

Ideas to engage clients during tax season

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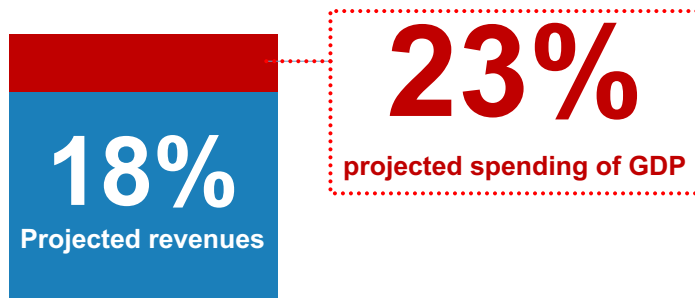
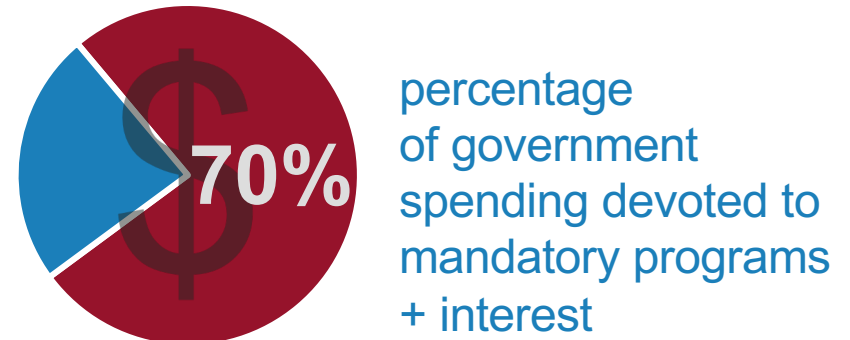
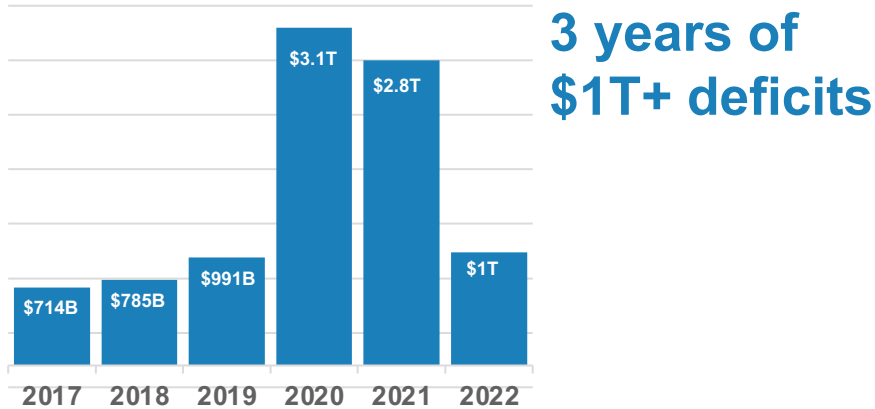
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Things to be aware of this tax season

- Impact of state payments on 2022 federal return?
- No charitable deduction for non-itemizers
- Have clients done backdoor Roth contributions for 2022?
- Still time for sole props to make 2022 retirement contribution

Threat of higher taxes in the future?



Sources: Congressional Budget Office (CBO), 2022; 2022 Social Security Trustees Report.

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Looking ahead to the expiration of the TCJA

Married couple filing a joint tax return

Taxable Income	2023 Tax Rates	Projected Tax Rates	Difference
\$0 - \$22,000	10%	10%	0.0%
\$22,001 - \$89,450	12%	15%	3.0%
\$89,451 - \$180,000	22%	25%	3.0%
\$180,001 - \$190,750	22%	28%	6.0%
\$190,751 - \$274,400	24%	28%	4.0%
\$274,401 - \$364,200	24%	33%	9.0%
\$364,201 - \$462,500	32%	33%	1.0%
\$462,501 - \$490,000	35%	33%	2.0%
\$490,001 - \$553,600	35%	35%	0.0%
\$553,601 - \$693,750	35%	39.6%	4.6%
Over \$693,750	37%	39.6%	2.6%

Sources: Internal Revenue Service and Putnam research. Projected tax rates are estimated, based on analysis of 2017 tax rates prior to passage of the TCJA, with tax bracket figures adjusted to account for annual inflation adjustments through 2023. Figures in red indicate an increase in tax rate upon TCJA expiration. Figures in green indicate where tax rates at certain income levels would decrease upon expiration of the TCJA. Based on brackets for married couples filing a joint tax return.

