2023 Year-End Tax Planning Guide for Individuals

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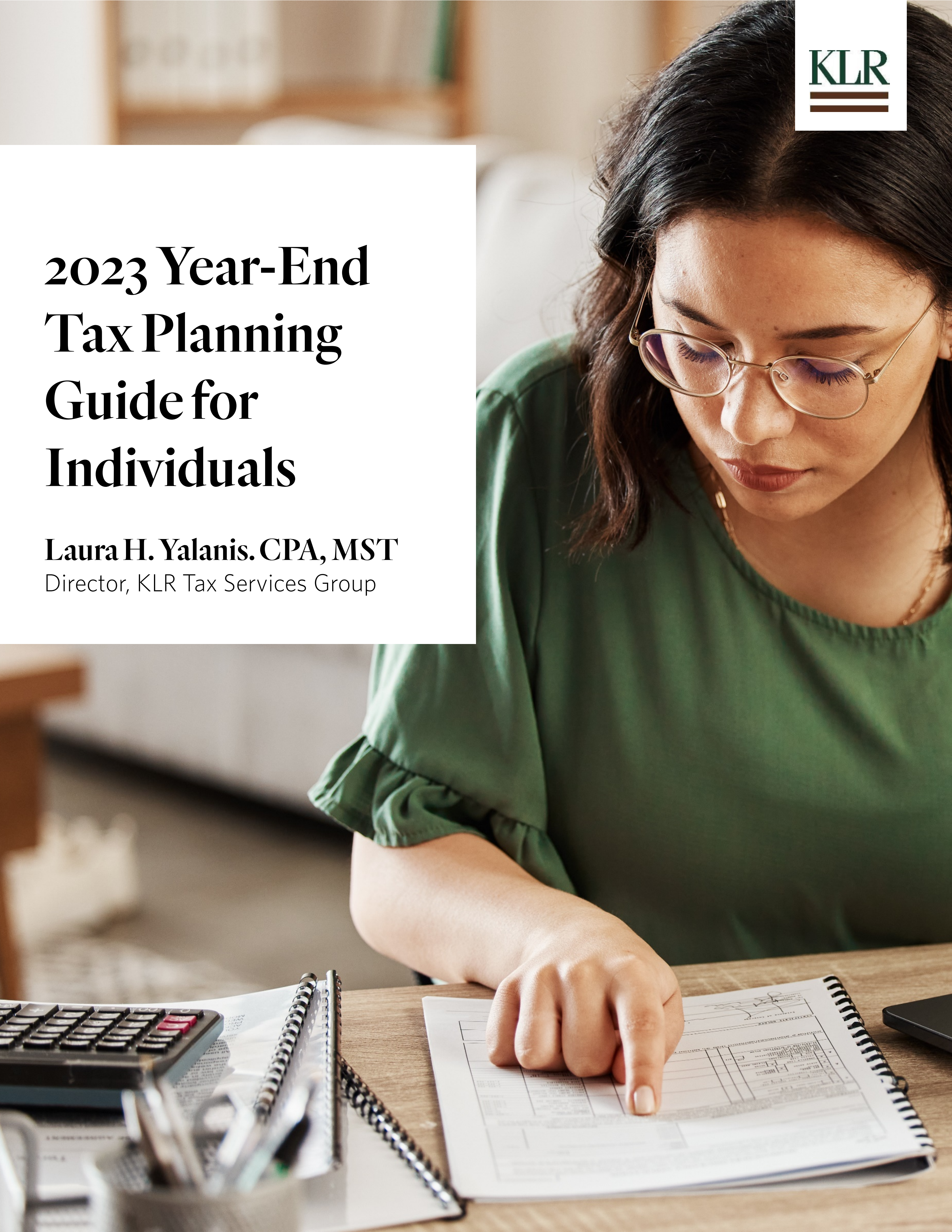

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Year in Review

2023 has shown some economic improvements for many individuals and families. Inflation has slowed, and rising interest rates haven't had as much of a negative impact on the economy as some predicted. In addition, few new tax law changes have gone into effect in 2023, which makes tax planning a little easier. However, there's no universal tax planning strategy that's right for everyone, so timely professional tax expertise is essential.

Economic Improvements but Uncertainty Remains

Despite 2022 concerns about an impending recession, GDP has seen modest growth year to date. Inflation has also, slowed significantly. The U.S. Department of Labor reported that the annualized rate of inflation was 3.7% in September 2023 down significantly from 8.2% in September 2022. With slowed inflation and increases in wages and salaries, inflation-adjusted real income is stabilizing for some Americans. Through September 2023, average inflation-adjusted real average weekly income had fallen a slight 0.1% from the same time last year.

