2021/2022 YEAR-END GUIDE

Investor Edition

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INTRODUCTION

How to Use This Guide

To ease some of the burdens of the upcoming tax season, this helpful guide will help you become familiar with important dates, deadlines, challenges, and opportunities that may come up toward the end of the year.

Of course, if you have additional questions about anything included in this guide, please call **(800) 877-7210.**

We look forward to working with you this tax season!

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GETTING STARTED

Year-End Checklist for Tax Season 2022

- **Federal and State Voluntary Withholding:** If you've had a change of address in 2021, you must notify your financial professional by December 10, 2021 to ensure withholding amounts can be corrected within the same tax year. It's recommended you review your account transactions regularly with your financial professional to verify withholdings on distributions have been properly applied. LPL isn't able to reverse or apply any federal or state withholdings in 2022 on distributions that occurred in 2021 for IRA and qualified retirement plan (QRP) accounts. Federal and state withholdings will be reported in boxes 4 and 12, respectively, on IRS Form 1099-R, and these tax payments may be claimed as dollar-for-dollar credits on your tax returns.
- **Required Minimum Distribution:** You're required by the Internal Revenue Service (IRS) to take a required minimum distribution (RMD) from your retirement accounts by April 1 of the year following the calendar year in which you reach age 72 (70½ if you turned 70½ before Jan 1, 2020) and by December 31 each subsequent year. The first year following the year you reach age 72 you'll generally have two required distribution dates: an April 1 withdrawal, and an additional withdrawal by year end (for the year following the year you turn 72). To avoid having both of these amounts included in your income for the same year, you can make your first withdrawal by year end of the year you turn 72 instead of waiting until April 1 of the following year. If you're already meeting your RMD requirements elsewhere and therefore do not need to take a distribution from LPL, the IRS still requires that LPL furnish this information. If you need to make an RMD, please contact your financial professional to help you request this distribution. RMDs generally are determined by dividing the prior year-end IRA balance by the life expectancy factor (or distribution period), as defined in IRS tables. RMDs during your lifetime are based on a distribution period that can be determined using the Uniform Lifetime Table and your age.

  The distribution period is not affected by your beneficiary's age unless your sole beneficiary (for the entire year) is your spouse who's more than 10 years younger than you. If these assumptions aren't accurate, please contact your financial professional for a new RMD calculation.

  Please note: If your IRA is holding assets with values not readily ascertainable on an established exchange or generally recognized market, then these assets may impact your ability to accurately calculate your RMD. Please review the value shown for any such asset on your year-end account statement and provide any other valuation information you may have for such an asset to your financial professional so that a new RMD calculation can be made. Neither LPL nor the custodian of your IRA is responsible for any loss resulting from the valuation of any such asset.

GETTING STARTED

Year-End Checklist for Tax Season 2022 *(continued)*

- **Gifting:** Charitable giving is one way you can positively impact your current tax position. You may gift shares from an LPL account to a third party as a charitable donation using the F172 form. To facilitate a year-end gifting request, please contact your financial professional. LPL must receive signed instructions from you no later than December 10, 2021, to ensure that the gifting of shares takes place and settles in the desired account by year-end. Any requests received after December 10, 2021, will be processed on a best-efforts basis. To facilitate a year-end gifting request in a retirement account, the CM105 form is required.

- **Roth Conversions:** You're likely aware of the benefits of Roth IRAs: tax-free withdrawals in retirement, no required minimum distributions, and the option to leave an income-tax–free legacy to the next generation. To process Roth conversion requests by December 31, 2021, we must receive completed request forms by December 10, 2021. Any requests received after December 10, 2021 will be processed on a best-efforts basis. Due to the Tax Cuts and Jobs Act, a Roth conversion is irrevocable, meaning they can no longer be recharacterized. Once you convert, you cannot revert the money back to your Traditional IRA.

  Note: Traditional IRA account owners should consider the tax ramifications, and age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA. The converted amount is generally subject to income taxation.

- **Cost Basis:** Your cost basis must be adjusted for certain events, including corporate action, wash sale, return of capital, liquidating distribution, OID accrual, partnership distribution, undistributed capital gain, bond premium amortization, market discount accrual, dividends effective for prior year (i.e., mutual funds), etc. Also, if you have any securities transferring from another firm, please be sure to have the cost basis transferred before December 10, 2021. Finally, please keep in mind any fixed income elections for 2021 must be made by close of business on December 10, 2021. This may affect tax reporting for fixed income on the 1099- INT.

- **2022 Requests:** To ensure we're processing your distribution requests correctly, it's important you wait to submit your 2022 distribution requests until the new year. Any requests processed in 2021 will be applied to 2021 tax reporting, so waiting to submit your 2022 request until the new year will ensure we apply reporting of your account transactions in the correct year and avoid sending multiple (and corrected) tax forms to you and the IRS.

YEAR-END PLANNING

What are the Benefits of Converting from a Traditional to a Roth IRA?