Key tax provisions expiring at the end of 2025

Provision	2023	Post-TCJA expiration
Standard deduction	\$13,850 for individuals, \$27,700 for couples	Reduced roughly in half; prior to TCJA the standard deduction was \$6,350 for individuals, \$12,700 for couples
State and local tax deduction (SALT)	Capped at a maximum of \$10,000	No cap applies, deductions phase-out at higher income levels due to the Pease limitation (phase-out begins at \$261,500 for individuals, \$313,800 for couples)
Mortgage interest deduction	Limited to interest on \$750,000 of qualified debt	Limited to interest on \$1,000,000 of qualified debt and an additional \$100,000 of qualified home equity interest debt
Miscellaneous deductions	Not available	Applicable once deductions exceed 2% of AGI; examples include investment fees, job search expenses, uniforms, unreimbursed work-related expenses

Post-TCJA expiration figures are based on 2017 tax law prior to the TCJA and do not reflect annual inflation adjustments. QBI deduction is subject to income phase-outs (beginning at \$182,100 for individuals, \$364,200 for couples) if the business is considered a Specified Service Trade or Business (SSTB). Other limitations to the QBI deduction may apply to non-SSTBs.

Key tax provisions expiring at the end of 2025

Provision	2023	Post-TCJA expiration
Personal exemptions	Not available	\$4,050 per taxpayer and qualified dependents; phase-out at higher income levels begins at \$261,500 for individuals, \$313,800 for couples
Child Tax Credit	\$2,000 per qualifying child (under age 17), \$500 for other dependents, phase-out begins \$200,000 for individuals, \$400,000 for couples	\$1,000 per qualifying child with income phase-outs beginning at \$75,000 for individuals, \$110,000 for couples
Alternative Minimum Tax (AMT)	Applies to relatively few taxpayers given high exemption amounts (\$81,300 for individuals, \$126,500 for couples) and income phase-out amounts (\$578,150 for individuals, \$1,156,300 for couples)	AMT would apply to significantly more taxpayers due to much lower exemption and income phase-out amounts
Deduction for Qualified Business Income (QBI)	20% deduction applicable for pass-through businesses depending on circumstances	Not available
Estate and gift tax	Unified lifetime exclusion amount is \$12,920,000 per individual	Unified lifetime exclusion amount reduced roughly by half

Post-TCJA expiration figures are based on 2017 tax law prior to the TCJA and do not reflect annual inflation adjustments. QBI deduction is subject to income phase-outs (beginning at \$182,100 for individuals, \$364,200 for couples) if the business is considered a Specified Service Trade or Business (SSTB). Other limitations to the QBI deduction may apply to non-SSTBs.

Consider “lumping” charitable gifts

Assumptions: H&W, age 65, who donate \$10,000 annually to charity; other deductions include \$10,000 for SALT and \$8,000 for mortgage interest; their marginal income tax bracket is 22%; their standard deduction is \$30,700 since both are age 65+

	2023	2024	2025
Annual gifts			
“Lump” gifts		NO GIFT	NO GIFT

Result: With annual gifting, their total deductions = \$92,100 (\$30,700 x 3 years); by lumping gifts, their total deductions = \$109,400 (\$48,000 + \$30,700 + \$30,700), resulting in a difference of **\$17,300** for a tax savings of approximately **\$3,800**, assuming a 22% marginal tax bracket.

Example is based on 2023 IRS figures and does not account for higher standard deduction in 2024 and 2025 due to annual inflation adjustments.