Yet consumers are still having economic concerns. The University of Michigan's consumer sentiment index has increased compared to a year ago, to 63.8 in October 2023 vs. 59.0 in October 2022, but that's still much lower than the 71.7 level at the beginning of 2021. Consumers appear to still be concerned about inflation, as well as stock market volatility.

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Minimal Legislative Activity on Taxes

Given the split of political power in Washington after the November 2022 mid-term elections, there has been little movement on legislation, including tax legislation, in 2023. However, at the end of 2022, the previous Congress passed, and President Biden signed into law, the Securing a Strong Retirement Act 2.0 (SECURE 2.0). It has some significant provisions affecting individuals that have already gone into effect:

- Increases age required minimum distributions (RMDs) must begin from 72 to 73,
- Reduces penalties for failing to take full RMDs from 50% to 25%, and
- Allows a one-time qualified charitable distribution (QCD) from an IRA to a charitable gift annuity or charitable trust.

More SECURE 2.0 provisions will go into effect in 2024 and beyond.

Looking Ahead

Currently, many Tax Cuts and Jobs Act (TCJA) tax provisions — including lower tax rates, higher standard deductions, and doubled child tax credits and estate tax exemptions — are scheduled to expire in 2026. With a presidential election, along with House and Senate elections, coming up in November of 2024, the long-term future of these provisions is uncertain. But a repeal of any TCJA tax breaks between now and the end of next year seems highly unlikely.

However, there could be other tax law changes. The new Speaker of the House, Mike Johnson, has expressed openness to including sales and local tax (SALT) relief in a year-end tax package, which could also address the extension of certain business tax breaks and an expanded child tax credit. But, as of this writing, it's uncertain whether any tax legislation will pass before year end and, if a law is enacted, when the changes would go into effect.

Strategic Tax Planning

Given that it's unlikely tax rates will increase next year, the traditional strategy of *deferring* income and *accelerating* deductible expenses might be the right approach for many people for 2023. This strategy will *minimize* your tax obligation for 2023. It can also be beneficial for self-employed people who use cash-basis accounting.

However, if you expect to report more taxable income and potentially be pushed into a higher tax bracket or subject to additional taxes such as the net investment income tax (NIIT) in 2024 but not 2023, you might decide to take the opposite approach: *Accelerate* taxable income into 2023 to the extent it won't push you into a higher bracket this year (or cause you to be subject to the NIIT or other taxes) and defer deductible expenses to 2024, when they'll provide a larger tax benefit if your tax rate is higher.

Notably, Congress passed legislation in 2022 that increases funding for the IRS by $80 billion over the next 10 years. However, the Fiscal Responsibility Act, signed into law in June of this year, immediately rescinded $1.39 billion and pared back the funding by about $10 billion per year for 2024 and 2025. Nevertheless, some of the remaining funding will be spent on additional staffing and technology that may increase the likelihood that you'll be audited, especially if your annual income exceeds $400,000. This underscores the importance of using a qualified tax professional to prepare your tax return to help substantiate any tax breaks claimed in 2023 and beyond.

We Can Help

Each situation is unique. Please contact us to discuss what's right for you in light of your current and expected income, short- and long-term financial goals, and relevant tax laws and legislative developments.

The following is a brief summary of tax planning opportunities for your business to consider before year end, as well as links to relevant blogs we've posted in 2022 and 2023

"Strategic tax planning will be crucial for individuals as we head into 2024. Ongoing inflation concerns, impact of SECURE 2.0 provisions, and anticipation of tax law developments that could occur in 2025, depending on the November 2024 election results, will be the key areas of focus for taxpayers in the New Year. Continuous planning for these issues and how to take advantage of any pro-taxpayer benefits before they expire will be valuable for taxpayers, in light of ongoing uncertainty. I hope you find our Year End Tax Planning Guide for Individuals helpful as you navigate through these challenges and opportunities for you and your family."

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Section 1: Taxes on Income

Should You Itemize or Take the Standard Deduction?

Regular income tax rates apply to ordinary income. This includes wages, self-employment or business income, short-term capital gains, nonqualified dividends, interest and, generally, distributions from tax-deferred retirement accounts.

There are still seven tax brackets under the TCJA, but five of them are slightly lower than under prior law.

2023 Regular Individual Income Tax Rates

10%	12%	22%	24%	32%	35%	37%

When tax planning at year end, focus on your "marginal" rate. That's the rate you'll pay on your *next* dollar of income. Your marginal rate depends on your income and your filing status.

