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WEALTH MANAGEMENT



Creating Wealth by Intentional Design

December 9, 2021

Monthly Insight

**Setting Your Sails in Uncertain Weather: Tax-Efficient
Moves for Your Portfolio**

As we move toward the end of 2021, the “weather patterns” for the taxation environment may be shifting. The Biden White House and the Democratic Party are pushing for a package involving higher marginal rates for taxpayers in upper income brackets, and a recent proposal floated by the House Ways and Means Committee calls for a long-term capital gains rate of 25% for high-income taxpayers, up from the current rate of 20%. In fact, with certain surcharges on net investment income, the rate for some taxpayers could be as high as 28.8%. There is also talk of making the rate hike retroactive for gains realized from September 13, 2021, onward. The increase would apply to single filers with income at or above \$400,000 (\$450,000 for those married filing jointly).

Of course, any such change in the tax code would still require ratification by the Senate, which is not a given when considering Democrats’ razor-thin majority and the well-publicized skepticism of certain centrist Democratic senators. In other words, while an increase in the long-term capital gains tax rate is on the table, uncertainty remains around when it will be enacted and what its final form would be.

On the other hand, tax-efficiency in your portfolio is never a bad idea. So, as we approach the end of another year, consider the following ideas for “trimming the sails” on your financial vessel. Even if you run into headwinds because of higher tax rates in the future, you’ll be in a

better position to navigate by reviewing your portfolio and other financial resources in light of these time-tested tips.

1. For pre-retirees, maximize tax-advantaged savings.

Whether it's a 401K sponsored by your employer (or a 403B, if you work for a non-taxable entity like a nonprofit or a school district) or an IRA you contribute to entirely on your own, your dollars have the opportunity to grow tax-free while they remain in the account. This helps your retirement assets accumulate more quickly than if they were subject to the ongoing taxes that taxable accounts incur annually along the way (such as realized capital gains, dividends, or interest paid). Tax treatments for different types of retirement accounts can differ dramatically from there. For some, you can make pre-tax **contributions**, but **withdrawals** are taxed at ordinary income rates in the year you take them (such as traditional 401Ks, IRAs, and 403Bs). For others, you contribute after-tax dollars, but withdrawals are tax-free—again, with some caveats (Roth 401Ks, IRAs, and 403Bs). Each account type has varying rules about when, how, and how much money you can contribute and withdraw without incurring burdensome penalties or unexpected taxes owed. Your financial advisor is the best source of guidance on which type of plan is best for you.

2. Pay medical costs with tax-advantaged dollars. A healthcare savings account (HSA) offers a rare, triple-tax-free treatment to help families save for current or future healthcare costs. You contribute to your HSA with pre-tax dollars; HSA investments then grow tax-free;

and you can spend the money tax-free on qualified healthcare costs. That's a good deal. Plus, you can invest unspent HSA dollars, and still spend them tax-free years later, as long as it's on qualified healthcare costs. But again, there are some catches. Most notably, HSAs are only available as a complement to a high-deductible healthcare plan, to help cover higher expected out-of-pocket expenses. Some employers also offer flexible spending accounts (FSAs), funded by payroll deductions, that allow employees to pay qualified medical expenses with pre-tax dollars. However, the money deposited into an FSA cannot be rolled over from year to year; it's a "use it or lose it" benefit.

3. Save on taxes and pay for education with a 529 plan. These are among the most familiar tools for catching a tax break on educational costs. You fund your 529 plan(s) with after-tax dollars. Those dollars can then grow tax-free, and the beneficiary (usually, your kids or grandkids) can spend them tax-free on qualified educational expenses. Recent tax law changes allow you to use 529 plans to pay costs for private K–12 schooling, in addition to higher education expenses.

4. Smart tax moves for charitable giving. The donor-advised fund (DAF) is a simple and effective tool for pursuing tax breaks for your charitable giving. Instead of giving smaller amounts annually, you can establish a DAF and fund it with a larger, lump-sum contribution in one year. You then recommend DAF distributions to your charities of choice over future years. Combined with other deductibles, you might be able to take a sizeable tax write-off the year you contribute to

your DAF—beyond the currently higher standard deduction. Especially when uncertainty exists about potentially higher tax brackets in the future, it can make sense to pack several years' worth of giving into one, achieving both a meaningful gift to a valued charity and scoring a bigger tax deduction at the same time. Also, remember that trusts, insurance policies, and other estate planning structures can help families leverage existing tax breaks to tax-efficiently transfer their wealth to future generations. Note that with ongoing negotiations in Washington, DC over the tax treatment on inherited assets, families may well need to revisit their estate planning in the months ahead. Stay in touch with your financial advisor for the latest word on how taxation changes could affect your estate planning.

