Tax Planning

2023 Year-End Tax Guide

No major income tax reforms are on the table for Congress as we end 2023. The larger concern in the near term is the negotiation of a spending bill to avoid a government shutdown, along with addressing increasing foreign policy issues. Moving to 2024, we may see focus shift to reforms for small business and discussions about whether to extend or let the Tax Cut and Jobs Act tax changes sunset in 2025, as the sunset will likely increase tax rates for many.

Income Tax Rates Adjusted

Rates Remain the Same; Limits Adjusted

For 2023, the middle tax bracket (24%) caps at $182,100 for single and $364,200 for married taxpayers[1]. The top bracket (37%) starts at $578,125 for single and $693,750 for married taxpayers.

Standard deductions grew to $13,850 for single and $27,700 for married taxpayers. Accordingly, you should review your specific situation to see if your tax withholding election at work remains appropriate to meet your tax liabilities.

If you itemize there are only deductions for charitable contributions, mortgage interest and state and local taxes. Most other itemized deductions were eliminated. Despite ongoing debate, state and local tax (SALT) deductions are still capped at$10,000.

Moderate COLAs for 2024

Arriving a bit later than usual this year, the COLAs were moderate. The large increases that we saw for 2023 were not repeated in 2024. For example, the 24% bracket cap increases to $191,950 single/$383,900 married, and the top tax bracket of 37% begins at $609,350 single/$731,200 married.

Standard deductions for 2024 increase to $14,600 single /$29,200 married.

SECURE 2.0 Opportunities

Retirement reforms passed in late December 2022, commonly referred to as “SECURE 2.0”, expanded tax credits for small business retirement plan start-up costs, provided a new tax credit for small business retirement plan contributions, increased required minimum distribution age to 73, and provided for additional “Roth” savings opportunities for SEP, SIMPLE and employer matching contributions in 2023 to name a few. SECURE 2.0 contained more than 90 individual provisions which have effective dates that span 10 years. Many of the changes either became effective in 2023 or will become effective in 2024.

One highly anticipated SECURE 2.0 opportunity which becomes effective in 2024 involves the ability to move long-term unused 529 education savings plan balances to a Roth IRA. The balances must have aged 15 years, and you are limited by both the annual Roth IRA contribution amount ($7,000 in 2024) and a lifetime limit of $35,000. Earned income is required to fund the Roth IRA from the 529 savings plan, but the Roth IRA modified AGI limits do not apply. Also, no 529 plan contributions or earnings from the prior five years can be used to fund the Roth IRA.

[1]Note: All reference to “married taxpayers” means married filing jointly.

Top Ten Tax Tips for Year End

Though there are minimal tax changes this year, it's important to review many of the traditional year-end planning tips available. As you review our top ten tax tips for year end, talk to your tax advisor to see if any of these techniques apply to your personal situation.

1. Review Accounts for Realized Gains and Losses

As performance amongst asset classes varies throughout the year, be sure to review your portfolio to make sure your allocation continues to align with your goals. If some adjusting is in order, consider whether to take action such as realizing additional losses to offset any realized gains. When selling securities you own, remember that the trade date – the date the order is executed – should be used to determine your holding period, not the settlement date. Also, it is important to remember that even if the growing standard deduction means you no longer itemize, you can still apply up to $3,000 of capital losses to your taxable income.

Choppy markets often provide opportunities for tax loss selling in taxable accounts. If you are selling securities for a loss, remember the wash sale provisions. You can't deduct a loss on the sale of securities if you purchased a substantially identical investment within 30 days. This includes the 30-day period before and after the date of the sale.

To avoid the wash sale rule, wait 31 days and then repurchase the security, or you can double up and wait the required amount of time to sell. The last day to double up this year is November 28th. By doubling up, you are able to retain a holding in the security and still take the loss by selling the original holding 31 days after you doubled the holding.

2. Review Whether to Take or Defer Gains or Deductions

Review your portfolio and other financial matters with your tax advisor to see whether you should take or defer gains and deductions this year. If you can control when to take a gain or a deduction, choosing the appropriate time to take such actions can help you control your potential tax liability year over year, especially as the standard deduction rises in 2024. Also, recall there is no link between the top tax bracket and the top capital gains rate. Now, individuals meet the top capital gains rate of 20% at $492,301; married taxpayers at $553,851.

3. Don't Forget About Cost Lots When Selling

As you review your investments and ponder repositioning your portfolio, consider your cost basis if you are selling positions with multiple cost lots in taxable accounts. You can specifically identify shares when selling to select the cost lot you want to sell. By doing this, you can control the capital gains (or losses) that are incurred.