2023 Thresholds for the 37% Rate

Single	Head of Household	Married Filing Jointly	Married Filing Separately
$578,125	$578,100	$693,750	$346,875

Because of the approximately doubled standard deductions available since 2018 under the TCJA, many people who had itemized in the past are now taking the standard deduction — or alternating between these options from year to year using so-called "bunching" strategies.

2023 Standard Deduction Allowances

Filing Status	2023
Single or married filing separately	$13,850
Married filing jointly	$27,700
Head of household	$20,800

When deciding what's right for you, compare the standard deduction amounts to how much you've spent on items that qualify as itemized deductions for:

- Home mortgage interest
- State and local tax (SALT) expenses
- Charitable contributions
- Medical expenses

Note: The standard deduction is adjusted for inflation annually. Given that the rate of inflation has been slowing down, the allowances won't increase by as much for 2024 as they did for 2023. For taxpayers with itemized deductions near their standard deduction allowance, there may be less of an incentive to bunch itemized deductions for 2023, then to take the standard deduction for 2024, because it won't be significantly higher.

Itemized deductions for mortgage interest expense, home equity loan interest and SALT are subject to tighter limits through 2025. Plus, itemized deductions for miscellaneous expenses subject to the 2% of AGI floor have been suspended through 2025 as well.

If you itemize, you can deduct qualified medical expenses that exceed 7.5% of adjusted gross income. So, if you've got significant medical expenditures for 2023, it could make sense to itemize this year.

Through 2025, personal casualty and theft losses may be deducted only to the extent they're attributable to a federally declared disaster.

Will You Owe the Alternative Minimum Tax (AMT)?

The TCJA increased the thresholds at which the AMT kicks in, and it reduced or eliminated some itemized deductions that are normally added back to income in calculating the AMT. Therefore, fewer individuals will owe AMT through 2025.

If you're subject to the AMT, your tax rate may be lower . . .

26% or 28%

. . . but more of your income will be taxed because **certain income items are treated differently,** such as:

- Incentive stock option exercises
- Accelerated depreciation adjustments and related gains
- Tax-exempt interest on certain private-activity municipal bonds

And **certain deductions aren't allowed,** such as:

- State and local income tax
- Property tax

You must **pay the AMT if your AMT liability** is higher than your regular income tax liability.

Section 2: Timing Issues

What Should You Accelerate (or Defer) This Year?

The timing of when you recognize income, or incur deductible expenses, can have a big impact on your tax bill. If you expect tax rates to remain stable or decrease from 2023 to 2024, it's generally beneficial, to the extent possible, to defer income to the next year and accelerate expenses to the current year. This reduces your current year's tax bill.

However, if you expect to be in a *higher* tax bracket in 2024, you should consider accelerating income recognition into this year and deferring expenses to next year. This will maximize income recognition in 2023, when you'll be subject to a lower tax rate.

As mentioned in the preceding section, the standard deduction has been nearly doubled and certain itemized deductions have been limited or suspended through 2025. As a result, more people will take the standard deduction or "bunch" itemizable expenses into alternating tax years. Timing strategies may be limited in years that you take the standard deduction.

Timing strategies can also help you avoid the AMT in 2023 — or they could trigger it if you're not careful.

Common Timing Strategies

Income Items

- Bonuses
- Self-employment income
- Retirement plan distributions
- U.S. Treasury bill income

Expenses

- Charitable contributions
- State and local income taxes
- Property taxes
- Mortgage interest

Section 3: Tax Breaks for Homeowners

Are You Turning Big Expenses into Big Tax Savings?

Taxpayers who benefit from itemizing deductions can claim various tax breaks for homeownership. But some tax benefits will be limited through 2025.

Mortgage Interest and Property Tax Deductions

Keep in mind that these limits do not apply to deductions for rental properties.

$1 million was generally the limit on home acquisition indebtedness under prior law. (For married people who file separately, the limit was $500,000.) Acquisition debt incurred before 12/16/17 is still subject to these limits. That includes pre-12/16/17 debt that is refinanced after 12/16/17, with certain exceptions. In addition, you could generally deduct interest expense on up to $100,000 of home equity debt under prior law.

$750,000 is generally the limit on home acquisition indebtedness through 2025. (For married people who file separately, the limit is $375,000.) These limits apply to home acquisition debt incurred *after* December 15, 2017.

Beware: Under current law, the deduction for interest on home equity debt is available *only* if the loan was used for home improvements. As under prior law, home equity interest isn't deductible for AMT purposes unless it was used for home improvements.

$10,000 is the limit on SALT deductions. This limitation applies to property and income (or sales) taxes *combined*.

