

## *Year-End Money Moves:*

### *10 Valuable Planning Opportunities to Consider*

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As the year draws to a close and the holiday season ramps up, it's easy to get caught up in the busy routines of everyday life. However, individuals should not lose sight of valuable year-end planning opportunities which could yield meaningful tax savings, strengthen one's financial position and help ensure alignment with long-term goals. For personalized advice on how these strategies might benefit you, please reach out to a member of our private client team.

### ***Tax & Charitable Planning***



#### **Manage Tax Bracket Variability**

Individuals should consider how their current tax picture compares to prior years, as there may be “levers” which can be used to produce considerable tax savings.

In higher-income years, individuals may wish to accelerate itemized deductions (most notably, charitable contributions) while deferring certain income items (such as the timing of a bonus payout, the sale of a business, the sale of certain investments or stock option exercises). Charitably inclined taxpayers may wish to use a donor-advised fund to recognize a larger current-year tax deduction while making charitable grants from the donor-advised fund at a future date and at a pace of their choosing.

In lower-income years, individuals may wish to defer itemized deductions (such as charitable contributions) while potentially accelerating certain income items (such as a bonus payout, investment sales, stock option exercises, Roth conversions, etc.).

Charitably inclined individuals who are nearing retirement and who expect a significant drop in taxable income post-retirement might consider accelerating charitable donations (directly to charity and/or to a donor-advised fund) prior to retirement to maximize itemized deductions while in a higher income tax bracket.



#### **Donate Appreciated Securities, Not Cash**

It is estimated that December donations account for more than a quarter (26%) of annual nonprofit revenue.<sup>1</sup> With many nonprofits soliciting year-end donations, many individuals

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<sup>1</sup> Source: 2023 M+R Benchmarks Report

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opt for the convenience of writing a check or charging a credit card although another giving option may be more beneficial financially.

Individuals with long-term appreciated securities held in a taxable account should consider gifting such securities to charity. *Why?* The charitable organization receives the same economic benefit as a cash donation, while the taxpayer receives a tax deduction for the full market value of the gift and, importantly, avoids paying capital gains taxes on the gifted security.

Gifts of appreciated securities can also provide a tax-efficient means to rebalance a portfolio by reducing exposure to a given asset class or a concentrated stock position, without incurring capital gains.

Keep in mind the tax deduction for gifts of long-term appreciated securities to qualified public charities (including donor-advised funds) is limited to 30% of adjusted gross income (AGI) while similar gifts to a private foundation are limited to 20% of AGI.<sup>2</sup> Charitable gifts in excess of the AGI limits result in a charitable carryforward which can be used over the next five years.



### **Satisfy Required Minimum Distributions (RMDs) via a Qualified Charitable Distribution (QCD)**

SECURE Act 2.0 raised the beginning age for required minimum distributions (RMDs) to 73, yet eligibility to make a Qualified Charitable Distribution (QCD) remains at age 70½.

With a QCD, taxpayers aged 70½ or older can donate up to \$105,000 (as of 2024) from an IRA directly to eligible 501(c)(3) charities (note: donor-advised funds, private foundations and supporting organizations are excluded). This limit will increase to \$108,000 in 2025.<sup>3</sup>

This strategy may be particularly beneficial for charitably inclined individuals who receive a greater tax benefit from the increased standard deduction rather than itemized deductions.



### **Harvest Losses in Taxable Investment Accounts**

Loss harvesting presents a “silver lining” for taxable investors to take advantage of market declines. Realized losses can offset realized gains (and potentially up to \$3,000 of current-year ordinary income), with any unused/excess realized losses resulting in a loss carryforward to be applied against future gains.<sup>4</sup>

**Example:** Consider Barry and Susan Thomas, who have a joint account holding three actively managed equity mutual funds which collectively have \$250,000 in unrealized losses. The Thomases sell the three positions and redeploy the sales proceeds to equity index funds. In doing so, the Thomases realize a \$250,000 loss to offset current year (and/or future) realized gains, while their portfolio remains positioned to benefit from a subsequent market recovery.

<sup>2</sup> Source: Schwab – “Is a Private Foundation Right for You?” (October 9, 2024)

<sup>3</sup> Source: Forbes – “IRS Announces Retirement Contribution Limits Will Increase In 2025” (November 1, 2024)

<sup>4</sup> Investopedia: “Capital Loss Carryover: Definition, Rules, and Example” (October 28, 2024)

Beware of the “wash sale rule” which states that a loss cannot be realized for tax purposes if a substantially identical position was bought within 30 days before or after the sale.<sup>5</sup>



### **Analyze Mutual Fund Year-End Capital Gain Distributions**

Mutual funds are required to pass along capital gains to fund shareholders. Regardless of whether the fund shareholder actually benefited from the fund’s sale of underlying securities, the shareholder will receive the capital gain distribution if the mutual fund is held as of the dividend record date.