Benefits of Roth IRAs include: tax-free withdrawals in retirement (as long as they are qualified), no required minimum distributions, and the option to leave an income tax–free legacy to the next generation. When considering a Roth IRA conversion, it is not a "one size fits all" approach, as a variety of factors will need to be considered and discussed with your tax professional.*

After we discuss your options with your tax professional, if you decide to convert assets from a traditional, SEP, SAR-SEP, or SIMPLE IRA (only available after two years since the first contribution) into a Roth IRA (only available after two years since the first contribution), then we will need to complete the appropriate request form. The year-end deadline for 2020 to submit Roth conversions for guaranteed processing is December 11, 2020. Roth conversions requested after this date will be processed on a best efforts basis due to the increased volume during this period.

Please note: You can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own.

The one-per-year limit doesn't apply to:

- Rollovers from Traditional IRAs to Roth IRAs (conversions)
- Trustee-to-trustee transfers to another IRA
- IRA-to-plan rollovers
- Plan-to-IRA rollovers
- Plan-to-plan rollovers

**Traditional IRA account owners should consider the tax ramifications, and age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA. Required Minimum Distributions (RMDs) may not be converted to a Roth IRA. The converted amount is generally subject to income taxation. The Roth IRA offers tax deferral on any earnings in the account.

Withdrawals from the account may be tax-free, as long as they're considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59½ or prior to the account being opened for five years may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change. Effective January 1, 2018, pursuant to the Tax Cuts and Jobs Act (Pub. L. No. 115-97), a conversion from a traditional IRA, SEP, or SIMPLE to a Roth IRA cannot be recharacterized. The new law also prohibits recharacterizing amounts rolled over to a Roth IRA from other retirement plans, such as 401(k) or 403(b) plans.

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Premier Check Writing Distributions

If you're planning on using Premier Check Writing for a 2021 distribution, please be aware the distribution is reported for the tax year the check is cashed (not the year that check is written). It's strongly recommended you avoid using Premier Check Writing checks on retirement accounts near year-end if the check is intended to be reported in 2021 tax year because neither you nor LPL has control over when the check will be cashed. Distributions are reported in the year the funds leave the account; therefore, checks cashed in 2022 will be reported as a 2022 distribution. All Premier Check Writing distributions are processed without any federal or state withholding. You should speak to your financial professional prior to processing a distribution without withholding as under-withholding penalties may apply to those that choose not to withhold taxes.

Other methods you can use to request distributions near year-end are ACH, wire transfer, or manual check created and mailed by LPL.

What are the Required Minimum Distribution (RMD) Service Deadlines?

New Requests for 2021 Processing: If you're 72 (70½ if you turned 70½ before January 1, 2020), or you have beneficiary accounts subject to RMD, you can establish a distribution schedule for the RMD that recalculates each year. Once the service is established, you will no longer need to manage the RMD process. During the first year you subscribe to the RMD Service, distributions of the calculated RMD amount will be divided to fit the time remaining in the year.

For example, if you choose a monthly frequency with distributions to begin in October, the RMD amount for the year will be divided into three equal monthly installments. Each following year, the RMD Service will automatically calculate your RMD and withdraw it on a monthly basis.

If you'd like to establish RMD Service for 2021, the request should be received no later than December 1, 2021, as RMD payment cycles occur on the 10th and the 25th of each month. If you fail to withdraw a RMD, fail to withdraw the full amount of the RMD, or fail to withdraw the RMD by the applicable deadline, the amount not withdrawn is taxed at 50%. LPL isn't responsible for any penalties related to failure in withdrawing RMDs.

The IRS has guidance on what happens if the RMD is not fulfilled:

https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions

RMD Service can be established for the following types of accounts: Traditional IRAs, Rollover IRAs, SEP IRAs, SAR-SEP IRAs, SIMPLE IRAs, and Beneficiary IRAs (including Beneficiary Roth IRAs). The service is not offered for Roth IRAs as they don't require distributions. Post year-end adjustments from alternative investment/private placement valuation changes will result in an adjusted fair market value. RMD Service will be automatically adjusted to account for any revisions to the FMV or your account.

YEAR-END PLANNING

Correcting Contribution or Distribution

During year-end review of your accounts, you may discover you made an error in a retirement account. If this is the case, to process tax code corrections, you can submit form CM100 for contributions, or CM120 for distributions.

The most common types of errors this form is used to correct are:

- Required minimum distribution (RMD) requests submitted to LPL on or before December 31, 2021, but were not in good order (NIGO). Please be aware this form cannot be used for clients who failed to request their RMD by the applicable deadline. The IRS has guidance on what happens if the RMD isn't fulfilled: https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions.
- Deposit corrections made from a retirement account to a retail account or vice versa.

When submitting these forms, be sure to include a description of the error and a description of the correction you're requesting. It's important you include any supporting documentation needed to support the reason for the error and correction. If the supporting documentation is already on file, you can reference that information on the form. Please be as specific as possible so the request can be processed quickly.

While each request will be reviewed to determine if the correction is allowable based on IRS guidelines, we'll make every effort to correct the error as soon as possible, typically within three to five business days.

Excess and Recharacterization Deadline

If you over-contribute or erroneously contribute to your retirement account, there are processes you can use to resolve these mistakes. The IRS deadline for processing prior year return of excess and recharacterizations is the tax return due date for the tax year of the contribution (including extensions).