Home Office Deduction

Business owners and self-employed taxpayers who use a home office *exclusively* for business can deduct actual expenses allocable to the space, including some that otherwise wouldn't be deductible, such as utilities and depreciation.

Or you can use a simplified calculation of $5 per square foot up to a $1,500 maximum.

The home office deduction has been suspended for *employees* under current law, along with other miscellaneous itemized deductions subject to the 2% of AGI floor.

Renting Out Your Home

Renting out your primary residence or vacation home can have unexpected tax consequences, especially if you rent to a relative. So be sure to review the rules first.

Home Improvements and Taxes

Making improvements to your home can provide tax deductions or tax credits while you own it as well as tax savings when you sell it. But you must understand the difference between repairs and improvements, track expenses carefully and follow the rules for any special tax breaks available for energy efficient improvements, such as those noted below.

Tax Law Changes Affecting Homeowners

- The Inflation Reduction Act (IRA) offers some tax breaks for energy-efficient home improvements, including solar panels, energy-efficient water heaters, heat pumps and HVAC systems. The new law also modifies a credit for new home construction that meets certain requirements. These changes took effect January 1, 2023, so if you invest in qualifying home improvements this year, you may be eligible for a tax break when you file your 2023 return.
- Under current law, the exclusion from gross income for discharge of qualified principal residence indebtedness has been extended through 2025. But, for debt discharged after 2020, the maximum indebtedness eligible for the exclusion has been reduced from $1 million to $750,000 for individuals ($500,000 to $375,000 for married individuals filing separately).
- Treatment of mortgage insurance premiums as qualified residence interest for itemized deduction purposes expired December 31, 2021. As of this writing, it hasn't been extended.

Gain Exclusion on Home Sales

If you sold your principal residence in 2023, you may be able to exclude from your taxable income all (or part) of the gain.

Maximum Gain Exclusion

Single	Head of Household	Married	Married Filing Separately
$250,000	$250,000	$500,000	$250,000

Various tests must be met to qualify for this break, and gain that's attributable to a period of "nonqualified" use of the home may be subject to capital gains tax. Any gain that isn't covered by the exclusion might be subject to the net investment income tax (NIIT) in addition to capital gains tax.

If you're planning to sell a *second* home, consider making it your principal residence for a period long enough to qualify for the exclusion. Or, if it's a rental property and the sale is likely to generate a significant gain, consider a like-kind exchange.

Moving Expense Deduction

If you move for job-related reasons through 2025, the deduction for moving expenses has been suspended, and you must include any employer-reimbursed moving expenses in income. There's an exception for active-duty military, however.

Section 4: Tax Breaks for Medical Expenses

Are You Using Tax Breaks to Combat Rising Healthcare Costs?

Healthcare costs are on the rise, causing many employers to cut back on healthcare benefits. Today, many taxpayers are paying more out-of-pocket for medical expenses than in previous years, often because premiums have increased and/or their plans have higher deductibles and co-payments. Fortunately, various tax breaks can help take the bite out of these increases.

