Year-end conversation starters

The end of the year can be a great time to check in with clients – to make sure they are on track and look for opportunities to make smart financial moves – but it's especially important now given the government transition in the new year and the expectation of tax changes ahead. Clients may have questions about what they are hearing and what they aren't. Here are a few ways to start the conversation.

For the client with retirement accounts

Individuals who are still working may need a reminder to maximize individual retirement account (IRA) and 401(k) plan contributions before year end to qualify for any eligible income tax deductions. And anyone considering a Roth IRA conversion must complete it before December 31 for the income to be included in this year's taxable income (depending on eligibility). For those individuals who have already started taking required minimum distributions (RMDs) from their retirement accounts, those too must be taken before year end to avoid tax penalties. Another important reminder: Certain beneficiaries of inherited IRAs will be required to start taking RMDs in 2025. Recently issued final RMD regulations confirmed that if an account owner had already begun taking RMDs, a beneficiary subject to the 10-year rule must continue taking annual distributions each year. These accounts must still be emptied by the end of year 10.

For the philanthropically inclined

Now is the perfect time to explore tax-optimized gifting strategies that align with a client's philanthropic goals. Even if those goals aren't yet defined, gifts can be made now and decisions made later. For example, a client who contributes to a donor-advised fund can get an immediate tax deduction and the ability to stretch their giving out over many years. For the 2024 tax year, cash donations to qualified charitable organizations are generally limited to 60% of an individual's adjusted gross income (AGI), which is significant. If a client has stock they want to donate, this can be an even more tax efficient way to give. And don't forget about qualified charitable distributions (QCDs) from a retirement account if you're over 70.5. In 2024, eligible IRA owners can make QCDs of up to $105,000 per year to charity. QCDs offer a great way to accomplish philanthropic goals and help mitigate the tax inefficiencies inherent in taking distributions from or passing down, retirement accounts. Additionally, these gifts can offset RMDs for clients who need to take them.

For the grandparent who wants to maximize their gifting

There are opportunities to give a great deal without facing gift taxes. The annual exclusion amount – which you can gift per person, per year, without eating into your lifetime exemption amount – is $18,000 in 2024. Making gifts of the annual exclusion amount can be an effective, simple way for a client to move a significant amount of money out of the estate on a regular basis. For example, say married clients have three children and seven grandchildren and each spouse makes an annual exclusion gift to each of their children and grandchildren. They can give a total of $360,000 in 2024 in annual exclusion gifts. That removes up to $360,000 from the estate, along with any future appreciation or income attributable to those assets.

For the investor who is concerned about after-tax returns

You are likely reviewing client portfolios and rebalancing year-round, but year end is always a good time to revisit loss positions one last time to see if it makes sense to cash out. Selling stock positions with an unrealized loss can help offset current and future capital gains. And today's gains can offset losses in the future. A capital loss can offset up to $3,000 of ordinary income and capital gains. Plus, unused losses can be carried forward. If clients don't have substantial current capital gains but are expecting them in the near future, they might consider recognizing those losses now, especially if the position is expected to rebound. It's also a good time to consider other things you can do to help make your portfolio more tax efficient, like reinvesting cash in exchange traded funds or separately managed accounts.

For the client who is trying to predict the future

Clients want to discuss the 2017 Tax Cuts and Jobs Act ("TCJA"), a landmark tax bill that lowered income tax rates, capped deductions for state and local taxes and roughly doubled the estate and gift tax exemption. Many provisions of TCJA are set to sunset at the end of 2025, but the incoming Trump administration will likely make extending provisions of TCJA a high priority. Given the Trump administration's appetite to enact sweeping and long-lasting tax legislation, the Republican majority will likely try to protect and extend the gift and estate tax exemption as well as the income tax rates contained in TCJA. The outlook for other relevant aspects of TCJA, including the $10,000 limit on the deduction for state and local taxes (commonly referred to as the "SALT deduction") is less clear given the mounting fiscal deficit pressures. Some taxpayers may be tempted to wait and see with respect to federal income tax planning, deferring income to the future in the hope that income taxes may be reduced. But there is no guarantee of lower income taxes in the future. Similarly, estate and gift tax exemptions are at historically generous levels. While those elevated exemptions may be extended beyond 2025, if it makes sense for clients to take advantage of those exemptions now and move assets out of their estate, there may be no reason to wait for Washington's next move. Remind your clients – not only are they taking advantage of an exemption and removing assets from their potential taxable estate, they are also removing the future appreciation on those assets from their estate. Put another way, most wealth planning strategies that made sense before the election probably still make sense now.

For the client who just needs a check-up

Year end is also a good time to review client portfolios and long-term goals and objectives. Remind clients to update beneficiary designations for retirement accounts and insurance policies, make sure assets are titled appropriately (e.g., in the name of a revocable living trust) and check in on the estate plan to make sure it's up to date.