If you have excess contributions for 2020, there are several options available. If the 2020 excess contribution occurred between January 1, 2021, and July 15, 2021, we can accept a letter of instruction or form CM100 asking LPL to change the reporting to a 2021 contribution. By changing the tax year of the contribution to 2021, you can leave the funds in the account as a current year contribution or remove it by October 15, 2022.

In general, if the excess contributions for a year are not withdrawn by the date your return for the year is due (including extensions), you are subject to a 6% tax. You must pay the 6% tax each year on excess amounts that remain in your account at the end of your tax year.

Unfortunately, we cannot recharacterize any prior-year 2020 contributions after the deadline. Please discuss this with your financial professional before making any decisions.

Resolving Over-Contributions for 2021: If you have over-contributed to your retirement account, you may need to process a return of excess. To withdraw an excess contribution from an IRA, you need to complete the Move Money, IRA Distribution, Excess Contribution (CM108) form.

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Changes to Voluntary Federal and State Withholding

If you've had an address change in 2021, your financial professional must be notified by December 10, 2021 to ensure withholding amount(s) can be corrected within the same tax year. We won't be able to reverse or apply any federal and state withholding in 2022 on distributions that occurred in 2021 for IRA and QRP accounts. Federal and state withholding will be reported in boxes 4 and 12, respectively, on IRS Form 1099-R, and these tax payments may be claimed as dollar-for-dollar credits on your tax returns.

State Withholding FAQs

When is the latest I can make withholding adjustments?
December 10 is the deadline to make any withholding adjustments.

What should I do if withholding was made to the incorrect state after December 31?
You will need to file a tax return with the incorrect state to claim a refund and should consult with a tax advisor to determine the best course of action.

My address has temporarily changed due to vacationing at a summer home. How do I ensure any state withholding applied on retirement distributions continues to pay to the correct state?
Since your permanent residence address hasn't changed, your financial professional should submit a request to have duplicate statements sent to the temporary address or set up the temporary address as an "interested party" mailing, so state withholding is not impacted and your 1099-R forms will report correctly. It will show state taxes paid to the correct jurisdiction.

Year-End Gifting Guide

Charitable giving is one way you can positively impact your current tax position. One way to maximize charitable giving is to gift stock or mutual funds rather than cash. When you decide to gift rather than sell long-term appreciated shares, you'll potentially get to take a reduction for the full fair market value of shares and avoid tax on the long-term capital gain.

You also have the option of reducing your taxable estate by gifting up to $15,000 per year for single or $30,000 per year for a couple without any tax ramifications to you or the recipients of the gift. This allows the beneficiary to benefit from the gift much sooner than if the inheritance was tied up in the estate until death.

Gifting Shares to Recipient at Another Financial Institution: To facilitate a year-end gifting request, we need to fill out the appropriate form to gift shares from your account to a third party as a charitable donation. The third party's account must already be established at an eligible receiving institution. Signed instructions must be received no later than December 10, 2021 to ensure the gifting of shares takes place and settles in the desired account by year end. Any requests received on or after December 10, 2021, will be processed on a best efforts basis. Please note: Other types of gifting requests are due by November 5, so contact our office as soon as possible to discuss the best option for your request.

For more information on year-end gifting, please review the IRS Gift Taxes FAQ.

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Disposition Request for a Worthless Security Position

As the year-end approaches, you may wish to dispose of your worthless positions. To help alleviate confusion and make this process as efficient as possible, please be aware of the following:

On the F5 disposition request form, there are two options; at least one box must be checked.

- If you intend to sell for $0, please check the bottom box and fax to (858) 202-8325.
  Note: Please remember that you cannot sell for $0 in an LPL retirement account.
- If you wish for a receipt to be issued, you can check the top box and fax to (858) 202-8325.

This form is intended for positions that are no longer trading or no longer have a transfer agent. It's not intended to be used for positions that may simply have low value or securities in a LPL retirement account. If you're unsure if a position is eligible for this process, please contact the Service Center at (800) 877-7210 or your appropriate Service 360 team.

Ineligible positions: This form may not be used to remove warrants, rights, or other classes of securities that expire. Additionally, options, private placements, restricted securities, securities that are going through reorganization, or actively traded securities are ineligible.
All requests to sell a worthless security for $0 need to be received by the P&S Department by 12:00 p.m. PT on December 31, 2021. All requests for a Receipt of Deposit forms need to be received by the Custody Department by December 20, 2021. Any forms received after these dates will be processed on a "best-effort" basis.

Tax Harvesting: Identify Opportunities

Tax harvesting is defined as selling securities at a loss to offset a capital gains tax liability. Tax gain or loss harvesting is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains. For many investors, tax harvesting is the single most important tool for reducing taxes now and in the future. If properly applied, it can save your clients money in taxes and help diversify their portfolio. However, you shouldn't take the decision to sell lightly, and you should carefully consider the timing of any sale. Properly and improperly timed sales can directly affect the overall return your client receives from their investments. Consider working with your clients' tax advisors to determine if tax harvesting is a good strategy this year.