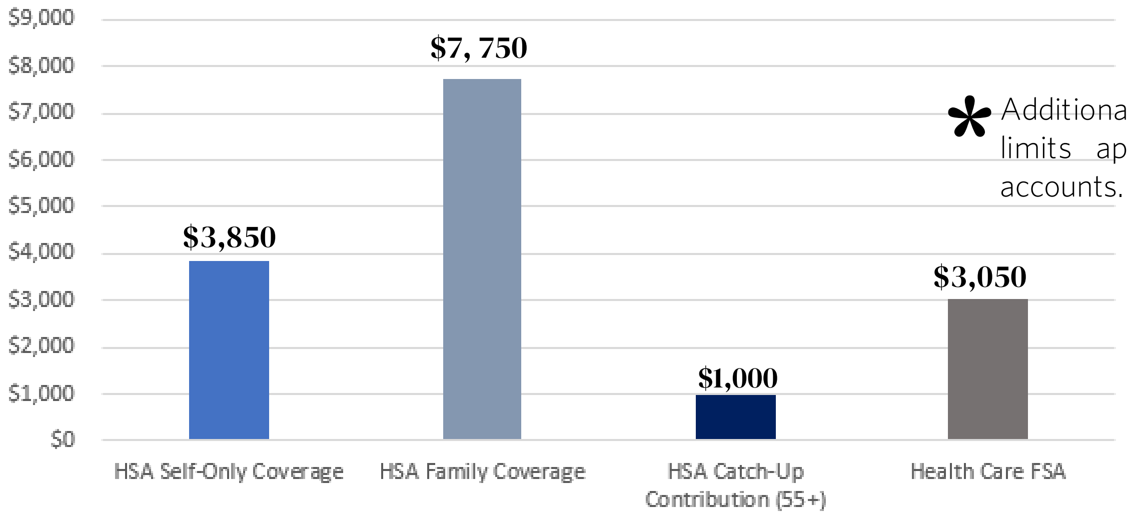
Medical Expense Deductions

Medical expenses are deductible if you itemize, but only to the extent that they exceed the 7.5% AGI threshold. If you have enough other deductible expenses that you expect to itemize this year and your year-to-date deductible medical expenses exceed or are close to exceeding the threshold, you may want to consider “bunching” additional medical expenses into 2023. For example, you could schedule family dental and vision appointments in December and purchase new eyeglasses and contact lenses before year end.

Health Savings Accounts (HSAs) and Healthcare Flexible Spending Accounts (FSAs)

Exceeding the AGI threshold for the medical expense deduction can be challenging for many taxpayers. Fortunately, HSAs and FSAs allow you to make pretax contributions and are used for tax-free funding of qualified medical expenses.

* 2023 HSA & FSA Contribution Limits



* Additional rules and limits apply to these accounts.

Self Employed?

Instead of making contributions to employer-provided HSAs and FSAs, self-employed taxpayers who pay their own medical and dental insurance premiums can generally deduct those costs "above the line." This can lower AGI, making it easier for the self-employed to exceed the AGI threshold for the medical expense deduction for 2023.

Uninsured? Under current law, the individual mandate penalty has been reduced to zero beginning after December 31, 2018.

Recent changes: Under current law, account holders can now use HSAs, health reimbursement arrangements (HRAs) or healthcare FSAs to pay for over-the-counter medications without a prescription, as well as certain menstrual care products.

Section 5: Charitable Deductions

Is Charitable Giving an Important Part of Your Tax Planning?

If you're charitably inclined and you itemize deductions, charitable giving can be one of the most powerful tools in your tax planning toolbox.

You have complete control over when and how much you give. You can generally deduct 100% of a donation to a qualified charity if you itemize deductions.

Current law lifts two major barriers to deducting charitable donations through 2025. First, it **eliminates AGI-based phaseouts** for itemized deductions. Second, it increases the limit on your annual deduction for qualified charitable donations of cash from 50% of AGI to **60%** of AGI. Lower limits may apply to certain donations. Beware of these limits and donation deadlines as you consider year-end charitable giving.

If you decide to take the **standard deduction** (rather than itemize deductions), you could lose out on this tax break.

Three Donation-Related Breaks to Consider for 2023

1. Donate Appreciated Securities Rather Than Cash

Donating publicly traded appreciated stock you've held more than one year offers a double tax benefit:

1. You can deduct the full fair market value of the stock
2. You avoid the capital gains tax you'd owe if you sold the stock

But don't donate stock that has lost value. You'll enjoy a bigger tax benefit by selling the stock, recognizing the loss and donating the proceeds.

2. Make Qualified Charitable Contributions (QCDs) from IRAs

$100,000 is the maximum amount you can transfer from your IRAs directly to qualified charities tax-free if you're age 70½ or older. Under the SECURE 2.0 Act, beginning in 2024, the $100,000 limit will be annually indexed for inflation.

When you make a QCD from your IRA, the income is excludable from AGI. The donation is not deductible on Schedule A. This can yield better tax results, such as avoiding or reducing the net investment income tax (NIIT), for some taxpayers. A QCD can also be beneficial if the amount you wish to donate wouldn't be enough for your itemized deductions to exceed your standard deduction – a QCD allows you to enjoy a tax benefit without having to itemize.

SECURE 2.0 also provides a new QCD option: It allows you to make a one-time QCD of up to $50,000 to a charitable gift annuity or charitable remainder trust.

3. "Bunch" donations with a Donor Advised Fund

With a donor advised fund (DAF), you can bunch donations in one tax year and then the DAF distributes the funds to your favorite charities over multiple years. A DAF allows you to receive a tax benefit in tax years that you bunch donations, while maintaining a consistent cash flow stream for your charities.

Section 6: Tax Planning for Investments

Are Taxes Taking Too Big a Bite Out of Your Returns?

Tax planning for investments is a top priority for many individuals. Of course, there are many non-tax factors you should consider before making investment decisions. But timing gains and losses on sales can help minimize taxes for 2023.

15% is generally the long-term capital gains tax rate, which also applies to qualified dividends. But the rate is 20% at higher income levels.

