

2024

Year-End Financial Checklist

As we approach the end of the year, it may be an opportune time to review your investments and year-end tax situation with your Davenport Financial Advisor. It is also an excellent time to begin a broader discussion of your financial goals for 2025 and beyond. The following is a checklist to help you focus on important strategies and opportunities.

INCOME TAX WITHHOLDING

Now is a good time to review if you may be over or under withholding taxes from your paycheck. With the help of this calculator from the IRS (<https://www.irs.gov/individuals/tax-withholding-estimator>), you can estimate how much should be withheld from your paycheck to be on track.

HEALTH SAVINGS ACCOUNTS & FLEXIBLE SPENDING ACCOUNTS

The maximum contribution limit for a Health Savings Account in 2024 is \$4,150 for self-only coverage and \$8,300 for family coverage. For a Flexible Spending Account (FSA), the limit is \$3,200. Generally, FSAs operate on a “use it or lose it” basis meaning whatever amount is not spent throughout the year is forfeited. In the case that your plan does permit any rollover of unused funds to 2025, the limit is \$640.

MEDICARE ADVANTAGE AND MEDICARE PRESCRIPTION DRUG OPEN ENROLLMENT

The open enrollment period to join a Medicare Prescription Drug Plan, change Medicare Prescription Drug Plans, switch from original Medicare to a Medicare Advantage Plan, or switch from one Medicare Advantage Plan to a different Medicare Advantage Plan runs from October 15 to December 7, 2024. It is important to review your prescription drug plan annually to ensure that you have the plan that best fits your needs at the most reasonable cost.

RETIREMENT PLAN CONTRIBUTIONS

The maximum salary elective deferral limit for 401(k), 403(b), and 457 plans in 2024 is \$23,000. Individuals who are 50 and over may contribute an additional \$7,500 per year as a “catch-up contribution.”

IRA CONTRIBUTIONS

The maximum contribution amount for both Traditional IRAs and Roth IRAs is \$7,000 for 2024 (subject to eligibility requirements). Contributions may be made until April 15, 2025 and still be counted for the 2024 tax year. Please note that individuals age 50 and over are eligible to make an additional \$1,000 “catch-up” contribution.

REQUIRED MINIMUM DISTRIBUTIONS (RMDs) ON TRADITIONAL IRAS FOR 2024

Born 1950 or earlier: Annual RMD due by December 31, 2024

Born 1951: First RMD due by December 31, 2024 (this initial RMD can be delayed until April 1, 2025 but will result in having two RMDs in 2025)

Born 1952-1959: No RMD due in 2024; first distribution due in the year individual attains age 73

Seek guidance from your Financial Advisor regarding RMDs on inherited IRAs.

EDUCATIONAL PLANNING

Contributions made by December 31, 2024 to 529 Plans sponsored by the donor's state of residence may be eligible for a state income tax deduction or credit for 2024. 529 Savings Plans have limits set by individual states, and federal gift rules apply to contributions. Please consult the applicable plan sponsor to confirm processing timelines and the deadline for making contributions for the 2024 tax year.

CAPITAL GAINS/LOSSES

Because capital gains and losses during the tax year are netted against one another for income tax purposes, it may be beneficial to adjust a portfolio by December 31. The 3.8% Medicare surtax on unearned income, including investment income, for high-income taxpayers may increase the tax rate. Consult with a tax professional if considering realizing long-term capital gains for this year.

WASH SALES

Securities sold at a loss before the end of the year may be subject to wash sale rules. The IRS states that taxpayers may not take a deduction for a loss if they purchased the same security (or a "substantially identical" security) 30 days before or 30 days after the sale. Please note: if a loss is incurred on December 31, 2024, then November 29, 2024 would be the last day to "double up" on the security to avoid a wash sale, and January 31, 2025 would be the first day to repurchase the same security after the sale.

MUTUAL FUNDS

Exercise caution when buying mutual fund shares in a taxable account near the end of the year. Many funds distribute taxable gains for the year in December. It is important to avoid creating a tax liability for a year's worth of gains on an investment held for only a few days. Please consult your Financial Advisor regarding the capital gains distribution status on any mutual fund considered for purchase between now and December 31, 2024.

CHARITABLE GIVING

Donations to charities generally must be received by the charity by year-end in order to secure a 2024 deduction.

Note: IRA account owners over age 70½ may make direct transfers of up to \$105,000 to qualified charities (often called Qualified Charitable Distributions or QCDs) from their IRA accounts tax-free. These transfers can satisfy Required Minimum Distributions (RMDs) and the annual limit is indexed to inflation.

Note: As a result of the Secure Act 2.0, individuals who are age 70½ and older may make a one-time QCD up to \$50,000 (inflation adjusted) to a charitable remainder annuity trust, charitable remainder unitrust, or a charitable gift annuity.

BENEFICIARY DESIGNATIONS

Now is an excellent time to review beneficiary designations for IRAs, qualified plans, annuities, and life insurance policies. It should be noted that the distribution of these accounts is determined by the beneficiary form, not by the individual's will or trust.

ESTATE PLANNING DOCUMENTS

Review your advanced medical directive, power of attorney, will, and any trusts to confirm they reflect your wishes.

GIFT AND ESTATE TAXES

Up to \$18,000 in cash or securities can be given to any other individual free of federal gift tax this year; however, the gift must be completed (i.e., deposited) by December 31, 2024 in order to count for the 2024 tax year. Direct payments of tuition or medical expenses are not included in the \$18,000 limit.

ROTH IRA CONVERSIONS

If you are considering a Roth IRA conversion, note there are two tax years remaining, 2024 and 2025, before the current tax rates sunset. Barring a change in legislation, on January 1, 2026, tax rates revert to the higher levels in effect prior to the passage of the 2017 Tax Cuts and Jobs Act. Consult your tax professional to determine if a Roth IRA conversion is appropriate for your financial and estate planning goals.

IMPACT OF ONE TIME OR “EXTRAORDINARY” TRANSACTIONS

Certain large transactions that may occur infrequently can have unexpected tax impacts in the year of the transaction or in subsequent years. These transactions include gains from the sale of securities, property, or businesses, income recognized on Roth IRA conversions, distributions from non-qualified deferred compensation plans, etc.

The gain or income recognized on these transactions can result in the loss of itemized deductions, the application of higher income tax or capital gains tax rates, triggering the additional 3.8% tax on unearned income, additional Social Security benefits to become taxable, and/or higher part B Medicare premiums. These issues should be addressed with a professional tax advisor.

NOVEMBER 2024

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