

From The Desk Of Austin A. Frye...

## Taking Stock And Taking Action



### How To Move Forward Into 2022

As we come to the close of the second year of the pandemic, it may feel a bit like we're living in the movie "Groundhog Day." While we are not waking up every morning to Sonny and Cher's "I Got You Babe," it does seem as though we are unable to escape daily reports detailing the latest "variant of concern." As the talking heads chatter interminably about the continuing uncertainties, we may feel like throwing a shoe at the TV and yelling "STOP...ENOUGH!"

But when we take a step back to assess the situation, it's clear we are far better off currently than we were at this time last year. We have a variety of vaccines and other medical innovations...but there is uncertainty. As always during such times, the advice I give my clients is to **focus on the things we can control**. While we cannot control world and market events, we can create and execute plans that help us to stand firm and confident when adverse situations and uncertain times arise. The key items I have been addressing with clients, and that everyone should be addressing as we end 2021, are as follows:

### **1. Portfolio Rebalancing**

With the stock market hovering around record levels, it's more important than ever to be sure that you are comfortable with the risk levels of your portfolio. While we make every effort to have your portfolio allocation closely follow your individualized risk profile, we welcome any input from you on this topic.

Striving to be as tax-efficient as possible means that if you have any tax losses on positions in taxable accounts, it may make sense to harvest those losses to offset any gains. Rebalancing positions in IRAs or other retirement accounts should be looked at closely, too. However, at the end of the day, while taxes are a consideration, it's most important to ensure that your portfolio reflects an asset allocation that is aligned with your goals and risk tolerance as the markets sit at or near all-time high levels.

### **2. Tax Planning**

This is an excellent time to look for ways to reduce your 2021 tax hit. Items such as charitable donations, retirement plan contributions, and deciding in which year to make some deductible expenditures may come into play, as can planning for required minimum distributions.

### **3. Charitable Contributions**

If you're feeling especially charitably inclined, 2021 provides unique opportunities. As a carryover from legislation passed last year, charitable contributions made with cash can be deducted up to 100% of adjusted gross income. So, for instance, you might bundle several years' contributions into 2021 in order to take full advantage of this tax deduction. Also, charitable deductions can be used to offset taxes on income from things such as Roth IRA conversions, capital gains from stock sales, retirement account distributions, and many other types of income.

Another charitable giving tactic to consider for 2021 is using appreciated securities as the gifting vehicle. Given the stock market gains of 2021 and the past few years, you most likely have significant unrealized capital gains in your taxable accounts. Donating those appreciated shares directly to a charity offers a tax deduction based on the market value of the shares on the date of donation, and you won't have to pay any capital gains taxes on them. This can also be helpful in rebalancing your portfolio without triggering taxes on these transactions. Which leads me to...

### **4. Estate Planning**

While never a popular topic, the end of the year is a good time to review your estate planning needs and plans. Has anything changed during the year? Are these changes properly reflected in your beneficiary designations or estate planning documents? Life events such as marriage, divorce, or the death of a spouse, as well as the birth or adoption of a child, or a child getting married, or opening or closing a business can all trigger desired changes. Now is the perfect time of the year to ensure that any needed actions are taken.

For business owners, thinking about succession planning may have an impact on both your estate and retirement planning. And regarding those possible legislative changes winding their way through Congress? Some of the issues that might not make the final cut this time around may resurface later; now is a good time to take the long view and ensure that your estate planning is on track and that these issues are on your radar for the future.

### **5. Retirement Plan Contributions**

Make sure you're on track to maximize contributions to various retirement plans! If you might come up short of the maximum possible contribution to your 401(k) or other employer-sponsored retirement plan, now is time to increase your salary deferrals for the rest of the year, and to ensure that they're in line for 2022. For those who are self-employed, you should be fully funding your solo 401(k) or SEP-IRA. There's a lot of opportunity here and each of you has a unique situation, but the overall message remains the same: there's no better time to maximize your tax savings and retirement savings for 2021!

### **6. RMD Planning**

Have you taken your Required Minimum Distributions yet? It's critical to do so by year-end to ensure you won't be hit with penalties that can be quite steep.

### **7. Roth IRA Conversions**

Another topic that has gotten a lot of press lately is Roth IRA conversions, which can be an effective financial planning tool. With the changes to the rules for most non-spousal beneficiaries of inherited IRAs, converting to a Roth IRA can be a way for the account owner to pre-pay taxes for their beneficiaries, and may reduce your future RMDs. However, it is important to evaluate whether the benefits offered outweigh the impacts of tax liabilities to be paid now versus later.

All in all, there's a lot to look forward to in the year ahead. Let's maximize the good impacts that 2021 may have had on your finances and set yourself up for financial planning success in 2022. Please give me a call to discuss these or other matters so that we can prepare for and make the most of whatever comes our way!