Donate IRA assets to a charity

- Requirements

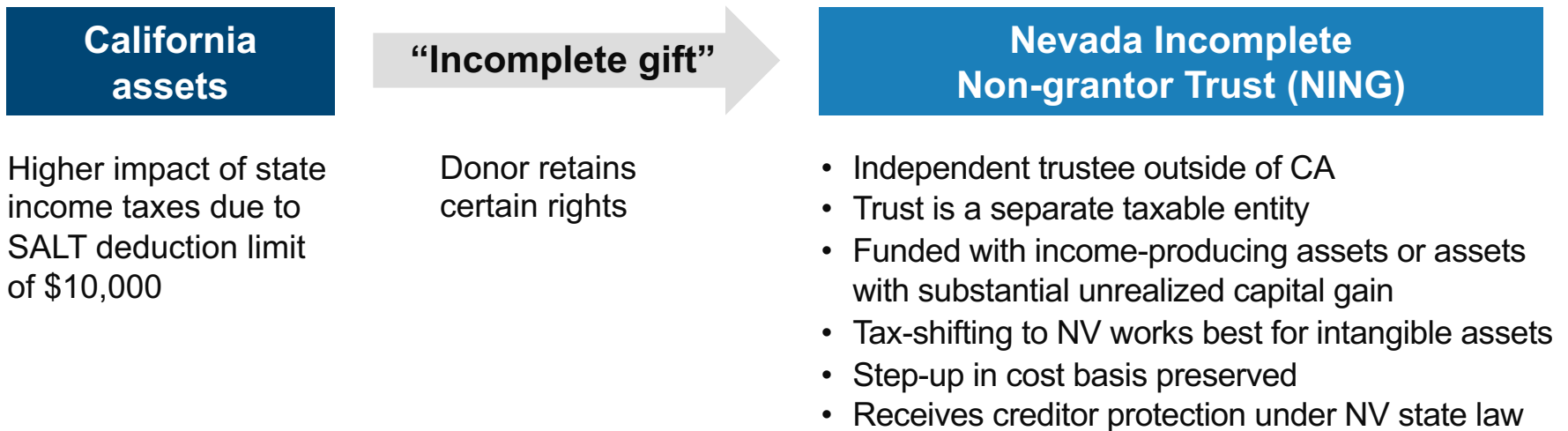
- Must be age 70½ or older (age change of RMD to age 73 does not impact QCDs)
- Distribution must be sent directly to a qualified charity including one-time distribution of up to \$50,000 to charitable trust/gift annuity (DAF or private foundation not eligible for QCD)
- \$100,000 annually per IRA owner and can include the RMD
- Only available with a Traditional/Rollover IRA — not from SEP IRA or SIMPLE IRA
- Can utilize with inherited IRA if beneficiary is age 70½ or older

- Benefits

- Tax-free RMD lowers AGI — may have beneficial impact in other tax areas
- Avoids AGI threshold for charitable gifts
- May benefit state taxes since some states do not allow residents to deduct a charitable contribution
- Can preserve other (taxable) assets while spending down the IRA at 0% tax rate
- May benefit legacy planning by preserving assets which may benefit from step-up in cost basis while the IRA is taxable to heirs

* A qualified charitable distribution (QCD) is permitted from a SEP IRA or SIMPLE IRA that is not considered “ongoing.” Per IRS Notice 2007-7, a SEP IRA or a SIMPLE IRA is treated as ongoing if it is maintained under an employer arrangement under which an employer contribution is made for the plan year ending with or within the IRA owner’s taxable year in which the charitable contributions would be made.

Using incomplete non-grantor trusts (INGs) to mitigate state income taxes



Who may it make sense for?

1. Taxpayers already in highest marginal income federal income tax bracket
2. Holds highly appreciated intangible assets such as a stock portfolio
3. Isn't relying on income produced by the property transferred to the NING
4. Has the means to absorb the cost of establishing and maintaining the trust arrangement

The use of an Incomplete Non-Grantor Trust requires careful analysis and consideration with a legal professional who specializes in establishing these types of trust structures. Changes in state tax law may impact the feasibility of these trusts.

Does a Roth conversion make sense?