2023 Thresholds for 20% Long-Term Capital Gains and Dividends Tax Rate

Single	Head of Household	Married	Married Filing Separately
$492,300	$523,050	$553,850	$276,900

Under current law, the tax rates for long-term capital gains and qualified dividends are no longer tied to the tax rates for ordinary income.

Short-term capital gains (gains on investments held for 12 months or less), nonqualified dividends and taxable interest income are taxed at ordinary-income tax rates as high as 37%. You also may owe the 3.8% NIIT.

Taxes on Capital Gains

	2023 Top Rate, Including NIIT
Short-term gain	40.8%
Long-term gain	23.8%
Long-term gain on collectibles, such as artwork and antiques	31.8%
Long-term gain attributable to certain recapture of prior depreciation on real property	28.8%

It's important to know which capital gains rate will apply if you sell an investment and to consider how you can reduce capital gains taxes.

If your net capital losses exceed net capital gains, you're limited in how much loss you can deduct per year against ordinary income. The limits on deducting capital losses against ordinary income for 2023 are:

for most taxpayers **$3,000**

$1,500 **for married taxpayers who file separately**

Loss carryovers can be a valuable tax saving tool. But they disappear once a taxpayer dies.

Passive Activities

Do you materially participate in the businesses you're invested in? If not, beware of the **passive activity rules.** In general, losses from passive activities can be taken only against passive activity income. Unused passive losses can be carried forward until you earn other passive income or you sell an investment.

Income from these types of activities involves some different considerations and planning strategies.

Qualified Small Business Stock (QSBS)

100% of the gain from the sale or exchange of QSBS is tax free, as long as:

1. The QSBS was acquired on or after September 28, 2010, and
2. The QSBS was held for more than five years.

To qualify as QSBS, the stock generally must have been issued by a C corporation that doesn't own assets worth more than $50 million and that's in an active trade or business. Additional rules apply.

Qualified vs. Nonqualified Dividends

Dividends are an important part of your return on investment. But not all dividends are created equal for tax purposes. There are two types of ordinary dividends:

Nonqualified dividends are taxed at ordinary-income rates.

Qualified dividends are taxed at the more favorable long-term capital gains rates.

Stock-Based Executive Compensation

Many high-net-worth taxpayers earn stock-based executive compensation, including:

- Incentive stock options (ISOs)
- Nonqualified stock options (NQSOs)
- Restricted stock

Special rules apply to stock-based compensation. Year-end planning can help you decide whether to exercise options and/or sell stock.

Under current law, qualified employees of eligible private companies may elect to defer paying taxes on these awards for up to **five years.**

Cryptocurrency

Beware: The IRS is cracking down on **unreported Bitcoin transactions**. Virtual currency is property for federal tax purposes, meaning that sales or exchanges of tokens for other goods are taxable events. Failure to report capital gains and losses from these transactions can result in steep penalties.

New digital asset reporting requirements are scheduled to go into effect for returns required to be filed, and statements required to be furnished, after December 31, 2023. Under the changes, digital assets, such as cryptocurrencies, will be treated as cash.

Qualified Opportunity Funds (QOFs)

QOFs are an investment vehicle designed to help direct resources to low-income communities, known as Qualified Opportunity Zones (QOZs). Qualifying investments may include real estate projects or business interests obtained after December 31, 2017.

To be eligible for this preferential treatment, a fund must hold 90% of its assets in QOZ property.

Investing in these funds offers the following tax incentives:

- Capital gain deferral
- Potential permanent gain exclusion of the appreciation

There's no cap on how much money can be invested in opportunity zones. As time goes by, investors get preferable tax treatment on the profits from these new investments, and after 10 years, additional capital gains are tax free.

Properties in underdeveloped communities also may be eligible for other tax breaks, such as low-income housing, historic and energy incentives.

What is the final date for investors to place capital into a QOF?

December 29, 2023 (the last business day of the calendar year). Investors who meet this deadline are eligible for the 10% basis step-up, which grants the taxpayer a 10% reduction in the amount of capital gains recognition on the original capital gains.

Any proposed legislation for opportunity zones?

The Opportunity Zones Transparency, Extension and Improvement Act was introduced earlier this year. The bill is a bipartisan, bicameral bill that, if passed, would extend opportunity zone tax benefits, add additional reporting requirements, sunset certain non-impoverished Opportunity Zones and more.

Section 7: Education Planning

Are You Taking Full Advantage of Tax-Advantaged Funding Options?

