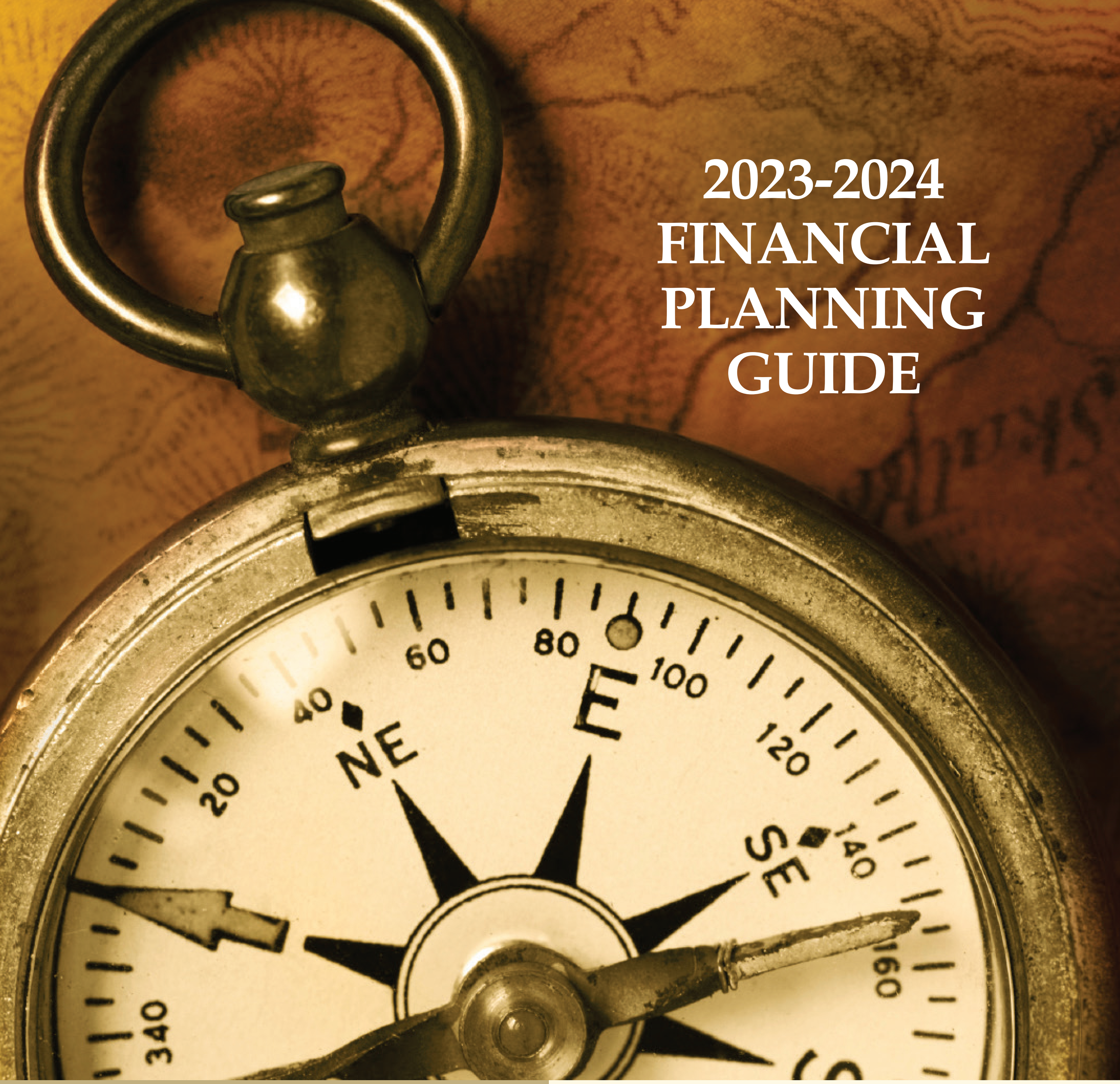
2023-2024 FINANCIAL PLANNING GUIDE



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We live in a remarkable time. For most of human history, the concept of "retirement" didn't exist for most people. In America today, almost all of us have the opportunity to achieve some sort of financial independence.

Will you outlive your money, or will your money outlive you?

The essential elements of achieving financial independence are saving diligently, investing wisely, and planning for the long run. Some of us are able to do all of these things on our own. For others, the services of a skilled financial planner are essential.

This guidebook contains answers to many common questions about financial planning.

Whether you are at the beginning of your journey, or already settled into retirement, we are here to help you create a plan to achieve and maintain financial independence.