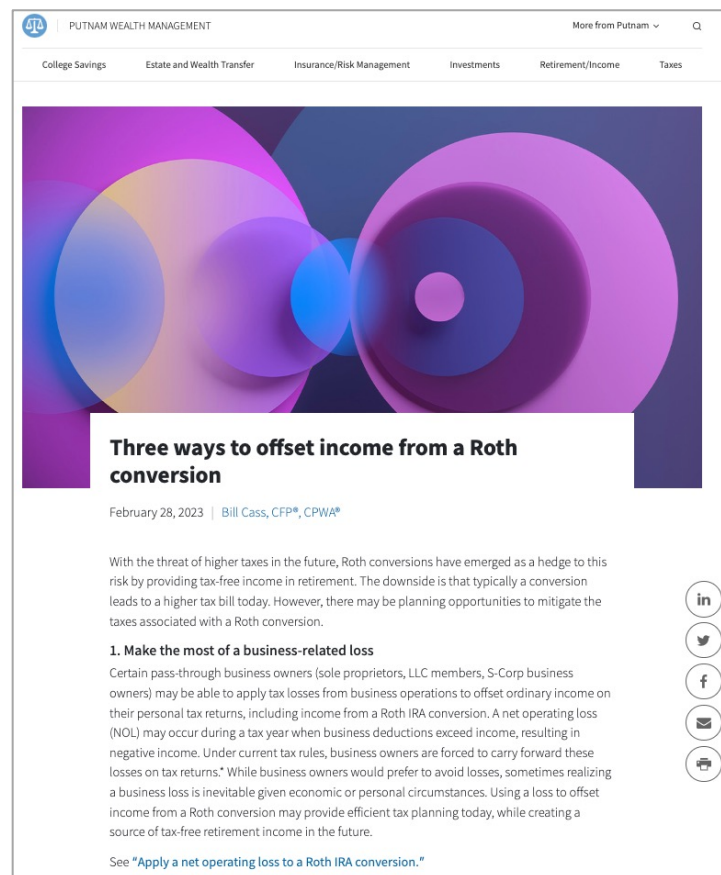
	2023		PROJECTED
	\$693,750	37%	
		35%	\$553,600
	\$462,500		39.6%
		32%	35%
	\$364,200		\$490,000
		24%	33%
	\$250,000		\$274,400
		22%	28%
	\$190,750		\$180,000
		12%	25%
	\$89,450		\$89,450
		10%	15%
	\$22,000		\$22,000
			10%

3.8%
surtax
applies

Based on 2023 tax brackets for married couples filing a joint tax return. Projected example is based on tax brackets in place prior to the Tax Cuts and Jobs Act (TCJA) adjusted for inflation through 2023. Current tax brackets are scheduled to expire at the end of 2025 with pre-TCJA tax brackets applying, adjusted for inflation. Note that other tax items are scheduled to change after the sunset provision activates in 2025, including (for example) personal exemptions returning, lower standard deduction, less restrictions on itemized deductions, and lower exemptions applying for Alternative Minimum (AMT) tax purposes.

3 ways to offset Roth conversion income

1. NOLs for pass-through business owners
2. Charitable contributions
3. Significant medical expenses



The screenshot shows a webpage from Putnam Wealth Management. The header includes the Putnam logo, 'PUTNAM WEALTH MANAGEMENT', and a search bar. Below the header is a navigation menu with links: College Savings, Estate and Wealth Transfer, Insurance/Risk Management, Investments, Retirement/Income, and Taxes. The main content area features a large graphic with overlapping purple and blue circles. Below the graphic is the article title 'Three ways to offset income from a Roth conversion' and the author 'Bill Cass, CFP®, CPWA®'. The article text discusses the benefits of Roth conversions and the use of Net Operating Losses (NOLs) to offset conversion income. It includes a section titled '1. Make the most of a business-related loss' which explains how business owners can use NOLs to offset income from a Roth IRA conversion. The article is dated February 28, 2023. On the right side of the article, there are social media sharing icons for LinkedIn, Twitter, Facebook, Email, and Print.

