

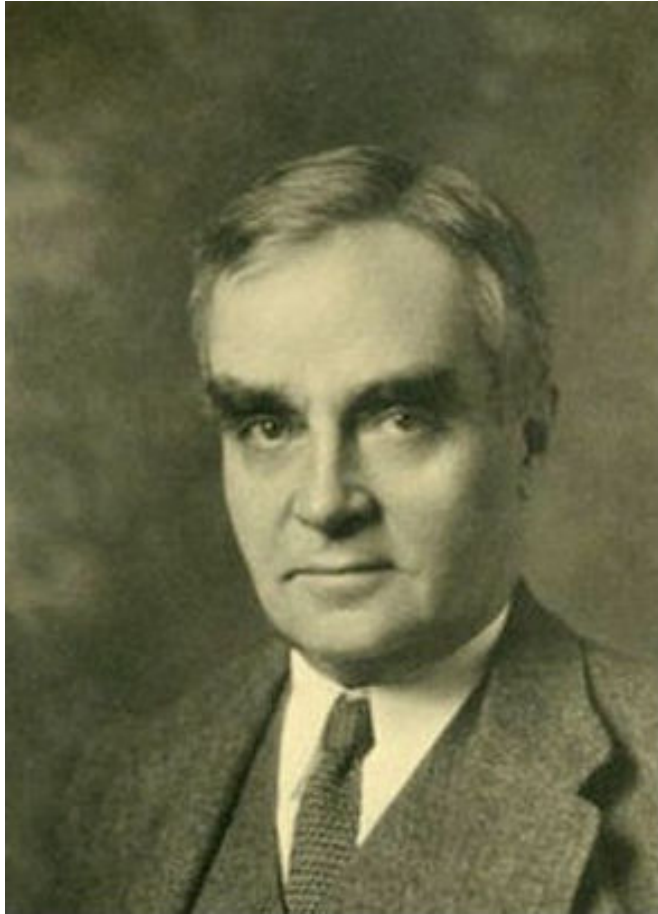
Year-End Tax Planning

November 7, 2023

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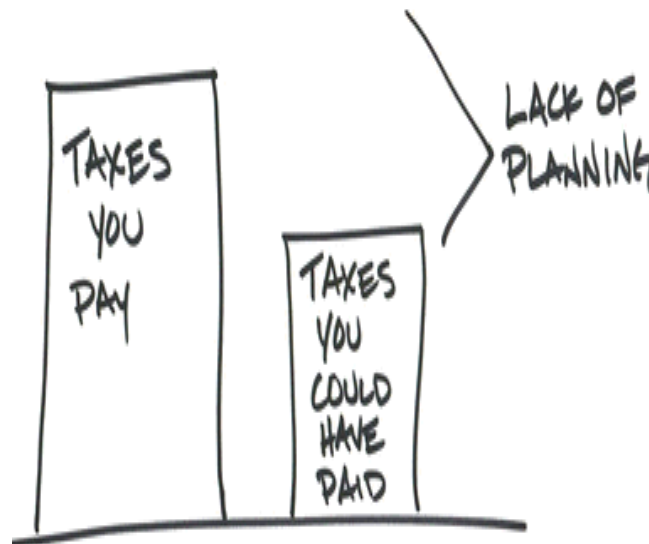
“In America, there are
two tax systems: one for
the informed and one
for the uninformed.
Both are legal.”

-Learned Hand-
U.S. Judge and political philosopher



Year End Tax Planning Agenda

1. Estimating 2023 Taxable Income
2. Income Reducing Strategies
3. Income Accelerating Strategies
4. SECURE Act 2.0
5. Other Year-End Considerations



Source: Carl Richards. *The Behavior Gap*

Tax-Efficient retirement planning can extend your portfolio 7.5 years!*

*Retire Right: The Critical Importance of Tax Efficient Withdrawal Strategies to Portfolio Longevity, by William Reichenstein, Social Security Analyzer, 2019



Estimating 2023 Taxable Income



Start with Income (not an exhaustive list)

- Wages
- Pension
- Social Security (?)
- Retirement Plan Distributions
- Interest
- Dividends
- Rental Income
- Hobby Income

In general, all income is taxable unless it is specifically exempted by law.