The CPA Financial Planners of Flavin, Nooney & Person, CPA Wealth Advisors
321-725-4700
www.FlavinCPA.com

2023 Financial Planning Guide

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The 2023 Economic Outlook for the country has mainly been a moving target that will be very challenging to analyze over the long term. Economists and statisticians have been predicting a recession sometime in 2023 but they differ as to when this might occur. We may even be in it at this moment.

In some respects, the Federal Reserve Bank's monetary policy has managed to mitigate inflationary pressures by increasing interest rates which have cooled-off specific segments of the economy. Home sales have been impacted in many geographic areas because of rising interest rates coupled with rising home prices. Rents, food and oil related costs have generally had a harsher impact on consumers than almost anything else. In addition, the price of automobiles has seen dramatic increases since the chip manufacturing shortages and supply-chain interruptions of the past few years.

In addition, the real cost of transitioning to a "Green Economy" may have built-in and unforeseeable costs and expenses to American business owners and to potentially the average consumer.

Tax Strategies For Individuals And Families

TAX PLANNING IS FINANCIAL PLANNING

As many recall, on Dec. 29, 2022, the President signed the 2023 Consolidated Appropriations Act into law, which includes approximately $1.7 trillion in fiscal year 2023 discretionary government funding for all 12 annual spending bills, as well as a number of other health care provisions and green energy - climate related projects.

Part of the new Consolidated Appropriations Act is the SECURE Act 2.0 which is expected to reshape retirement incentives for years to come – since the retirement savings law makes several changes to existing retirement account rules. This includes (but is not limited to), 401(k), 403(b), IRA, and Roth accounts, and some related tax breaks. And those changes might impact individual retirement savings and personal financial planning. The key here is to make, if necessary, changes to an already established financial plan.

2023 INDIVIDUAL INCOME TAX RATES*

Married Filing Jointly or Qualifying Widow (Widower)

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 22,000	......................10%	$ 0
$ 22,000 – $ 89,450	$ 2,200 + 12%	$ 22,000
$ 89,450 – $ 190,750	$ 10,294 + 22%	$ 89,450
$ 190,750 – $ 364,200	$ 32,580 + 24%	$ 190,750
$ 364,200 – $ 462,500	$ 74,208 + 32%	$ 364,200
$ 462,500 – $ 693,750	$ 105,664 + 35%	$ 462,500
$ 693,750 and above	$ 186,602 + 37%	$ 693,750

Married Filing Separately

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 11,000	......................10%	$ 0
$ 11,000 – $ 44,725	$ 1,100 + 12%	$ 11,000
$ 44,725 – $ 95,375	$ 5,147 + 22%	$ 44,725
$ 95,375 – $ 182,100	$ 16,290 + 24%	$ 95,375
$ 182,100 – $ 231,250	$ 37,104 + 32%	$ 182,100
$ 231,250 – $ 346,875	$ 52,832 + 35%	$ 231,250
$ 346,875 and above	$ 93,301 + 37%	$ 346,875

Single

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 11,000	......................10%	$ 0
$ 11,000 – $ 44,725	$ 1,100 + 12%	$ 11,000
$ 44,725 – $ 95,375	$ 5,147 + 22%	$ 44,725
$ 95,375 – $ 182,100	$ 16,290 + 24%	$ 95,375
$ 182,100 – $ 231,250	$ 37,104 + 32%	$ 182,100
$ 231,250 – $ 578,125	$ 52,832 + 35%	$ 231,250
$ 578,125 and above	$ 174,238 + 37%	$ 578,125

Head of Household

If Taxable Income Is Between:	Your Tax Is:	Of Amount Over:
$ 0 – $ 15,700	......................10%	$ 0
$ 15,700 – $ 59,850	$ 1,570 + 12%	$ 15,700
$ 59,850 – $ 95,350	$ 6,868 + 22%	$ 59,850
$ 95,350 – $ 182,100	$ 14,678 + 24%	$ 95,350
$ 182,100 – $ 231,250	$ 35,498 + 32%	$ 182,100
$ 231,250 – $ 578,100	$ 51,226 + 35%	$ 231,250
$ 578,100 and above	$ 172,624 + 37%	$ 578,100

The 2023 tax rate on qualified dividends is 0%, 15% or 20%, (plus a 3.8% Medicare Surtax on the 20% bracket) depending on your taxable income and filing status.

