AVENTO
TAX & WEALTH MANAGEMENT GROUP
A tax-smart approach to financial independence

Top 10 Year-End Tax-Smart Investing Strategies for 2023

It's hard to believe it's already November, which means it's time to start thinking about tax-smart investment strategies that you may want to implement before the end of the year. ***Your goal here is to create tax alpha with your portfolio, increasing your after-tax rate of return without added risk.***

The following is a list of 10 financial action items you should consider implementing before the end of the year to maximize your rate of return while also minimizing your tax liability.

1. ***Read the section titled "Tax Alpha to the 2nd Power Facts and Strategies for Managing Your Investments" starting at the bottom of page 279 of my book.***
2. ***Consider selling some of your losing positions within your non-retirement account so that you can use this to offset capital gains.*** Tax-loss harvesting is not something you should do only in December. ***This is an ideal time to dive into this tax saving strategy.***
3. If you do take advantage of tax-loss harvesting, please remember to ***avoid the wash-sale rules***, which simply state you cannot buy back the same security within 30 days and still take advantage of these losses. ***If you still want to stay fully invested, you can buy a similar security, but not the identical one.***
4. ***You should try to avoid mutual funds that frequently buy and sell securities within their funds***, since this could potentially generate short-term as well as long-term capital gains, even if you hold onto the mutual fund and don't sell within the year. ***This is equivalent to buying into a tax liability, so you must take this into consideration, especially if you're planning to buy a mutual fund in November or December.***
5. ***Determine if you are eligible for the 0%tax rate on long-term gains and qualified dividends.*** For 2023, if taxable income other than long-term gains and dividends does not exceed $44,625 on single returns ($59,750 for head-of-household filers or $89,250 for joint returns), then your qualified dividends and capital gains on sales of investments owned more than a year are taxed at a 0% federal rate until you go over the threshold amounts.
6. For retired investors, the 0% tax rate on gains and dividends could avoid having you pay federal income tax on this income, but this income still counts as part of your adjusted gross income, which could make some of your Social Security benefits subject to tax. Also, many states, like New York, do not offer this tax break, so you could owe state and local taxes, even if there is none generated at the federal level. ***You should have a tax projection prepared before taking advantage of this strategy so you can determine the true savings before the end of the year.***
7. ***If you are in a lower income tax bracket this year and expect to be in a higher bracket in future years, you may want to consider doing a Roth conversion before December***

31st to lock in these lower tax rates. It's always best to do a taxable Roth conversion when your retirement account value is low and you expect your future tax rate to be higher, so that all future gains will forever be tax-free, assuming you meet all of the other requirements.

8. ***Consider investing in a 529 plan for your children or grandchildren's future education.*** All income earned in a 529 plan will be tax-free when used to pay for qualified education expenses, and many states also provide an upfront state tax deduction. ***To take advantage of this for 2023, you must complete the 529 funding on or before December 31st, so don't delay, get this done today.***
9. ***You should consider putting your idle cash to work, since short-term interest rates have gone up significantly since the beginning of the year.*** In addition to money market funds and CDs, you should strongly consider T bills if they are appropriate for you. With 6-month T bills currently over 5% and the fact that the interest earned on them is free of state and city income tax and 100% guaranteed by the US government, this may be a terrific place to park some of your idle cash.
10. ***If you sold off some of your investment holdings this year and have realized a significant capital gain ($100,000 or more), you may want to consider investing in a Qualified Opportunity Fund.*** This tax-smart strategy could allow you to defer capital gains tax until the end of 2026, and best of all, any additional capital gain on this investment could be tax-free if it's held for 10 years or longer. You must be an accredited investor in order to take advantage of this. There is also a special rule that states you must reinvest the capital gain within 180 days from the day you completed your sale.

As you know, I am dedicated to helping you achieve and maintain financial independence in the most tax-efficient manner by providing you with advice and guidance to maximize your after-tax rate of return.

As always, if you have any questions, please don't hesitate to reach out to me or any one of my comprehensive wealth management team members.

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