Parents and grandparents worry about rising college costs. The College Board estimates that the annual cost for living on campus and attending a four-year college or university for 2022-2023 ranged from:

$27,940 for an in-state public college or university

$57,570 for a private college or university

Fortunately, you can contribute money to various college savings programs. Contributions aren't deductible for federal tax purposes, but earnings accumulate tax-free if you follow the rules.

College Savings Programs

	529 Plans	Coverdell Education Savings Accounts
Annual Contribution Limits?	No, but you might owe gift tax on contributions over the $17,000 annual exclusion.	Subject to annual income limits, and only $2,000 can be contributed per child per year.
Tax on Withdrawals?	No, if the money is used to pay for qualified higher education expenses or certain primary and secondary school expenses.	No, if the money is used to pay for qualified education expenses, including primary and secondary school expenses.

Under current law, Section 529 plan rules allow:

- Up to $10,000 of tax-free annual withdrawals for qualifying elementary and high school tuition per student per year
- Transfers to ABLE accounts

In addition, under current law, up to **$10,000 in lifetime withdrawals from Sec. 529 plans** can be used on qualified student loans.

Beginning in 2024, unused 529 plan funds can be rolled over to the beneficiary's Roth IRA, subject to various rules and limits.

Beware: Large contributions of more than **$85,000** (or **$170,000** if you're married and make a joint contribution with your spouse) to a 529 plan in 2023 will reduce your unified federal gift and estate tax exemption.

Education-Related Credits and Deductions

The tax code also offers several tax breaks for higher education spending for you and your immediate family members. These breaks may be reduced or eliminated based on your modified adjusted gross income (MAGI).

2023 Tax Credits and Phaseouts for Higher Education Costs

	American Opportunity	Lifetime Learning
Annual Credit	100% of the first $2,000 of education expenses; 25% of expenses between $2,000 and $4,000; maximum credit $2,500 per student	20% of the first $10,000 of qualified education expenses; maximum credit $2,000 per tax return
MAGI Phaseout Range for Joint Filers	$160,000-$180,000	$160,000-$180,000
MAGI Phaseout Range for Other Filers	$80,000-$90,000	$80,000-$90,000
Other Notable Rules	Only for the first 4 years of higher education costs	For higher education costs during or beyond the first 4 years

Deductions and Exclusions for Education Costs, Including Student Loan Debt

The deduction for qualified higher education tuition and fees expired December 31, 2020. In addition, through 2025 employees can no longer claim unreimbursed work-related education expenses as a miscellaneous itemized deduction.

Through 2025, if your employer pays some of your student loan debt before year end, you may exclude up to $5,250 of those payments from income. However, you can't deduct the interest expense related to those exempted employer payments.

Up to $2,500 of interest on student loan debt generally is deductible annually, subject to an AGI-based phaseout. You don't have to itemize to claim this deduction.

Although forgiven debt is usually considered to be taxable income for federal tax purposes, student loan debt forgiven after December 31, 2020, and before January 1, 2026, generally won't be subject to federal income tax. However, some states may tax forgiven student loan debt.

Section 8: Retirement Planning

Have You Maximized Your Contributions and Minimized Your Taxes?

Traditional Retirement Accounts

Employees may be eligible to make pretax contributions to various employer-sponsored retirement plans. Plus, these contributions can reduce your AGI and MAGI, which are the triggers for certain taxes and can cause the benefit of certain tax breaks to be reduced or eliminated. There are limits to your annual contributions.

2023 Limits for 401(k), 403(b) and 457 Plans	
Elective deferrals for people under age 50 at year end	$22,500
Elective deferrals for people age 50 or older at year end	$30,000
Defined contribution plan limit	$66,000

Employees without retirement benefits and the self-employed: Consider a traditional IRA.

2023 Contribution Limits for Traditional IRAs	
People under age 50 at year end	$6,500
People age 50 or over at year end	$7,500

The deduction for traditional IRA contributions is phased out if your MAGI exceeds certain levels and you or your spouse participates in an employer-sponsored retirement plan. Traditional retirement accounts grow tax-deferred until withdrawn. So, making the **maximum contribution** allowed by law is typically a good idea.

Roth Accounts

Contribute after-tax dollars to a Roth account now...

...and take tax-free withdrawals **later** as long as your withdrawals are "qualified."

The contribution limits are the same for traditional and Roth IRAs. (The limits apply on a combined basis, however.) Unfortunately, income-based limits may prevent higher-income taxpayers from contributing. If you're above the phaseout limit, consider a **"back door" Roth IRA.**

Given today's comparatively low tax rates, it could be a good time to consider a Roth conversion. This may be a tax-smart move if you expect your tax rate in retirement to be **higher** than your current tax rate.