Mutual fund families typically provide estimates for year-end dividend distributions over the course of October and November, with such distributions most commonly paid in December.

Capital gain distributions can be either short-term or long-term. Short-term capital gain dividends are treated as ordinary income and thus cannot be offset by realized losses. In contrast, long-term capital gain dividends are treated as capital gains and can be offset by realized losses.

Investors should compare a fund’s year-end distribution estimate against its unrealized gain/loss to determine if selling the position *before* the dividend record date would produce a tax savings.

In addition, investors should be careful with late-year purchases of actively managed funds in taxable accounts, as investing in a fund just prior to its capital gain dividend record date could result in additional taxes. An investor might instead choose to temporarily invest in a passive index fund and swap to the actively managed fund early the following tax year.

## ***Estate Planning***



### **Review Estate Plans and Consider Using the Lifetime Gift Tax Exemption**

The Tax Cuts and Jobs Act (TCJA) significantly increased gifting limits, with the lifetime gift tax exemption currently at \$13.61 million per person (as of 2024), with a top federal estate tax rate of 40%. In 2025, the lifetime gift tax exemption will increase to \$13.99 million per person.<sup>6</sup>

The increased exemption amounts, under TCJA, are scheduled to run through the end of 2025; barring an extension by Congress, these limits would sunset at the end of 2025 and, beginning in 2026, the basic exclusion amount (BEA) would revert to the 2017 level of \$5 million per person, plus inflation adjustments (estimated to be around \$7 million per person, in current dollar terms).<sup>7</sup>

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<sup>5</sup> Source: *Investor.gov* – “Wash Sales”

<sup>6</sup> Source: *IRS* – “IRS releases tax inflation adjustments for tax year 2025” (October 2024)

<sup>7</sup> Source: *Leech Tishman* – “The Looming 2026 Changes to the Estate, Gift, and Generation-Skipping Tax Exemption Amounts” November 12, 2024

While the elevated exemption is scheduled to remain in place through the end of 2025, high-net-worth individuals should not lose perspective of the unique planning opportunity to get additional assets out of a taxable estate.<sup>6</sup>

High-net-worth individuals should evaluate current assets and assess how much might be needed for their remaining lifetime, with consideration to gift “excess assets” to loved ones. Depending on the size of an outright gift, estate planning which incorporates making gifts to trusts may be advisable to provide parameters or safeguards for the intended beneficiaries.

As a reminder, the Treasury Department and IRS issued final regulations in November 2019 clarifying that taxpayers taking advantage of the increased exemption amounts would not be subject to a future clawback, should the exemption decrease from current levels.



### **Make Annual Exclusion Gifts**

Individuals are allowed to make “annual exclusion gifts” which do not have gift tax implications. In 2024, the annual exclusion is \$18,000 per donee (increasing to \$19,000 per donee in 2025).<sup>6</sup>

For high-net-worth individuals with, or likely to have a taxable estate, utilizing annual exclusion gifts can be an effective way to reduce one’s taxable estate while also helping loved ones.

**Example:** Consider Mike and Mary Jones - a very wealthy couple with two married children (four spouses total) and five grandchildren. In 2024, the Joneses, as a couple, could gift \$36,000 to each of the nine individuals for a combined total of \$324,000, without such gifts counting against their lifetime gift tax exemption. By regularly making annual exclusion gifts, the Joneses are able to gradually reduce the size of their taxable estate.

For those saving for future college expenses, special rules allow a donor to use five years of annual exclusion gifts for contributions to 529 college savings plans (a limit of up to \$90,000 for a single taxpayer or up to \$180,000 for joint taxpayers, as of 2024).<sup>8</sup>

It is worth noting that medical payments made directly to a medical provider do not count as taxable gifts. In addition, tuition payments made directly to an educational institution do not constitute taxable gifts. Tuition is narrowly defined as the cost for enrollment; it does *not* include books, supplies or room and board.

## ***Investment & Retirement Planning***



### **Revisit Portfolio Allocations and Longer-Term Investment Objectives**

Global equities (and U.S. Large Cap equities, in particular) have posted remarkable gains over the past two years, with the S&P 500 Index rising +52% from 12/30/2022 – 10/31/2024.<sup>9</sup>

<sup>6</sup> Source: IRS – “IRS releases tax inflation adjustments for tax year 2025” (October 2024)

<sup>8</sup> Source: Fidelity – “529 contribution limits for 2024 and 2025” (October 30, 2024)

<sup>9</sup> Source: Yahoo Finance – Historical Data total, using SPDR S&P 500 ETF (SPY) as a proxy for total return for 1/1/23 – 10/31/24

Following an extended rally among risk assets, investors may fall into a sense of complacency over portfolio risk or, worse yet, may “chase returns” at an inopportune time.