Note: TAX AMOUNTS HAVE BEEN ROUNDED UP

Supporters of the legislation say that the changes in the SECURE Act 2.0 are designed to encourage more workers to save for retirement. Although others have expressed concern that some provisions in the SECURE Act 2.0 primarily benefit high-income earners. That debate will no doubt continue.

Higher interest rates, implemented by the Federal Reserve Bank (the FED), over the past year has impacted the residential and commercial real estate markets as well as slowing new manufacturing equipment purchases and plant expansions by American businesses throughout the country.

There continue to be seven tax brackets in 2023, (a change from five was made in 2018). For individuals the top tax rate of 37% applies to those with taxable income of $578,125 or more in 2023. Standard deduction for heads of household will increase to $20,800 in 2023. Estates will have an exemption of $12,920,000 for singles in 2023 and $25,840,000 for couples.

401(k) plan limits have increased for 2023: The 401(k) contribution limit is $22,500. The 401(k) catch-up contribution limit is $7,500 for those age 50 and older. The limit for employer plus employee contributions is $66,000.

Starting in 2019, the Affordable Care Act (ACA) individual mandate is repealed. There will no longer be a penalty payment on individual taxpayers who do not have health insurance.

2023 Tax Rates
10%
12%
22%
24%
32%
35%
37%

For tax year 2023, there are a number of (mostly temporary) tax changes thanks to the American Rescue Plan Act (ARPA) of 2021. These provisions involve the Child Tax Credit, the Child and Dependent Care Credit, unemployment benefits, and more.

Given the changing nature of tax law and the complexity of our tax rules, planning is essential. We can help keep you informed of legislative action that may impact your financial situation and develop efficient strategies with you.

TAX RATES

Your filing status determines the tax rate schedule you use, and your annual income determines your tax rate. It can be helpful to think of tax rates as layers: Zero tax is paid on the bottom layer, 10% on the next layer, and so forth. The highest layer your income reaches is known as your marginal rate. The highest marginal tax rate for 2023 is 37%.

ALTERNATIVE MINIMUM TAX (AMT)

Tax laws provide benefits for certain kinds of income and allow special deductions and credits for certain kinds of expenses. The alternative minimum tax (AMT) attempts to ensure that anyone who benefits from these tax advantages pays at least a minimum amount of tax. The AMT is a separate tax formula that eliminates many deductions and credits, thus increasing tax liability for an individual who would otherwise pay less. If your taxable income for regular tax purposes, plus any adjustments and preference items, is more than the AMT exemption amount, you must calculate tax using both the AMT and regular tax formulas and pay the higher of the two amounts.

The Tax Cuts and Jobs Act of 2017 increased the AMT exemption amounts and raised the phaseout thresholds. It also permanently indexed the exemptions for inflation. Today, the AMT will primarily affect high-income households, as it was originally intended. The following may increase your risk of triggering the AMT:

- High income
- Interest income from private activity bonds
- Large capital gains
- The exercising of Incentive Stock Options (ISOs)
- Claiming the standard deduction

Under the AMT, individuals are taxed at rates of 26% and 28% on the amount of taxable income above the exemption amounts. In 2023, the exemption amounts are $81,300 for single filers, $126,500 for married couples filing jointly, and $63,250 for married couples filing separately.

TAX CREDITS & DEDUCTIONS

You can save money by taking advantage of every tax credit and deduction available to you. Credits provide a dollar-for-dollar reduction of your income tax liability; that is, a $1,000 tax credit actually saves you $1,000 in taxes.

Deductions, on the other hand, lower your taxable income. For example, if you are in the 22% tax bracket, a $1,000 deduction saves you $220 in tax, which is $780 less than the savings with a $1,000 tax credit. Here are some valuable credits and deductions.

Adoption Tax Credit

Those who adopt a child in 2023 can receive a tax credit of up to $15,930, per child, for qualified adoption expenses in 2023, subject to income limitations (see page 11). Those adopting a child with special needs may claim a $15,930 tax credit in the year the adoption is completed, even if they do not have qualified adoption expenses.

FINANCIAL PLANNING TIP #1

For 2023, taxpayers can deduct unreimbursed medical expenses that are more than 7.5% of 2023 adjusted gross income.

Child Tax Credit - ARP Act 2023 Update

The American Rescue Plan (ARP) Act of 2021 temporarily expanded the Child Tax Credit by allowing families to claim the credit regardless of their income level. It also increased the maximum amount of the credit to $3,600 for each child under age 6 and $3,000 for each child between ages 6 and 17. But that is over now. The 2023 child tax credit will revert back to $2,000 for each dependent age 17 or younger. Congress did not pass an extension of the enhanced benefit, nor an extension of the monthly payments.

