# Planning for 2023

## Income Tax Planning Inflation Figures

| Individual Income Tax Brackets | | | | |
|---|---|---|---|---|
| **2022** | | | **2023** | |
| Single | Married Filing Jointly | Tax Rate | Single | Married Filing Jointly |
| 0 - 10,275 | 0 - 20,550 | 10% | 0 - 11,000 | 0 - 22,000 |
| 10,276 - 41,775 | 20,551 - 83,550 | 12% | 11,001 - 44,725 | 22,001 - 89,450 |
| 41,776 - 89,075 | 83,551 - 178,150 | 22% | 44,726 - 95,375 | 89,451 - 190,750 |
| 89,076 - 170,050 | 178,151 - 340,100 | 24% | 95,376 - 182,100 | 190,751 - 364,200 |
| 170,051 - 215,950 | 340,101 - 431,900 | 32% | 182,101 - 231,250 | 364,201 - 462,500 |
| 215,951 - 539,900 | 431,901 - 647,850 | 35% | 231,251 - 578,125 | 462,501 - 693,750 |
| 539,901+ | 647,851+ | 37% | 578,125+ | 693,751+ |

| Long-Term Capital Gain & Qualified Dividend Tax Brackets* | | | | |
|---|---|---|---|---|
| **2022** | | | **2023** | |
| Single | Married Filing Jointly | Tax Rate | Single | Married Filing Jointly |
| 0 - 41,675 | 0 - 83,350 | 0% | 0 - 44,625 | 0 - 89,250 |
| 41,676 - 459,750 | 83,350 - 517,200 | 15% | 44,626 - 492,300 | 89,251 – 553,850 |
| 459,751+ | 517,200+ | 20% | 492,301+ | 553,851+ |
| *The Net Investment Income Tax (NIIT) imposes a 3.8% surtax in addition to the capital gains tax on investment income, such as taxable interest, dividends, gains, royalties, and passive rents. This tax is imposed on single taxpayers over $200,000 and married couples filing jointly over $250,000. | | | | |

## Income Tax Planning Items to Consider

(1) Consider Roth conversions: Converting a traditional IRA to Roth IRA will result in taxable income at the time of conversion. There are several considerations for Roth conversions:

- Roth conversions may make sense when markets are down, since the income will taxed while the account value is lower.
- Roth conversions make sense when taxpayers project themselves to be in a higher tax bracket in retirement than their current year tax bracket.

- Taxes on Roth conversions may be paid out of taxable accounts, allowing the entire amount converted to continue to grow tax-free in retirement.

(2) Ensure that all Required Minimum Distributions are taken prior to year-end.

(3) Time state income tax payments: Taxpayers who have already hit the $10,000 cap on state and local tax deduction may consider delaying fourth quarter state estimated payments until after January 1, 2023. While the $10,000 SALT cap is projected to run through 1/1/2026, there is some possibility that it could be changed through legislation in 2023.

(4) Review Itemized Deductions:
   - Consider lumping charitable deductions into one year using long-term appreciated securities that are contributed to a donor-advised fund. Doing so may allow a taxpayer who would ordinarily use the Standard Deduction to itemize in the year of the donation.
   - The itemized deduction for State & Local Taxes Paid remains limited to $10,000 until January 1, 2026, unless changed sooner by Congress.
   - Unreimbursed medical expenses are deductible as an itemized deduction to the extent they exceed 7.5% of AGI.
   - Mortgage interest is deductible for home acquisition debt up to $750,000 for mortgages acquired after December 15, 2017. The itemized deduction for home equity debt is only allowed to the extent it is used to buy, build, or substantially improve the home.
   - Due to the 2017 Tax Cuts and Jobs Act, there is no longer a 2% miscellaneous itemized deduction. However, for taxpayers with Schedule C income, financial planning fees may be partially deductible on Schedule C.

(5) If possible, time receipt of payment in 2022 or 2023 to minimize tax burden: All else being equal, the taxes due on a payment in early 2023 would not be due until April 2024 (subject to estimated tax payments).

(6) Consider installment sales or reinvestment in Qualified Opportunity Zones to defer capital gain taxes.

**Retirement Planning Inflation Figures**

| Retirement Plan Contribution Limitations | | |
|---|---|---|
| | **2022** | **2023** |
| 401(k), 403(b), 457 Plan Contribution Limit | $20,500 | $22,500 |
| Catch-up Contribution Limit to 401(k) (over age 50) | $6,500 | $7,500 |
| Limit on total additions to 401(k) – (Employee and employer contributions) | $61,000 ($67,500 over 50) | $66,000 ($73,500 over 50) |
| Defined Benefit Plan Contribution Limit | $245,000 | $265,000 |
| IRA / Roth IRA Contribution Limit | $6,000 | $6,500 |
| IRA Catch-Up Contribution (over age 50) | $1,000 | $1,000 |

**Retirement / Cash Flow Planning Strategies to Consider**

(1) Maximize employer retirement plan contributions: Ensure contributions to employee retirement accounts have been maximized for 2022.

(2) Contribute to a Roth IRA in years where your income is under the threshold ($153,000 for single filers or $228,000 if married filing jointly).