Ideally, an investor should have an investment plan anchored to risk tolerance, time horizon and longer-term goals to avoid making emotional, reactive investment decisions based on the current market environment.

Investment goals can change over time and a portfolio’s allocation should be flexible to adjust accordingly. The changing market landscape can also make certain investments which were less appealing previously to be more actionable at other times. Regularly reviewing a portfolio’s allocation among cash, fixed income, global equities, real assets, and, if applicable, alternative investments against longer-term goals is a critical exercise for investors.



### **Assess Portfolio Tax-Efficiency**

Investors should think of their portfolio as an allocation among several different buckets: after-tax (taxable investment accounts), pre-tax (traditional retirement accounts) and no-tax (Roth retirement accounts).

Rather than holding similar investments across all investment accounts, an investor should instead consider the “asset location” of investments to minimize “tax drag” to the greatest extent possible.

First, high-growth investments (such as global equities) should be allocated to Roth retirement accounts, given the favorable tax treatment afforded to Roth accounts. Actively managed equity mutual funds may be given additional consideration as capital gain dividends will not have tax consequences while produced inside the Roth account.

Next, traditional retirement accounts (such as an IRA, 401k/403b, etc.) should hold less tax-efficient asset classes, such as taxable bond funds and REITs which produce non-qualified dividends, which are taxed at ordinary income rates.

Finally, taxable accounts should be structured to “round out” the portfolio to get to a desired target allocation. In general, taxable accounts should hold more tax-efficient investments such as equities which generally produce favorably taxed income (qualified dividends) and should evaluate whether to hold taxable or tax-exempt bonds, depending on an individual’s tax bracket.



### **Maximize Retirement Contributions**

According to Vanguard’s “How America Saves 2024” report, only 14% of plan participants contributed the maximum amount to their 401(k) plan in 2023.<sup>10</sup>

Individuals who are still actively employed should review their year-to-date retirement contributions and evaluate whether to make additional contributions prior to year-end.

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<sup>10</sup> Source: Vanguard – “How America Saves 2024”

- The basic employee 401(k)/403(b)/457 contribution limit is \$23,000 for 2024 (increasing to \$23,500 for 2025).<sup>11</sup>
- The catch-up 401(k)/403(b)/457 contribution limit for employees age 50 or older is \$7,500 for 2024 (unchanged for 2025).<sup>12</sup>
- The IRA contribution limit is \$7,000 for both 2024 and 2025.<sup>12</sup>

Under SECURE Act 2.0, effective for 1/1/2025, some individuals may have an increased retirement savings opportunity. In 2025, individuals 50 or older will have a 401(k)/403(b)/457 catch-up limit of \$7,500; however, SECURE Act 2.0 includes a new provision for employees aged 60-63 to utilize an enhanced catch-up contribution limit of \$11,250 (instead of \$7,500) (note: each Plan Sponsor will decide whether to implement this enhanced feature in their retirement plan).<sup>12</sup>

Finally, individuals who are still working should assess whether to increase their contribution percentage for their 401(k)/403(b) for the next year and should consider whether to save to their employer retirement plan on a pre-tax basis (Traditional contributions), on an after-tax basis (Roth contributions), or a combination of both pre-tax and after-tax.

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## About the Author



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Nick provides investment consulting services to high-net-worth investors, corporate executives, family trusts, and non-profit organizations. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process and overall investment management. Nick heads the firm's Financial Planning Committee. Prior to joining the firm in 2007, Nick was a Senior Financial Planner with The Ayco Company where he provided comprehensive advice to affluent clientele. Nick earned a B.A. in Finance and Economics from the University of Illinois at Urbana-Champaign. He obtained the designation of Certified Financial Planner (CFP®) from the College of Financial Planning and is a CFA® charterholder and member of the CFA Society of Chicago. Nick enjoys spending time with his family, golfing, and long-distance running, having completed four marathons and multiple half-marathons.

<sup>11</sup> Source: Forbes – "IRS Announces Retirement Contribution Limits Will Increase Will Increase In 2025" (November 2024)

<sup>12</sup> Source: IRS – "401(k) limit increases to \$23,500 for 2025, IRA limit remains \$7,000" (November 2024)