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Three ways to offset income from a Roth conversion

February 28, 2023 | Bill Cass, CFP®, CPWA®

With the threat of higher taxes in the future, Roth conversions have emerged as a hedge to this risk by providing tax-free income in retirement. The downside is that typically a conversion leads to a higher tax bill today. However, there may be planning opportunities to mitigate the taxes associated with a Roth conversion.

1. Make the most of a business-related loss

Certain pass-through business owners (sole proprietors, LLC members, S-Corp business owners) may be able to apply tax losses from business operations to offset ordinary income on their personal tax returns, including income from a Roth IRA conversion. A net operating loss (NOL) may occur during a tax year when business deductions exceed income, resulting in negative income. Under current tax rules, business owners are forced to carry forward these losses on tax returns.* While business owners would prefer to avoid losses, sometimes realizing a business loss is inevitable given economic or personal circumstances. Using a loss to offset income from a Roth conversion may provide efficient tax planning today, while creating a source of tax-free retirement income in the future.

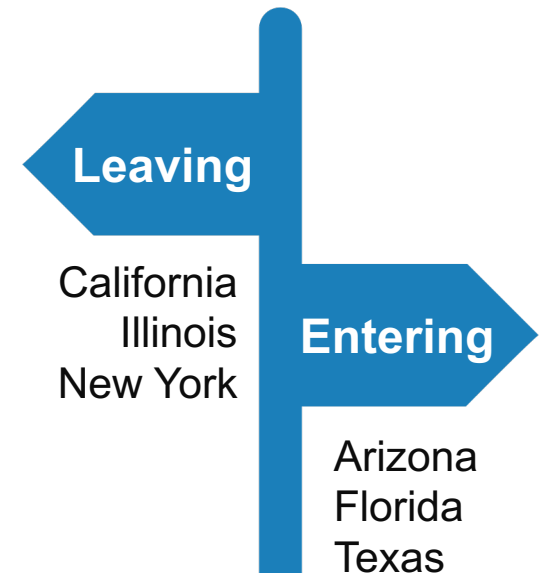
See "Apply a net operating loss to a Roth IRA conversion."

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The Tax Cuts and Jobs Act (TCJA) introduced changes to the tax treatment of NOLs. Since 2018, taxpayers are no longer able to carry back NOLs, but instead may carry forward NOLs for an unlimited number of years. Taxpayers are allowed to deduct NOLs only up to 80% of taxable income in that year, and additional limits may apply to excess business losses. Consult with a qualified tax professional for more information on NOLs, or consult IRS Publication 536, Net Operating Losses for Individuals, Estates, and Trusts.

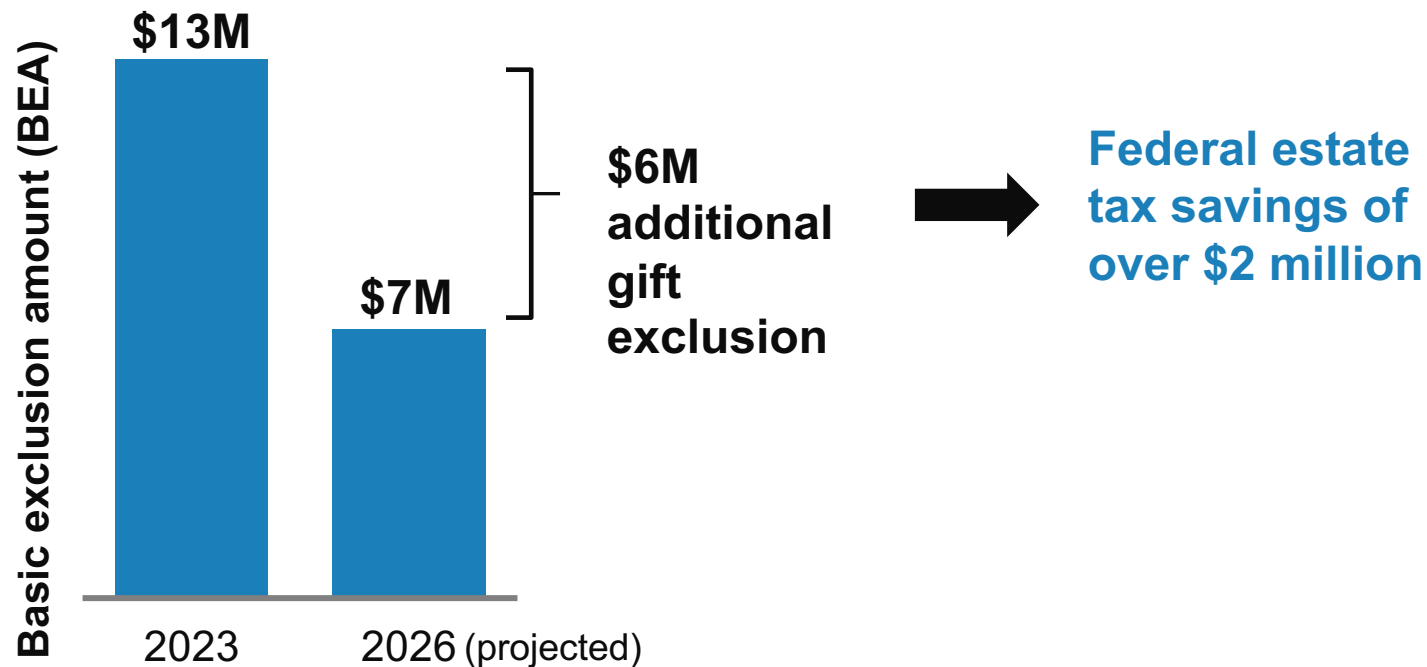
Considering domicile change?

