Your *Trust* Matters

October 2022 Newsletter

MidWestOne™ TRUST SERVICES

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Year-End Planning Strategies

With the arrival of the fourth quarter, now is the time to start having year-end planning conversations with your financial, legal, and/or tax advisors. The strategies briefly highlighted below are not appropriate for everyone but should serve as a guide to help you navigate your specific situation.

Back-Door Roth Contributions

This is a legal way to get around the income limits that usually prevent high earners ($214,000 for joint filers) from contributing to Roth IRAs, but it must be done correctly to avoid adverse tax consequences. First, you make non-deductible contribution to a Traditional IRA, then immediately thereafter convert the contribution to a Roth IRA. You should not consider this strategy if you have an existing Traditional IRA, as a special rule would apply that would make most of the conversion a taxable event.

Roth Conversions

In its simplest terms, this is converting assets from a pre-tax retirement account to an after-tax retirement account, such as a Roth IRA or Roth 401(k). Although there are contribution limits, there are no limits on conversions. The goal with the conversion is the ability to make tax-free withdrawals at some point in the future, which is particularly appealing if you expect to be in a higher marginal tax bracket in retirement. Also, there are no Required Minimum Distributions (RMD) during the account owner's life. Lastly, given current market conditions, now is a particularly good time to be converting assets. This strategy should only be considered if you have sufficient cash in a non-taxable account to cover the tax liability associated with the conversion.

Qualified Charitable Distributions (QCD)

A QCD is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70½ or over that is paid directly from the IRA to a qualified charity. The distribution is limited to $100,000 per person, per year.

This is a wonderful, tax-efficient strategy to deploy if you're charitably inclined and don't need some or all of your RMD. We've seen way too many situations where individuals take their RMD, then gift to their favorite charity later in the year with cash, and because they take the standard deduction, their gift is not deductible.

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Harvesting Portfolio Losses

Through September 30, 2022, all major indexes are down: S&P500 (-25%); DJIA (-21%); NASDAQ (-32%); MSCI EAFE (-29%); MSCI-EM (-29%). Now is a good time to make lemonade out of these lemons. If you wish to change portfolio objectives, rebalance your asset allocation, reduce stock concentrations, remove a poor-performing stock altogether, or just wish to reduce your tax obligation, you should be working with your investment advisor to look for opportunities to offset capital gains with capital losses.

Other Strategies to Consider

- Maximizing qualified plan and/or IRA contributions
- Annual exclusion gifts to individuals
- In-kind charitable gifts of low-basis investments

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