Factor in Deductions

Above the Line

- HSA Deduction
- Traditional IRA Deduction
- Student Loan Interest
- Self Employed Health insurance Premiums

Below the Line

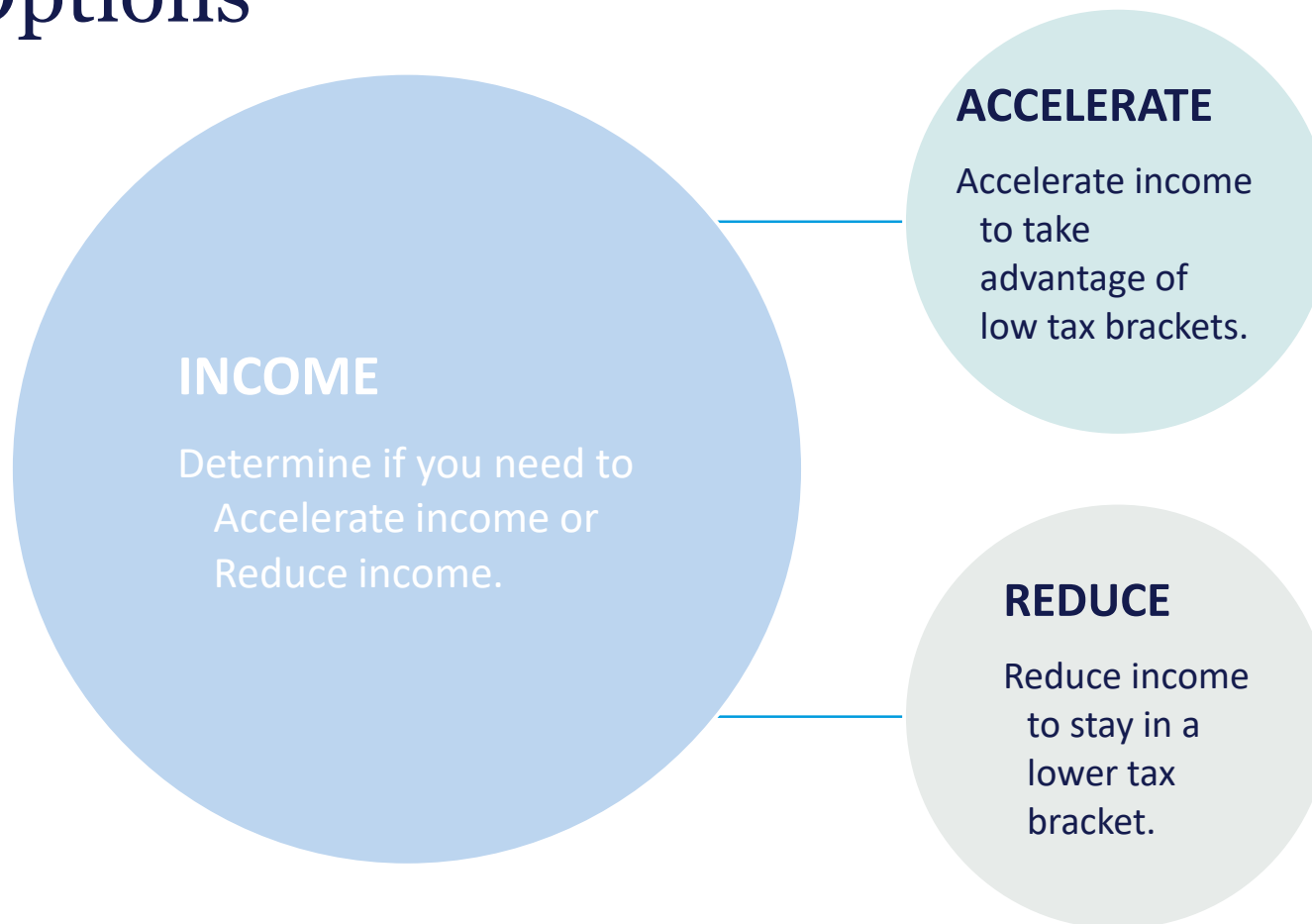
- Standard Deduction OR
- Itemized Deductions
 - Medical Expenses
 - Other taxes paid
 - Charitable gifts
 - Mortgage Interest

2023 Standard Deduction

Single		Married Filing Jointly	
Standard	Over 65	Married	Over 65
\$13,850	\$1,850	\$27,700	\$1,500 (per filer)