(3) Consider contributing to Roth IRA for child who has earned income. (Note the contribution deadline is April 18, 2023, and not December 31, 2022); however, contributions made in 2023 will be considered 2023 gifts, as opposed to 2022.

(4) Consider deferring 2023 income to Non-Qualified Deferred Comp plan if eligible: For non-qualified deferred compensation plans, consider the timing of the payouts. If payouts are received over 10 years or more, they will be taxed to the state where you reside when the payment is received. If the payout period is less than 10 years, the payout will be taxed to the state where the income was earned. For taxpayers considering retiring to a low tax state, stretching deferred compensation payouts beyond 10 years may be advantageous (but note that you are a general creditor of the company as to deferred compensation accounts).

(5) Utilize Backdoor Roth Contributions: Clients (or spouses), who otherwise cannot make IRA contributions due to income limits and do not have large pre-tax IRAs, should consider backdoor Roth conversions. This strategy involves making a non-deductible IRA contribution and waiting for a “cooling off period” (typically 30 days) before converting the IRA to a Roth IRA with little or no tax consequence, since only the gain during the cooling off period would be taxable. Here, it should be noted that all of a person’s IRA accounts are considered together when calculating the tax on a Roth conversion. So, if someone has a sizable pre-tax IRA and attempts to convert a non-deductible IRA into a Roth IRA, the conversion will be largely taxable, because you cannot convert only non-deductible contributions.

(6) Defined Benefit Plans: Self-employed taxpayers with high income should discuss the possibility of contributing to a defined benefit plan.
(7) Consider Maximizing Contributions to HSA Accounts.
(8) Use Funds Remaining in FSA.

**Investment Planning Strategies to Consider**

(1) Tax Loss Harvesting: Consider selling positions with a loss to offset capital gains. Note that if capital losses exceed capital gains for the year, up to $3,000 of ordinary income can be offset by capital losses on Federal returns. Any unused losses can be carried forward to future years. **Note**: Review state taxation, as not all states allow unused capital losses to be carried forward (*e.g.,* NJ, PA, NC).
   - To avoid the "wash sale rules," the position being sold should not be purchased back in any account within 30 days.

(2) Review portfolio for opportunities to create greater tax-efficiency: Consider holding less tax-efficient investments in IRA accounts. Passive, tax-efficient investments are best held in taxable accounts.
(3) Consider cash flow needs for 2023: If income will be needed from the portfolio, consider whether it would be more advantageous to raise cash in 2022 or 2023.

**Estate Planning Inflation Figures**

| Important Estate, Gift, and GST Tax Figures | | |
|---|---|---|
| | **2022** | **2023** |
| Annual gift exclusion (per recipient) | $16,000 | $17,000 |
| Annual gift exclusion for gifts to noncitizen spouse | $164,000 | $175,000 |
| Lifetime estate, gift, and GST exemption (per individual) | $12,060,000 | $12,920,000 |
| IRC 6166 Election – Estate tax attributed to qualifying business eligible for 2% interest rate | $1,640,000 | $1,750,000 |

| Trust and Estate Income Tax Brackets | | |
|---|---|---|
| **2022** | Rate | **2023** |
| 0 - 2,750 | 10% | 0 - 2,900 |
| 2,751 - 9,850 | 24% | 2,901 - 10,550 |
| 9,851 - 13,450 | 35% | 10,551 - 14,450 |
| 13,451+ | 37% | 14,451+ |

**Estate Planning Strategies to Consider**

(1) Complete annual exclusion gifts by year-end.
   a. Payments made directly to a service provider for another's tuition and medical expenses do not eat into the annual exclusion amount for that recipient, and will not be subject to gift tax.

(2) Consider making lifetime exemption gifts (in excess of annual exclusion) by year-end.
   a. By completing the gift in 2022, you are mitigating the risk of Congress reducing the lifetime exemption with an effective date of January 1, 2023.
   b. Gifts of assets at depreciated values will use less lifetime exemption (as opposed to making the gift when markets are near their highs).
   c. Considering gifting assets that are eligible for valuation discounts (e.g., lack of control or lack of marketability discounts) and assets with the greatest likelihood of future appreciation to leverage the estate & gift tax exemption.

(3) Spouses should carefully consider *who* will make gifts. Gift-splitting (*i.e.*, treating a gift made by one spouse as made ½ by each spouse) is available, but must be elected on a timely filed gift tax return, and all gifts reported on the return must be treated the same. In other words, if gift splitting is elected on a 2022 gift tax return, all 2022 gifts are considered made 50% by husband & wife.

(4) Review beneficiary designations as part of the open enrollment process to ensure they are in keeping with your estate plan.

(5) Review investment income for non-grantor trusts. As noted above, non-grantor trusts quickly reach the top income tax bracket. Consider realizing losses to reduce investment income. Consider distributions to beneficiaries to maximize distributable net income where appropriate.

(6) Ensure Delivery of Crummey Notices: For annual exclusion gifts made to trusts, ensure Crummey Notices have been drafted, signed, and delivered documenting those gifts to the trusts.

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