Itemized Deductions For 2023

Because tax rates, deductions, and phaseouts are constantly changing, timing of income and expenses is critical. For most taxpayers, the general rule is to defer income and accelerate deductions. You are allowed to take the standard deduction or to itemize your deductions on your tax return—whichever offers you the most benefit. However, the Tax Cuts and Jobs Act of 2017 eliminated or restricted many itemized deductions starting in 2018, and raised the standard deduction. This means that fewer taxpayers are likely to itemize.

The standard deductions for 2023 are as follows: $27,700 for married taxpayers filing jointly; $13,850 for single filers; $20,800 for head of household filers; and $13,850 for married taxpayers filing separately. There is an additional deduction for visually impaired or taxpayers age 65 of $1,850 (if unmarried and not a surviving spouse) or $1,500 (if married). If you still itemize your deductions, maintain detailed records.

Some itemized deductions—such as medical expenses—are based on "floor" amounts. Only amounts that exceed the given floor can be deducted. For 2023, taxpayers can deduct unreimbursed medical expenses that are more than 7.5% of 2023 adjusted gross income.

FINANCIAL PLANNING TIP #2

To get the best long-term care insurance rates, consider taking out a policy now to lock in current premiums for the entire coverage period.

Mileage Rates

You may deduct expenses for an automobile you own in one of two ways: either record and deduct your actual expenses, including depreciation, or record your mileage and deduct a standard amount per mile of travel, plus parking and toll fees. For 2023, the standard mileage rates are 65.5¢ per business mile driven, 22¢ per mile for medical or moving (moving is applicable for members of the U.S. Armed Forces or their spouse or dependents only) and 14¢ per mile for charity.

Medical Expenses

Deductible medical expenses include health insurance premiums, fees for medical and dental services, prescription drug expenses, and other related expenses including capital improvements needed to your home for medical reasons; and cosmetic surgery that improves the body's functioning.

In general, prescription drugs are fully deductible. Note that Flexible Spending Accounts (FSAs), Health Saving Accounts (HSAs), and Health Reimbursement Arrangements (HRAs) cannot reimburse workers for unprescribed over-the-counter drugs. Only prescriptions and insulin are reimbursable.

In 2023, all individuals may deduct unreimbursed qualified medical expenses that exceed 7.5% of their 2023 adjusted gross income. You may be able to maximize your deduction in spite of the limitation by "bunching" your discretionary medical expenses and procedures into one year.

Medicare Part B and D payments are deductible as medical expense deductions. Costs of physician-prescribed weight loss plans and prescriptions to treat obesity, or prescribed in connection with another malady, are deductible under the percentage-of-AGI rule. The cost of diagnosing (e.g., pregnancy test kits, electronic body scans, or annual physicals), preventing, or treating a specific disease may be deductible.

Refundable entry fees to continuing care facilities are not deductible, but a deduction is allowed for the medical related portion of non-refundable monthly fees. You may be able to deduct medical expenses you pay for a parent for whom you pay more than half the support, even if the parent lives separately.

Long-Term Care

Long-term-care insurance may be especially valuable in protecting a parent's home and other assets. You might buy the insurance for your parent and possibly deduct all or some of the cost. An insurance policy that covers the cost of care that may be needed later in life can be an important retirement and estate planning component. Tax laws allow you to deduct a portion of qualified long-term care insurance premiums based on your current age.

To get the best long-term care insurance rates, consider taking out a policy now to lock in current premiums for the entire coverage period. Compare policy premiums and coverage parameters, as insurance company programs vary.

Flexible Spending Accounts

Under current law, only medical expenses that exceed 7.5% of AGI are deductible on your tax return. Since many medical expenses are not covered by insurance plans, paying for them through a flexible spending account with tax-free dollars provides an opportunity for savings.

With a flexible spending account, certain medical expenses become, essentially, tax deductible. Covered expenses include insurance deductibles and copays, doctor's office visits, dental and orthodontia expenses, vision care, eye surgery, prescription drugs, and medical transportation costs.

Health Insurance Premiums for Self- Employed

If you are self-employed*, you may deduct 100% of your health insurance premiums as an above-the-line deduction. Whether you itemize or not, above-the-line deductions are subtracted from gross income to arrive at your AGI. The self-employed health insurance premiums deduction cannot exceed the amount of income you have earned from your business.

