

December 12, 2022 – Wealth Planning Commentary

The end of the year is less than three weeks away, and a few planning items are still actionable.

Required Minimum Distributions (RMD)

If you have an IRA or other qualified retirement accounts and you are subject to RMD, confirm that adequate withdrawals were taken. Penalties for not doing so are high: the amount of the RMD that is not withdrawn is taxed at 50%, which is higher than the federal income tax rate.

IRAs Inherited after Jan 1, 2020

IRAs that were inherited by non-spouse beneficiaries after Jan 1, 2020, are subject to the 10-year rule. Simply put, the rule means that all funds must be withdrawn within ten years of the previous owner's death. The IRS is in the process of codifying new rules to require distributions during the 10-year period in instances where the original owner was taking RMD. These rules have not been approved and beneficiaries are exempt from RMD in 2021 and 2022. We expect the new rules to pass later this or early next year and go into effect in 2023.

Maximize the annual exclusion, direct gifts

An individual may give away up to \$16,000, and a couple \$32,000, to any person gift tax-free. This is the annual exclusion amount. These amounts may be given to as many people as desired. If the gift is to an irrevocable trust, most trusts that own life insurance policies fit into this category. Remember to draft and execute the Crummey letters.

Gifts paid **directly** to an educational or medical institution are tax-free and independent of the annual exclusion amount. If you are paying for someone's tuition or medical bills, do not give the money to the individual to pay the bill, wire cash, or write a check to the institution.

Donations

Charitable donations provide you with a tax deduction, reduce your taxable income, and benefit an organization you wish to support. For donations to charity to count as a tax deduction in 2022, they must be given by the end of the year. It is likely advantageous to give securities that have appreciated highly. There are two benefits: a tax-deductible donation and avoiding paying tax on the gain.

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