- Legal definition of domicile will vary by state
 - Permanent place of residence in which you *intend* to return or remain in
 - Elements may include time spent in a physical location, primary residence, employment, real property ownership, voting registration, financial accounts, tax filing, other licenses and registrations, utilities, place of worship
- Burden of proof is generally on the taxpayer – recordkeeping is key!
- The more a taxpayer can completely cut ties the better



* U.S. Census Bureau, 2021. Based on domestic net gain or loss in migration.

Consider large gifts before the end of 2025?



Assumes an estate tax rate of 40%. For 2023 the Basic Exclusion Amount (BEA) is \$12,920,000. The 2026 projected figure of \$7 million is based on the sunset provision effective at the end of 2025, which will reduce the BEA to \$5 million adjusted for inflation. On 11/23/18, the Treasury Department issued proposed regulations (REG-106706-18) stating that, upon sunset of the federal estate gift and estate tax provisions under the TCJA in 2026, there would be no “claw-back” provision applied on large gifts made during the temporary increase in the exclusion amount. On April 26, 2022 the Treasury Department issued proposed regulations that would apply a clawback on certain gifts (GRATs, QPRTs) where the donor has reserved a way of accessing the funds directly in the future.

SALT workaround strategy for business owners

- Available in roughly 30 states including higher-taxed states such as CA, NY, and NJ
- Allows pass-through business owner/partners to elect to pay state taxes at the entity level as a means of avoiding the \$10,000 deduction cap on SALT
- In almost all states (ex. CT) taxpayers need to elect to pay the state pass-through entity (PTE) tax
- Single member LLCs/partnerships and certain businesses (ex. passive business structures) may not be eligible
- Because of the disparity among different state structures and requirements, business owners should consult with their tax professional to determine if this option makes sense for their personal tax situation

Source: AICPA. IRS Notice 2020-75 provides guidance that entity level tax payments imposed by states are deductible for federal income tax purposes. Roughly 20 states impose a PTE tax, and several others are pending. While most PTE taxes are elective, the state of CT version is mandatory. In some states, single member LLCs/partnerships are not eligible for the PTE tax election. State-level PTE taxes vary widely in design, so it is important for business owners/partners to consult with a qualified tax professional regarding their personal situation.

