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Wealth Without Borders

Your Cross Border Newsletter

The purpose of this newsletter is to share cross-border wealth management news and insights with our cross border clients and colleagues.

YEAR- END TAX AND FINANCIAL PLANNING CONSIDERATIONS

The end of the year provides a time to review financial plans and see how they should adapt considering your cross-border situation: your Canadian investments integrated with your US investments. It is imperative that you meet with Steele Wealth Management, coordinated with your tax professional, to examine nuances and changes that could impact your year-end planning while keeping in mind your long-term goals. This edition of Wealth Without Borders examines tax and financial planning moves to help prepare you for the upcoming tax season if you are obligated to file a US tax return.

MIND YOUR REQUIRED MINIMUM DISTRIBUTIONS

Be thoughtful about required minimum distributions (RMDs) from Individual Retirement Accounts to ensure that you comply with the rules – especially as some of those rules have shifted throughout the course of the pandemic. Last year, the CARES Act waived all RMD obligations. However for 2021, requirements are back to normal**.** Investors that reach a certain age (70 1/2 for those born before July 1, 1949; 72 for those born after) are required to take RMDs from their IRAs. There is a substantial 50% penalty tax on amounts not withdrawn from your IRA to meet the RMD. Be sure to speak with us to ensure you've met your obligations.

Your first RMD can be delayed until April 1st of the year after you turn 72. If you delay, however, you must also take your second RMD in the same tax year. This can inflate your taxable income for that year, which may affect your tax bracket. Subsequent RMDs must be taken no later than December 31 of each calendar year.

Be mindful of how taking a distribution will impact your taxable income or tax bracket. If you have space left in your bracket or it is a lower income year, you may want to consider taking additional distributions.

TO HARVEST OR NOT TO HARVEST

Evaluate whether you could benefit from tax-loss harvesting, which is selling an investment with an unrealized loss to offset realized gains. The first $3,000 (single or married filing jointly) offsets ordinary income. As well, excess losses can be carried forward to future years. Talk with us and examine the following subtleties when aiming to decrease your tax bill:

- Short-term gains are taxed at a higher marginal rate; aim to reduce those first.
- Don't disrupt your long-term investment strategy when harvesting losses.
- Be aware of "wash sale" rules that affect new purchases before and after the sale of a security. If you sell a security at a loss but purchase another "substantially identical" security (within 30 days before or after the sale date) the IRS likely will consider that a wash sale and disallow the loss deduction. The IRS will look at all your related accounts, such as your 401(k) and IRA, when determining if a wash sale occurred.

LOCK IN YOUR GIFT AND GENERATION-SKIPPING TRANSFER TAX EXEMPTION

Consider locking in all or part of your currently available U.S. gift and generation-skipping transfer tax exemption. The $11,700,000 USD (2021) base exclusion amount could be reduced as early as January 1, 2022 if U.S. lawmakers pass proposed legislation to reduce the exemption to one-half of the existing exemption. Regardless of pending legislation, the current tax law schedules the exemption to return to $5,000,000 as of 2026 (indexed to inflation). Do not miss the opportunity to use the current exemption if you expect your estate to be worth more than the reduced exemption when you die.

Gifts you give to adult children are not subject to Canadian tax attribution rules, but may trigger Canadian capital gains if you give assets that have increased in value from your Canadian cost.

REVIEW ASSET VALUATIONS USING COST BASIS CALCULATIONS

The most recent tax proposals do not include an elimination of the step-up in cost basis at death. Consider revisiting your original estate plan to determine if gifting assets during your lifetime will minimize U.S. estate tax on wealth transfers.

EXCLUDE YOUR ECONOMIC IMPACT PAYMENTS FROM YOUR CANADIAN TAXABLE INCOME

A Canadian tax ruling indicates the Economic Impact Payments represent U.S. tax credits and are not likely to be considered taxable income on your personal Canadian T1 tax return.

CONSIDER GIFTING OWNERSHIP OF YOUR PRINCIPAL RESIDENCE

Consider gifting ownership of your principal residence to your non-U.S. spouse to avoid U.S. capital gains tax on the actual sale of your home. U.S. citizens can only exclude up to $250,000 USD of capital gain from U.S. income tax, unlike in Canada which provides an unlimited capital gains exemption for a designated principal residence. Use your remaining gift exemption to eliminate any U.S. gift tax on the transaction. U.S. citizens have $11,700,000 USD available in 2021 if they have never made any reportable gifts in the past. Lifetime gifts will reduce your estate tax exemption in effect at the time of your death.

MANAGE YOUR INCOME AND DEDUCTIONS

Those at or near the next tax bracket should pay close attention to anything that might increase taxable income and need to plan to reduce taxable income before the end of the year. Determine if it makes sense to accelerate deductions or defer income, potentially allowing you to minimize your current tax liability. Evaluate your income sources such as earned income, corporate bonds, municipal bonds, and qualified dividends to help reduce the overall tax impact. Evaluate your income considering the tax rules from both sides of the border.

EVALUATE LIFE CHANGES

Discuss important life changes with your tax advisors and with Steele Wealth Management. The pandemic has thrown many off track concerning their financial plan with unforeseen job losses and business revenue disruptions. Any number of life changes may impact your circumstances over the past year. Bring us up to speed on your major life changes and ask how they could affect your year-end planning. Give thought to your family members' life changes as well as your own. Life events such as job changes, births, deaths, weddings and divorces, for example, can all necessitate changes and consider updating your estate documents accordingly.

NEXT STEPS

Consider these planning ideas as you prepare to make the most of year-end financial planning strategies. There are several key actions you can take at year-end to help you get a better grasp of where you stand financially. A year-end review with your professional advisors (Steele Wealth Management and your tax professional) helps ensure you are on track to meet your goals and helps identify areas in need of adjustment so your plan can evolve as your needs change. Take the time now to talk about those changing needs, so we can fully understand where you are and where you want to go. These important tax and financial planning moves can help prepare you for the upcoming tax season and better align your finances with your cross-border circumstances and your life vision.

This newsletter has been brought to you by Steele Wealth Management:

Brian Steele, CA, CPA, CFA | Jeannine Campbell | Laura Prust, CIM, CPCA | Sam Ryder, CFA
Matthew Bell, CFA | Kelly Edmonds | Elizabeth Kernohan | Nudrat Ahsan

Phone: (519) 883-6030   Toll-Free: 1 (877) 642-6408

Email: steelewealthmanagement@raymondjames.ca

Address: Unit 1, 595 Parkside Drive | Waterloo, Ontario | N2L 0C7

Website: www.steelewealthmanagement.com