2 Options



Ordinary Income Tax Rates 2023

Tax Rate	Single	Married (Joint)	
10%	Up to \$11,000	Up to \$22,000	} Accelerate income
12%	\$11,001 to \$44,725	\$22,001 to \$89,450	
22%	\$44,726 to \$95,375	\$89,451 to \$190,750	
24%	\$95,376 to \$182,100	\$190,751 to \$364,200	} Reduce income
32%	\$182,101 to \$231,250	\$364,201 to \$462,500	
35%	\$231,251 to \$578,125	\$462,501 to \$693,750	
37%	Over \$578,125	Over \$693,750	



Long Term Capital Gains Rates 2023

Tax Rate*	Single	Married (Joint)	
0%	Up to \$44,625	Up to \$89,250	Accelerate Gains
15%	\$44,626 to \$492,300	\$89,251 to \$553,850	
20%	Over \$492,301	Over \$553,850	Reduce Gains

*Rates apply to sales of assets held longer than 1 yr. AND qualified dividends



Income Related Monthly Adjustment Amount (IRMAA)

2021 Modified Adjusted Gross Income (MAGI)			You pay in 2023	
Individual	Married, Joint	Married, Separate	Part B Premium	Multiple
\$97,000 or less	\$194,000 or less	\$97,000 or less	\$164.90	-
\$97,001 - \$123,000	\$194,001 – \$246,000	Not Applicable	\$230.80	1.4x
\$123,001 - \$153,000	\$246,001 - \$306,000	Not Applicable	\$329.70	2x
\$153,001 - \$183,000	\$306,001 - \$366,000	Not Applicable	\$428.60	2.6x
\$183,001 - \$499,999	\$366,001 - \$749,999	\$97,001 - \$412,000	\$527.50	3.2x
> \$500,000	> \$750,000	> \$500,000	\$560.50	3.4x

Source: <https://www.medicare.gov/your-medicare-costs/part-b-costs>



What about PA State Income Tax?

Positives

- Retirement income exempt
- 3.07% Flat Rate
- Deduction for 529 Plan Contributions
- Tax forgiveness available

Negatives

- Retirement contributions included in taxable income
- Limited itemized deductions
- No capital loss carry-forwards
- No special rates for long term capital gains



Income Reducing Strategies



Traditional Retirement Plan Contributions

Common Plan Details

Type	Eligibility	Max. Cont.	Catch-Up (Over 50)	Deadline
IRA	See below	\$6,500	\$1,000	4/15/2024
401k/403b	Plan Dependent	\$22,500	\$7,500	12/31/2023

IRA Deduction Eligibility Limitations

Status	Full Deduction	Partial Deduction	No Deduction
Single – covered by workplace plan	Less than \$73,000	\$73,000 - \$83,000	More than \$83,000
Married – covered by workplace plan	Less than \$116,000	\$116,000 - \$136,000	More than \$136,000
Married – only spouse covered by plan	Less than \$218,000	\$218,000 - \$228,000	More than \$228,00



Health Savings Accounts

Eligibility	Must be enrolled in High deductible health plan (HDHP)*
Single Max Contribution	\$3,850
Family Max Contribution	\$7,750
Catch Up (over 55)	\$1,000
Deadline	April 15 th , 2024

*Annual deductible of at least \$1,500 for self-only coverage and \$3,000 for family coverage



Tax Loss Harvesting

- Sell positions at a loss in taxable accounts
- Buy back similar positions
- Allows investor to take tax losses while maintaining similar investment allocation
- Watch out for wash sale rules
- Losses can be used to
 - Offset other capital gains
 - Offset other income up to \$3,000
 - Carried forward to future years

1a Total amount from Form(s) W-2, box 1 (see instructions)		
b Household employee wages not reported on Form(s) W-2		
c Tip income not reported on line 1a (see instructions)		
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		
e Taxable dependent care benefits from Form 2441, line 26		
f Employer-provided adoption benefits from Form 8839, line 29		
g Wages from Form 8919, line 6		
h Other earned income (see instructions)		
i Nontaxable combat pay election (see instructions)		
z Add lines 1a through 1h		
2a Tax-exempt interest	2a	b Taxable interest
3a Qualified dividends	3a	b Ordinary dividend
4a IRA distributions	4a	b Taxable amount
5a Pensions and annuities	5a	b Taxable amount
6a Social security benefits	6a	b Taxable amount
c If you elect to use the lump-sum election method, check here (see instructions)		
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		
8 Other income from Schedule 1, line 10		
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		
10 Adjustments to income from Schedule 1, line 26		
11 Subtract line 10 from line 9. This is your adjusted gross income		
12 Standard deduction or itemized deductions (from Schedule A)		
13 Qualified business income deduction from Form 8995 or Form 8995-A		
14 Add lines 12 and 13		
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		



