

JUSTABOUT

WEALTH MANAGEMENT

IMPORTANT FINANCIAL PLANNING TIPS FOR THE END OF 2021

The end of a year marks the deadline for certain financial strategies as well as a chance to review things that have been done over the past year. In light of the recent tax law changes and the volatility of the markets in 2021, there are definitely some strategies that should be examined in order to start 2022 off on the right foot. Below is a list of seven of the most important of these items.

1. **Roth Conversions** – This is one of the most frequently discussed topics with our clients today. If you have large sums of money in traditional IRAs or 401(k)s, you should consider whether converting some or all of it into Roth accounts makes sense. Due to the SECURE Act limiting distributions by non-spouse beneficiaries to 10 years maximum, this strategy has become much more important. The taxes paid by the beneficiary at distribution could be very high if forced to pull it all out in 10 years. Another conversion benefit is that you do not need to take required distributions at age 72 from Roth accounts. The determination of whether this strategy makes sense is on a case-by-case basis because many factors need to be considered.



2. **Gift**ing – Gifting to your kids, grandkids, and others should be done by the end of the calendar year. For 2021, the maximum gift to avoid filing a gift tax return is \$15,000 per beneficiary per donor. That number will increase to \$16,000 for 2022. It is important to note that gifts above these amounts can be done, but a gift tax

return must be filed. No taxes will likely be due unless the gift is above \$11.7 million, though! (That is the lifetime amount that can be excluded from estate and gift tax combined per donor.)

3. **Charitable Giving** – Charitable gifts should be given before the end of the year to be included on the 2021 tax return. Due to the current higher standard deduction for taxes, many smaller charitable gifts cannot be included now. However, you may consider setting up a donor advised fund. This will allow you to contribute larger amounts at one time and take the deduction, but you do not need to distribute the money to charities all in that one year. It can be spread out over time.
4. **Capital Gains Distributions and Tax Loss Harvesting** – If you own stock mutual funds in taxable accounts, such as joint, individual or transfer on death (TOD) accounts, you may be hit with large capital gains distributions in 2021. The estimates we are seeing are very high in some cases. You should review this to make sure you are protected as much as possible by selling investments with losses (or small gains in some circumstances) and rebuying them once the distributions have been paid out.

5. **Portfolio Rebalancing** – The end of the year is a good time to consider portfolio rebalancing. 2021 brought large gains for stocks but very low ones for bonds and cash, so you may want to consider a rebalance back to the risk level you had at the beginning of the year or to one more appropriate for your current risk tolerance.
6. **Review 401(k), IRA, and HSA Savings** – It is a good time to review how much you are adding to your 401(k)s, IRAs, and Health Savings Accounts (HSAs). If you received a raise for 2022, you should consider bumping up your contributions to these plans. In 2022, the 401(k) max will be \$20,500 if under age 50 and \$27,000 if over age 50. IRA max contributions remain unchanged from 2021 at \$6,000 under age 50 and \$7,000 over age 50. As for HSAs, the 2022 max will be \$3,650 per individual or \$7,300 for a family, which is a slight increase. HSAs allow for a \$1,000 annual catch-up over age 55.
7. **Control Debt and Spending During the Holidays** – It is easy to spend a lot of money during this time of year if you are not careful. You do not want to put yourself behind the eight ball for 2022 by taking on a lot of debt at the end of 2021. Review your debt levels and set limits to keep yourself from going into too much debt during the holidays!

If you have questions about any of these items, feel free to reach out to us for help! Happy Holidays!



David Hoffmann has 24+ years of experience as a Financial Advisor and is the CEO of Justabout Wealth Management. As a CFP® designee, he counsels clients on financial planning and investments. He also serves companies by providing retirement plans.

For further information, contact David at:
 Justabout Wealth Management
 375 Southpointe Blvd, Suite 360
 Canonsburg, PA 15317
 Office: 724.754.1440
justaboutwealth.com

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