5. Tax- and expense-efficient investment management.

Beyond tax-favored accounts and strategies, you should also have a goal of managing your day-to-day investment activity in as tax-efficient a manner as possible. This means, among other things, avoiding high-velocity, in-and-out trading that can not only generate excessive capital gains tax liability but also rack up fees that, over time, can detract significantly from your portfolio's long-term performance. Many fund managers try to “beat” the market by actively picking individual stocks or timing their market exposures. Your financial advisor can help you select managers who instead patiently participate in their target market's long-term expected growth. This not only makes overall sense, it's typically more tax-efficient as it involves less, potentially taxable action. Over time, investors who are patient, disciplined, and who adhere to their long-term plan will generally

achieve better results than those who engage in strategies that depend on either chasing “hot” investment ideas or attempts to time the market.

6. Strategically harvest losses and gains. Having an investment plan also facilitates your advisor’s ability to help you identify and make best use of tax-loss and tax-gain harvesting opportunities when appropriate. Tax-loss harvesting typically involves:

1. Selling all or part of a position in your portfolio when it is worth less than you paid for it.
2. Reinvesting the proceeds in a similar (not “substantially identical”) position.
3. Optionally returning the proceeds to the original position after at least 31 days have passed (to avoid the IRS “wash-sale rule”).

You can then use any realized capital losses to offset current or future capital gains, without significantly altering your portfolio mix. Tax-gain harvesting, by contrast, involves selling appreciated holdings to deliberately generate taxable income. Why would you do that?

Remember, your goal is to minimize lifetime taxes paid. So, especially once you’re tapping your portfolio in retirement, you may intentionally generate taxable income in years when your tax rates are more favorable or if you anticipate being in a higher bracket in the future.

As a fiduciary financial advisor and wealth manager, Empyrion Wealth Management aims to keep our clients well-informed and prepared for changes in the tax landscape. Our goal is to relieve our clients of the

burden of day-to-day management, freeing them to pursue their most important charitable, philanthropic, and estate planning goals. To learn more, click [here](#) to read our recent article, “Use It or Lose It? Keeping an Eye on Tax Law Changes.”

Stay Diversified, Stay YOUR Course!

SOCIAL MEDIA DIGEST

In case you missed them, here is a roundup of my latest posts on social media:

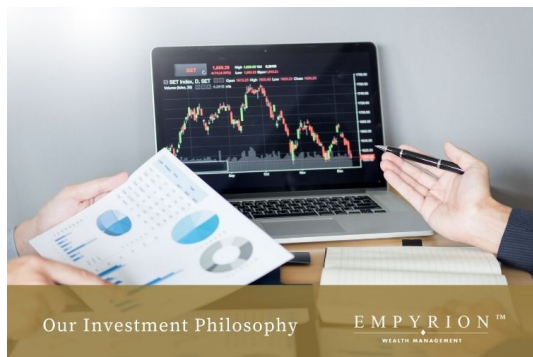


It's important for family stewards, whether grandparents or otherwise, to communicate the message of empowerment with our grandchildren and other important people in our lives.

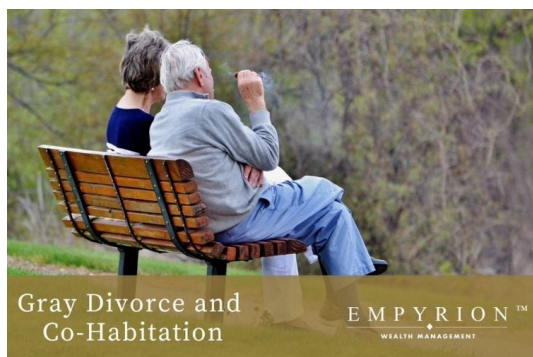
As 2021 comes to a close, it's a good



time to go through your financial and other documents to make sure you're ready to close out the year. Here is a year-end checklist to help you get started.



Empyrion Wealth Management leverages a flexible trading approach that seeks to reduce costs. This flexibility starts with our investment philosophy. [Learn more.](#)



As most advisors know, the majority of the wealth in the U.S. is controlled by baby boomers. However, two rising trends in this demographic—gray divorce and non-marital cohabitation—are creating complications.



KIMBERLY FOSS

President, CFP[®], CPWA[®],
CFT-I[™] Candidate

"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."



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