Itemized Deduction Bunching

No Bunching = No Deduction

Common Itemized Deductions	Amount
Mortgage Interest	\$8,000
Other Taxes	\$10,000
Charitable Gifts	\$5,000
Medical Expenses*	\$4,000
TOTAL ITEMIZED	\$27,000
STANDARD DEDUCTION	\$27,700

Bunching = Extra Deductions

Common Itemized Deductions	Amount
Mortgage Interest	\$8,000
Other Taxes	\$10,000
Charitable Gifts (2 yrs)	\$10,000
Medical Expenses* (2 yrs)	\$8,000
TOTAL ITEMIZED	\$36,000
STANDARD DEDUCTION	\$27,700

*Medical expenses are deductible once they exceed 7.5% of AGI



Tax Smart Charitable Giving

Qualified Charitable Distributions (QCD)

- Make charitable gifts directly from IRA
- Amount of gift not included in income
- Must be over 70.5
- Effective strategy to reduce taxable income after starting required minimum distributions (RMDs)

Gifting Appreciated Securities

- Gift securities in-kind directly to charities
- Avoids Capital Gains Taxes
- Eligible for Charitable Deduction on Schedule A
- Reduces Concentrated Positions in Portfolio
- Use of Donor Advised Fund adds flexibility



Income Accelerating Strategies



Roth Retirement Plan Contributions

Common Plan Details

Type	Eligibility	Max. Cont.	Catch-Up (Over 50)	Deadline
Roth IRA	See below	\$6,500	\$1,000	4/15/2024
Roth 401k/403b	Plan Dependent	\$22,500	\$7,500	12/31/2023

Roth IRA Contribution Limitations

Status	Full Contribution	Partial Contribution	No Contribution
Single	Less than \$138,000	\$138,000 - \$153,000	More than \$153,000
Married	Less than \$218,000	\$218,000 - \$228,000	More than \$228,000



Roth Conversions

- Can convert tax-deferred assets into tax-free assets
- Conversion is reported as taxable income
- Future growth is tax free
- Anyone is eligible
- No restrictions on amount



Source: <https://www.forbes.com/sites/jlange/2020/03/30/now-is-the-best-time-in-history-to-do-a-roth-ira-conversion/?sh=3856d6bbf1ba>



Sale of Appreciated Property

- Take advantage of 0% long term capital gains rate
- Coordinate large sales with charitable giving strategy
- Spread out gain over several years with installment sales
- Watch out for depreciation recapture on rental property



SECURE Act 2.0



SECURE Act 2.0

- Setting Every Community Up for Retirement Enhancement Act
- Original SECURE Act passed in 2019. SECURE 2.0 passed on Dec. 22 2022 with bi-partisan support.
- Over 90 provisions that take effect at different periods over the course of the next few years.
- Major Changes
 - RMD Age pushed back
 - Required Roth Catch-Up Contributions for High earners
 - 529 to Roth IRA Transfers
 - Reduced Penalties for Missed RMDs



SECURE Act 2.0 – Major Changes

RMDs pushed back (again) - 2023

Birth Year	Impact of SECURE Act
Before 1951	N/A
1951-1959	RMD Age pushed back to 73
1960 or later	RMD pushed back to 75

Required Roth Catch-Up Contributions for High Earners – ~~2024~~ 2026

- Applies to 401k/403b type employer plans
- Earners making over \$145k must use Roth option for Catch-up Contribution



SECURE Act 2.0 – Major Changes

529 to Roth IRA Transfers - 2024

- Limited to Roth contribution limit annually
- Maximum lifetime transfer limit of \$35,000
- 529 Plan must have been maintained for at least 15 years

Reduced Penalties for Missed RMDs - 2023

- Penalty reduced to 25% (from 50%)
- Penalty reduced further to 10% if resolved within correction window (2 years)
- 3 Year statute of limitations



Everything Else...



Other End of Year Considerations

- Make sure you take your required minimum distribution (RMD)
- Spend Money in Flexible Savings Accounts
- Schedule health care procedures if approaching insurance deductible
- Take advantage of gift tax exclusion
- Take advantage of residential green energy credits and electric vehicle credits
- Make estimated tax payments if necessary (to avoid underpayment penalties)
- Make 529 Plan Contributions (PA deduction only)



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