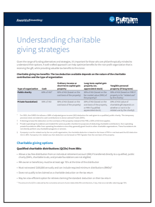
2023 year-end planning ideas

As the year-end approaches, consider contacting clients with these timely planning ideas.

1. Consider tax-smart strategies for charitable giving

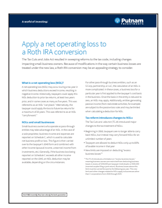
When the TCJA was signed into law in 2017, it created a new landscape for tax deductions. By reducing popular deductions and doubling the standard deduction, most taxpayers now opt to claim the standard deduction. This has profound implications for making charitable gifts. For taxpayers who are planning on claiming the standard deduction, there are several strategies to consider. For those over age 70½, distributing funds from an IRA tax free directly to a qualified charity (up to $100,000 per IRA owner and can include RMDs) may be a good option. Another strategy is the concept of "lumping" multiple years of charitable gifts into one year in order to itemize deductions on that year's tax return. For example, instead of a couple gifting $10,000 annually to a charity, consider gifting $30,000 in one year, representing three years' worth of gifts. The couple could benefit from itemizing deductions that tax year and claim the standard deduction the next two years.



Understanding charitable giving strategies — II972

2. Talk to business owners about how to transform net operating losses (NOLs) into tax-free income with a Roth IRA conversion

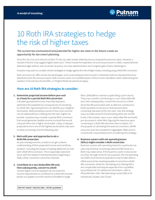
Business owners who will record a net operating loss (NOL) this year may be able to use it to their advantage. Unlike net capital losses, where taxpayers are limited to using only $3,000 annually to offset ordinary income, taxpayers can generally apply NOLs against 80% of taxable income. Clients carrying forward large NOLs can use those losses to offset the additional income from a Roth IRA conversion. The rules on calculating and utilizing NOLs are complicated, so it is critical for clients to consult with a qualified tax professional. Forming strategic relationships with local CPAs who can assist business owners with these types of transactions is a good idea. Such relationships can also potentially lead to referrals for retirement and other investment business opportunities. More information on NOLs can be found within IRS publication 536, "Net Operating Losses for Individuals, Estates, and Trusts."



Apply a net operating loss to a Roth IRA conversion — II967

3. Consider Roth strategies to hedge the risk of higher taxes in the future

Given rising federal budget deficits and the expiration of these tax rates in 2025 (or sooner if Congress takes action), taxpayers may want to consider utilizing Roth strategies now as a hedge against the risk of higher tax rates in the future. For example, determine how much income can be realized within the current tax bracket before "creeping" to the next tax bracket as a basis for how much in traditional retirement funds to convert to a Roth.



10 Roth IRA strategies to hedge the risk of higher taxes — II971

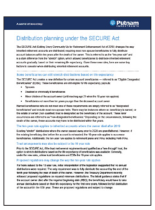
4. Identify opportunities to harvest tax losses

In the process of reviewing portfolios, are there opportunities to strategically generate losses to offset other gains? For example, using a tax-swap strategy for mutual fund holdings allows you to realize a tax loss while retaining essentially equivalent market exposure.

Using investment losses to your advantage — II867

5. Review beneficiary designations

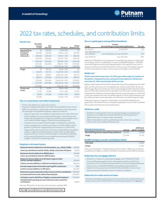
In late 2019, Congress passed the SECURE Act, which eliminates the "stretch" option on distributions from inherited retirement accounts. Under the new rules, most non-spouse beneficiaries are required to fully distribute inherited account balances by the end of the 10th year following the year the account owner dies. Conducting annual beneficiary reviews is a great way to identify clients whose estate plans have been impacted by this change, and it may prompt discussions with clients and their heirs around efficient wealth transfer strategies.



Distribution planning under the SECURE Act — II1002

6. Determine marginal tax bracket to drive timing of income (or deductions) at year-end

Estimating projected income before the end of the year can help taxpayers answer two questions. First, what is my marginal tax bracket? And second, how much income can be realized before "creeping" into the next bracket? Depending on the situation, taxpayers may want to realize more income in 2023 or defer income into 2024 if possible. For example, distributing more funds from retirement accounts if subject to lower tax brackets. Alternatively, if a higher tax rate applies, maybe a contribution to a retirement account or health savings account (HSA) makes sense.



2023 tax rates, schedules, and contribution limits — II985

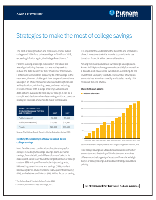
7. Update affluent clients and prospects on the current estate and gift tax rules

Are clients and prospects aware of current estate and gift tax laws? Year-end provides an opportunity to review existing estate plans and consider gifting strategies. The annual gift tax exclusion for individuals is $17,000, and the lifetime estate and gift tax exclusion is roughly $13 million for 2023. The drastic increase in the lifetime exclusion since the passage of the tax law in 2017 means that clients should review existing trusts and other documents with their attorney to see if any modifications are necessary. Also, there may be opportunities for large lifetime gifts, considering the historically high level of the exclusion amount.

A closer look at the current estate and gifting tax rules — II546

8. Discuss year-end gifting strategies using 529s

Remind key clients, such as grandparents, that the annual gifting limit for 2023 is $17,000, and that a special 529-plan exclusion allows five years' worth of gifts — up to $85,000 or $170,000 for married couples — to be contributed at once, provided that no other gifts are made within the next five-year period. And there's also an added benefit for grandparents who own 529s: These assets are not currently factored as assets for determining federal financial aid under the FAFSA process. Lastly, recent tax law changes allow 529 account owners to withdraw $10,000 for K–12 tuition expenses and $10,000 to repay student loans, and allow distributions for qualified apprenticeship programs.*

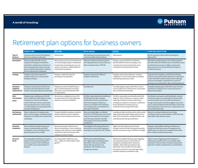


Strategies to make the most of college savings — II940

* Distributions for K–12 expenses are free from federal income taxes (taken after December 31, 2017). Earnings may be subject to state income taxes in certain states.

9. Contact business owners to conduct a retirement plan review

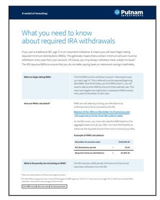
With the demands of managing their companies on a daily basis, business owners may neglect retirement planning for themselves. A retirement plan can not only provide a foundation for a secure future, it can also assist in attracting and retaining good employees. Business owners without retirement plans may wish to get started by establishing a SEP-IRA or SIMPLE-IRA. Or, maybe it makes sense to upgrade to a 401(k) plan that can offer more flexibility on customizing a solution that meets the business owner's needs. Additionally, with the passage of the SECURE 2.0 law, there are enhanced tax credits available for start-up retirement plans.



Retirement plan options for business owners — II987

10. Review required minimum distributions (RMDs) with clients

Since many investors typically request distributions from retirement accounts annually in December to satisfy minimum distribution requirements, it is a good idea to contact clients now to make sure they are on track. The Internal Revenue Service has specific rules for taking RMDs. In fact, the penalty for not taking a required distribution is up to 20% of the required amount. Having a conversation about RMDs may also lead to identifying stray retirement accounts for consolidation. Or, grandparents not relying on income from RMDs may also be interested in using those funds to establish a 529 savings account for grandchildren.



What you need to know about required IRA withdrawals — IR704

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