4. For Higher Income Taxpayers, Be Mindful of Extra Tax Liabilities

For individuals with modified adjusted gross income (MAGI) of $200,000 ($250,000 if married), there is a 0.9% additional Medicare tax for wages and compensation in excess of the $200,000/$250,000 thresholds. For these taxpayers there is also a potential 3.8% net investment income tax to be paid on investment income. Investment income includes dividends, interest, royalties, rents, passive activity income, and capital gains. The 3.8% tax applies to the lower of a taxpayer's net investment income, or the amount that the taxpayer's MAGI exceeds the applicable threshold.

For example, assume a married couple filing jointly has a MAGI of $315,000 and net investment income of $50,000. They will pay a 3.8% tax on investment income of $50,000 ($1,900 in this example) because it is lower than the amount of MAGI in excess of the $250,000 threshold ($65,000).

Moreover, it is important to remember that many itemized deductions have also been eliminated, coupled with the fact that state and local tax (SALT) deductions are currently capped at $10,000 regardless of your marital status. This could lead to more tax liability for some. Congress is currently discussing increasing the SALT cap for some individuals so this may be an important deduction to keep your eye on.

5. Start Your Gift Process Early

Charitable giving from non-IRA assets may help manage your tax bill if you itemize deductions. The strategy of gifting highly appreciated assets instead of cash allows you to deduct the fair market value of the asset donated and allows you to sidestep recognizing capital gains on those assets. If you itemize, you can deduct up to 60% of your adjusted gross income for cash gifts to qualified charities. If you gift assets, recall that the deduction is reduced to 30% of your adjusted gross income.

With higher standard deductions you may want to consider "bunching" your charitable gifts. Bunching involves making larger gifts in years you itemize while taking the standard deduction in other years. For example, instead of gifting $10,000 a year over three years to your favorite charity, you would gift $30,000 in the year you itemize and use the standard deduction in the remaining two years.

For gifts to individuals, it is important to note the maximum gift exclusion increased in 2023 to $17,000 per person, per year ($34,000 if married).

Remember, though, when you gift an asset to an individual you also gift them your basis in that asset. Gifting assets with little or no gain may allow your beneficiary to sell that asset and utilize the proceeds with little or no income tax consequence. Conversely, if the individual is in a lower tax bracket than you, you could gift lower basis assets and let the beneficiary sell it and pay the tax at their tax rate.

Annual Gifting

Remember you can gift up to $17,000 per person, for 2023 ($34,000 if married) gift tax free to as many individuals as you like. The gifts must be delivered by year end to count for the 2023 tax year. Gifts greater than $17,000 per person ($34,000 if married) require the filing of a gift tax return. This amount increases to $18,000 in 2024.

If you are planning charitable giving or making gifts to individuals, make sure those gifts are completed by year end. If you intend to claim a charitable deduction on your tax return for this year, don't forget that it may take some time to make the gift, especially if you are transferring stock or other non-cash assets. Start the gift process early to ensure that the transfer is made before the end of the year.

6. Take Advantage of Tax-Exempt Investments and Accounts

If you are in a higher tax bracket, you may want to consider increasing funding to investments and accounts that are designed to be a shelter from taxes.

Life insurance, tax-exempt municipal bonds and Roth IRAs provide tax efficiency in various forms. Certain types of life insurance build cash value. The interest earned on the cash value is not taxed when earned and you might be able to withdraw or borrow against the cash value.

Interest paid on municipal bonds is generally exempt from federal and, in some cases, state and local taxes. Keep in mind that any capital gain arising from the sale of a municipal bond is still taxable and income from some municipal bonds may be taxable under the AMT rules.

Roth IRAs provide tax-free distributions in retirement, but only if certain conditions are met. Generally, you must be over the age of 59 ½ and have held the Roth IRA for five years for earnings to be distributed tax-free, although they can also be made prior to age 59 ½ due to death, disability or first-time home purchase. There are also limits on who can contribute and how much can be contributed to a Roth IRA each year.

7. Make Sure You Are Maximizing Your IRA and Retirement Plan Contributions

For long-term goals such as retirement, tax-deferred investing is a way to boost your savings and reduce current taxes. Increasing 401(k) savings or making IRA contributions are ways to get additional tax deferral on your investments. Tax deferral means you won't pay taxes on investment earnings as you earn them, but instead you are taxed later when you take withdrawals, presumably during your retirement.

Whether you will be in a higher or lower tax bracket or pay higher or lower tax rates in retirement depends on many distinct factors including how far from retirement you are and what tax laws may be in place at that time.

At a minimum, make sure you are contributing enough to your employer retirement plan to obtain any employer matching contribution. Remember that if you are 50 or older, you can make a catch-up contribution.

If you are already maximizing your contributions to your retirement accounts and are looking for additional tax deferral for retirement, consider additional saving opportunities available through annuities.