Beware: You can no longer reverse regular-to-**Roth IRA conversions** under current law.

Retirement Plan Withdrawals

You could owe penalties for withdrawing too soon or too little, depending on your age. Withdrawals are taxed at ordinary-income — not long-term capital gains — rates. Plus, they could push you into a higher tax bracket and/or increase your MAGI enough to trigger the NIIT on some or all of your investment income. (Retirement plan withdrawals themselves aren't subject to the NIIT.)

Recent Changes

The SECURE Act, which went into effect Jan. 1, 2020, made some key changes to retirement plans, and the SECURE 2.0 Act has now made some additional important changes going into effect at various times:

1. People of any age can continue contributing to retirement accounts if they have earned income.
2. The age for beginning required minimum distributions (RMDs) increased from 70 ½ to 72 under the SECURE Act, and it increases again, to 73, under SECURE 2.0, for taxpayers born after December 31, 1950. (If you turn 73 in 2023, however, you'll still be subject to RMDs in 2023.) Check out Your Guide to RMDs for more details on the requirements.
3. Eligible part-time workers can participate in 401(k) plans.
4. "Stretch" IRAs have been eliminated. Now the balance of IRAs inherited by non-spouse beneficiaries (e.g., children or grandchildren) after December 31, 2019, must be distributed within 10 years.
5. If a taxpayer's income exceeds certain levels, SECURE 2.0 allows catch-up 401(k) contributions to be made only to Roth accounts. Fortunately, the IRS has delayed this requirement, which was supposed to go into effect in 2024, until 2026.
6. The catch-up contribution limit will increase for employees age 60 to 63 beginning in 2025.
7. If you're self-employed, SECURE 2.0 allows you to treat SIMPLE IRA or SEP contributions as Roth contributions.

Section 9: Planning Across Generations

Can You Save Taxes by Transferring Assets to Family Members?

"Shifting" income to children or grandchildren in a lower income tax bracket saves your family taxes as a whole. Specifically, consider transferring appreciated or income-producing assets to them before year end, so that tax on any gains (if an asset is sold) or income generated is subject to their rate — which might be as low as 0%.

Kiddie Tax

Income shifting across generations works only for gifts to adults. **"Kiddie tax" rules** generally apply to:

Children under age **18** + Full-time students under age **24**

Annual Gift Tax Exclusion

$17,000 is the gift tax annual exclusion per recipient and donor for 2023. Leverage your exclusions even further with gifts to a Section 529 education savings plan or Coverdell Education Savings Account.

Lifetime Exemption

Through 2025, the TCJA substantially increases the unified federal gift and estate tax exemption and the generation-skipping transfer (GST) tax exemption. It also maintains the step-up basis rules and the portability provision for married people.

$12.92 million is the 2023 lifetime exemption.

$25.84 million is the 2023 lifetime exemption for married couples if they implement proper planning.

40% is the top tax rate that applies to taxable estates that exceed the exemption amount.

Important: Some states (including Connecticut, Maine, Massachusetts, New York, Rhode Island, and Vermont) impose tax on residents' estates. State exemptions are often much lower than the federal exemption.

Even if your estate is below current exemption amounts, there are still important estate planning moves that you could make today to help your family in the future.

Generation-Skipping Transfer Tax

If you'd like to make gifts to grandchildren or others more than one generation below you, be sure to consider the generation-skipping transfer (GST) tax. When applicable, this tax is assessed on top of any gift or estate tax liability.

Fortunately, there also is a $12.92 million GST tax exemption. But both the GST tax exemption and the lifetime gift and estate tax exemption generally must be applied to a GST for it to be tax free. However, annual exclusion gifts are generally also excluded from the GST tax.

We’re Here to Help

December 31 is an important tax deadline that you might not be aware of: With a few exceptions, it’s the date by which most of your tax planning strategies must be implemented to reduce your 2023 tax bill.

Important: Because December 31 falls on a Sunday this year, **December 29** is effectively the last business day of the 2023 tax year.

Contact our tax team to set up a meeting to brainstorm financial planning strategies to help you succeed in the future — and minimize your tax obligations for 2023.

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Laura is a Partner and Director of KLR’s Tax Services Group. She provides tax solutions for individuals and businesses.

Spending time with her clients to understand their specific needs, and then navigating them through difficult tax and business situations, is what she enjoys most.

KLR is one of New England’s premier accounting and business advisory firms. With 280+ team members and offices in Boston, Geneva, Lausanne, Newport, Pawtucket, Providence, Shanghai and Waltham, KLR provides a wide range of services to both individuals and businesses.

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