Resources designed to help you engage clients and prospects

- Client seminar and investor education pieces on the tax landscape and planning ideas
- Wealth Management Center blog articles and resources
 - Putnamwealthmanagement.com
- Video commentary and podcasts

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About the Authors

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2022 tax rates, schedules, and contribution limits

Income tax

	Married income joint	Married separate	Single	Head of household	Other rates
10%	\$15,300	\$7,650	\$11,950	\$15,300	
12%	\$15,301 - \$47,150	\$7,651 - \$23,575	\$11,951 - \$47,150	\$15,301 - \$47,150	
22%	\$47,151 - \$103,900	\$23,576 - \$51,950	\$47,151 - \$103,900	\$47,151 - \$103,900	
24%	\$103,901 - \$171,850	\$51,951 - \$85,925	\$103,901 - \$171,850	\$103,901 - \$171,850	
26%	\$171,851 - \$231,250	\$85,926 - \$115,875	\$171,851 - \$231,250	\$171,851 - \$231,250	
28%	\$231,251 - \$501,900	\$115,876 - \$250,950	\$231,251 - \$501,900	\$231,251 - \$501,900	
30%	\$501,901 - \$1,000,000	\$250,951 - \$500,000	\$501,901 - \$1,000,000	\$501,901 - \$1,000,000	
33%	\$1,000,001 - \$5,000,000	\$500,001 - \$2,500,000	\$1,000,001 - \$5,000,000	\$1,000,001 - \$5,000,000	
35%	\$5,000,001 - \$10,000,000	\$2,500,001 - \$5,000,000	\$5,000,001 - \$10,000,000	\$5,000,001 - \$10,000,000	
37%	\$10,000,001 - \$1,000,000,000	\$5,000,001 - \$500,000,000	\$10,000,001 - \$1,000,000,000	\$10,000,001 - \$1,000,000,000	

Tax on corporations and other businesses

21% flat rate applied to net corporate income	
* S corporation, partnership, and other pass-through entities not subject to corporate tax; instead, they pay taxes on their income at the individual level	
20% flat rate applied to net corporate income	
21% flat rate applied to net corporate income	
22% flat rate applied to net corporate income	
24% flat rate applied to net corporate income	
26% flat rate applied to net corporate income	
28% flat rate applied to net corporate income	
30% flat rate applied to net corporate income	
33% flat rate applied to net corporate income	
35% flat rate applied to net corporate income	
37% flat rate applied to net corporate income	

Employer retirement plans

Maximum elective deferral to 401(k), 403(b), 457(b)	\$20,500
Catch-up contributions for 401(k), 403(b), 457(b)	\$6,500
Maximum elective deferral to SIMPLE plans	\$13,500
Catch-up contributions for SIMPLE plans	\$3,500
Maximum elective deferral to 457 plans of government and nonprofit employers	\$20,500
Catch-up contributions for 457 plans of government and nonprofit employers	\$6,500
Limit on annual additions to 401(k) plans	\$58,000
Annual compensation threshold for 401(k) plans	\$130,000
Limit on annual additions to 403(b) plans	\$58,000
Annual compensation threshold for 403(b) plans	\$130,000
Maximum annual contribution to 457 plans for government and nonprofit employers	\$20,500
Catch-up contributions for 457 plans for government and nonprofit employers	\$6,500
Limit on annual additions to 457 plans for government and nonprofit employers	\$20,500
Catch-up contributions for 457 plans for government and nonprofit employers	\$6,500

Source: IRS and Social Security Administration updates 2022

Not RDC, RMD, or RMD-free | Only new rules | No back changes

Tax on capital gains and qualified dividends

Single	Married joint	Married separate	Head of household	Other rates
0%	0%	0%	0%	0%
15%	15%	15%	15%	15%
20%	20%	20%	20%	20%
25%	25%	25%	25%	25%
30%	30%	30%	30%	30%
35%	35%	35%	35%	35%
37%	37%	37%	37%	37%

Kidder tax

0%	0%	0%	0%	0%
15%	15%	15%	15%	15%
20%	20%	20%	20%	20%
25%	25%	25%	25%	25%
30%	30%	30%	30%	30%
35%	35%	35%	35%	35%
37%	37%	37%	37%	37%

Child tax credit

\$2,000 per child	\$2,000
100% of earned income up to \$10,000	\$10,000
50% of earned income over \$10,000	\$5,000
25% of earned income over \$15,000	\$2,500
25% of earned income over \$20,000	\$2,500



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