Increases to Retirement Savings in 2023

In 2023, 401(k), 403(b), and 457(b) plan salary deferral contributions can be made in amounts up to $22,500 and catch-up contributions for individuals aged 50 or older are $7,500. In 2024, plan salary deferral contributions jump to $23,000 while the catch-up contribution remains at $7,500. Eligible compensation and the overall plan contribution (IRC Sec. 415) limit have also increased.

Traditional and Roth IRA annual contribution maximums for 2023 are $6,500, but they increase to $7,000 in 2024. The $1,000 catch-up contributions for individuals aged 50 or older remains unchanged. Modified AGI limits for deducting traditional IRA contributions and for contributing to Roth IRAs have increased as well.

More information on retirement savings cost of living adjustments can be found on the IRS website at www.irs.gov.

8. Consider a Roth IRA Conversion

Anyone with a traditional IRA has the choice to convert to a Roth IRA. Qualified employer-sponsored retirement plan assets can also be converted to a Roth IRA after you become eligible to receive distributions from the retirement plan. In addition, your employer's 401(k), 403(b) or 457(b) plan may also allow you to convert your pre-tax account balances to designated Roth accounts within the plan (if permitted by plan document provisions).

Conversion comes with a cost – you pay income taxes on the amount you convert in the year you convert. Conversion can be advantageous if you desire tax-free retirement income (after 5 years and age 59 ½), you don't want to take required minimum distributions during your lifetime, or you desire tax-free income for your heirs after your death. A conversion must be completed by year end to be included as income on this year's income tax return. Use caution and discuss this strategy with your tax professional before converting because a conversion is a one-way street. You cannot "undo" a conversion once it has been completed.

9. Review Your Education Savings Plans

Consider funding an education savings plan through an Education Savings Account (ESA) or 529 Savings Plan for a child or a grandchild. Both offer tax deferral. Both also provide tax-free distributions if they are used for qualified education expenses. For students attending college, that includes tuition, fees, books, and supplies, in addition to certain room and board costs. 529 plans can also be used to make distributions for K-12 tuition (up to $10,000 a year), for certain expenses for registered apprenticeship programs, and for student loan repayments (up to $10,000) for the student or siblings of the student. Some states may also provide residents with an income tax credit or deduction for 529 plan contributions made.

If you are taking withdrawals from a 529 savings plan or ESA, make sure your withdrawals do not exceed your qualified education expenses. Distributions taken before year end can only be used for qualified expenses incurred during this calendar year for those distributions to be tax free. Talk to your tax professional about the documentation you should keep regarding your expenses.

10. Remember to Take Required Minimum Distributions; Qualified Charitable Distributions Create Opportunities When Age 70 ½ or Older

December 31 is the deadline to receive your current year RMD, unless it is your first year. If your 73rd birthday was this year, you can delay your first RMD until April 1 of next year, but doing so will require you to take both this and next year's RMD next year.

Although RMDs begin at age 73, if you are charitably inclined, tax-free direct gifts to qualified charities from IRAs are available when you are age 70 ½ or older in amounts up to $100,000 a year and will count toward any RMD you have for the year. Thanks to SECURE 2.0, you can now also make a one-time $50,000 gift to split-interest entity in 2023.

Plan Your Next Steps

The concepts discussed in this piece may or may not apply to your individual situation. By working with your tax advisor and your financial advisor, you can determine what ideas might be appropriate given your situation. Your financial advisor can help you look at your realized and unrealized gains and losses or provide more in-depth information on these strategies. ■

Calendar of Important Dates

2023	Deadline for:
Nov 28	Doubling up for 2023 (to avoid the wash sale rule)
Dec 29	Selling a security for a 2023 gain or loss (trade date determines the tax year) Taking 2023 RMDs (unless it is your first year) Converting a traditional IRA to a Roth IRA for 2023 Making gifts for 2023 (transfer must be completed by year end) Making 529 plan contributions for 2023 (for federal gift tax purposes; state tax deduction deadlines may vary)

2024	Deadline for:
Jan 16	Paying fourth quarter 2023 estimated taxes
Mar 15	Filing calendar-year corporate tax returns (excluding extensions) Establishing and funding SEP IRA and other retirement plans for corporations for 2023 (unless filing under extensions)
Apr 1	Taking 2023 RMDs if it is your first year
Apr 15	Filing 2023 income tax returns Paying first-quarter 2024 estimated taxes Opening and making contributions to traditional IRAs, Roth IRAs and Coverdell Education Savings Accounts for 2023 Establishing and funding SEP IRA and other retirement plans for sole proprietors and partnerships for 2023 (unless filing under extensions)
Jun 17	Paying second quarter estimated taxes
July 31	Filing qualified retirement plan returns (Form 5500) for calendar-year plans
Sep 16	Paying third quarter estimated taxes
Oct 1	Establishing a SIMPLE IRA plan for 2024
Oct 15	Filing 2023 individual tax returns with automatic extensions
Nov 29	Doubling up for 2024