2021.

Even soaring prices for fun, or "funflation" as The Wall Street Journal calls it, didn't dampen cash outlays for many.

Put another way, changing consumer behavior and government cash made a mockery of forecasting models.

If models aren't updated to account for new variables and shifts in behavior, forecasters, who are already at a disadvantage, come under even greater pressure. In other words, complex data in, garbage out.

Barring an unforeseen collapse in the final three weeks of the year, the absence of a recession, fewer rate hikes this year, the general belief the Fed's rate-hike cycle may be over, and an AI-related surge in big tech stocks fueled an impressive gain in the S&P 500 Index.

Investor's corner

Strategists should not be completely ignored. They bring unique insights and observations to our attention. We are better informed because of their hard work.

They really are brilliant individuals.

But they grapple with the unknown, which can wreak havoc with a forecast.

However, the unknown encourages us to get comfortable with risk. It allows us to become better and more disciplined investors.
A disciplined investor avoids taking shortcuts, such as market timing, which usually delays the arrival at your destination.

Just for fun...

So, some of you may know that my husband, Gene, and I have two kids - Grace who just turned 22 (Holy Cow) and Liam (will be 20 in January. One of my most favorite things to do is to watch movies with them when they are home. We make amazing popcorn from scratch - adding butter, shredded parmesan cheese and salt... YUMMY. Here are a couple of movies that we really enjoy watching again and again... I hope you like these too.

"Elf" is a heartwarming and whimsical holiday comedy that follows the extraordinary journey of Buddy, a human who was raised by elves at the North Pole. When he discovers his true identity as a human, Buddy embarks on a hilarious adventure to New York City to find his real father, spreading Christmas cheer and joy wherever he goes.

Elf - Gene's Favorite

"Die Hard" is an action-packed classic that unfolds on Christmas Eve as NYPD officer John McClane, played by Bruce Willis, battles a group of terrorists who have taken hostages in a Los Angeles skyscraper. With iconic one-liners and intense action sequences, this film has become an unexpected but beloved addition to the holiday movie lineup for many viewers.

Die Hard - Liam's Favorite

The "Harry Potter" film series is a magical cinematic journey based on J.K. Rowling's beloved novels. It chronicles the adventures of a young wizard, Harry Potter, as he navigates the enchanting world of Hogwarts School of Witchcraft and Wizardry, battles dark forces, and unravels the mysteries of his own past in a captivating tale of friendship, courage, and the power of magic.

ALL of the Harry Potter Movies - Grace & Kelly's Favorite!

Thank you...

As we approach the end of the year, we want to express our sincere appreciation for your trust in our financial services. It's been a year filled with opportunities and challenges, and we look forward to continuing to support you in achieving your financial goals in the coming year. From all of us at LynnLeigh & Company, we wish you a joyful holiday season and a prosperous New Year ahead.

Thank you for being a valued part of our financial family.

Happy Holidays!

Kelly, Chazz and Becky

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