** Sole proprietors are self-employed. Partners in partnerships, members of limited liability companies (LLCs), and employee shareholders in S corporations may also be considered self-employed.*

Nonbusiness Taxes

State & Local Income Taxes. While state income taxes constitute a large chunk of nonbusiness taxes, there are ways to benefit:

1. You may deduct your state and local income taxes on your Federal return up to a combined total of $10,000 in 2023 (including property taxes) if you itemize deductions.

2. If you pay the estimated state income taxes, (typically due on January 15) by December 31, you will gain a larger Federal deduction for the current year.

NOTE: If you are subject to the alternative minimum tax (AMT) this year, you may not benefit from nonbusiness tax deductions because you cannot deduct state/local taxes for AMT purposes.

FINANCIAL PLANNING TIP #3

If you are self-employed*, you may deduct 100% of your health insurance premiums as an above-the-line deduction.

If you do not make estimated tax payments, you may want to ask your employer to withhold more state tax during the year, which can increase your deduction. If you overpay, intentionally or not, the IRS will tax any refund you receive from the state up to the amount of the benefit from your Federal deduction in the prior year.

Property Taxes. Property owners must pay personal property taxes on the value of their property. While property taxes can be burdensome, they are deductible up to a combined total of $10,000 (including state and local income taxes) on your Federal tax return. While paying property taxes before December 31 could give you a greater deduction in the current year, be aware of any AMT implications.

Real estate taxes are deductible. However, registration, licensing, and other fees are not deductible. Special real estate assessments are also not deductible because you derive specific benefits from them.

FINANCIAL PLANNING TIP #4

A gift to a qualified charitable organization may entitle you to a charitable contribution deduction against your income tax if you itemize deductions.

2023 Interest Expenses

All interest paid on qualified residential mortgages that do not exceed $750,000 (including points paid to obtain a mortgage), interest on home equity loans (as long as they are used to buy, build or substantially improve the taxpayer's home that secures the loan), and business debt is tax-deductible based on a formula under the Tax Cuts and Jobs Act of 2017. However, higher limitations ($1 million ($500,000 if married filing separately)) apply if you are deducting mortgage interest from indebtedness incurred before December 16, 2017.

With certain limitations, you may also deduct interest on loans used for investment purposes. Interest expenses related to certain passive activities (trade or business activities in which you do not materially participate) may be deductible, as well. You are allowed to deduct these interest expenses as long as they are paid during the tax year on a valid debt. Interest paid on credit cards or loans for consumer items is not deductible.

Student Loan Interest. Up to $2,500 of interest on student loans incurred during 2023 may be deducted. Since this is an "above-the-line" deduction, even non-itemizing taxpayers benefit. The loans must be used for qualified higher education expenses, such as tuition, fees, room, board, and books. If you are in a higher tax bracket, you may not be eligible for this deduction because of the phaseout rules.

Charitable Contributions

The primary motivation to donate to charity should be altruism. However, tax benefits exist for those who give. Here are some of the rules and benefits you should consider.

A gift to a qualified charitable organization may entitle you to a charitable contribution deduction against your income tax if you itemize deductions. You must itemize in order to take a charitable

deduction. Make sure that if you itemize, your total deductions are greater than the standard deduction. If they're not, stick with the standard deduction.

A contribution is deductible in the year in which it is paid. Putting the check in the mail to the charity constitutes payment. A contribution made on a credit card is deductible in the year it is charged to your credit card, even if payment to the credit card company is made in a later year.

Most, but not all, charitable organizations qualify for a charitable contribution deduction. You can deduct contributions only if they are made to or for the use of a qualified recipient. No charitable contribution deduction is allowed for gifts to certain other kinds of organizations, even if those organizations are exempt from income tax. Contributions to individuals, foreign governments, foreign charities, and certain private foundations similarly are not deductible. All organizations rated by Charity Navigator qualify for charitable status, and you can deduct your donations to these organizations, subject to certain limitations.

Rules exist for non-cash donations. If you contribute property owned for more than one year, the value of the deduction is normally equal to the property's fair market value. You have an advantage when you contribute appreciated property because you get a deduction for the full fair-market value of the property. You are not taxed on any of the appreciation, so, in effect, you receive a deduction for an amount that you never reported as income.

You should clearly contribute, rather than throw out, old clothes, furniture, and equipment that you no longer use. However, bear in mind the condition of your donated goods. The IRS only permits deductions for donations of clothing and household items that are in "good condition or better."

If you bring $1,000 in clothes or furniture to Goodwill or the Salvation Army, make sure that you get a receipt. Never throw such contributions into a bin where no receipt is available. And remember that the IRS requires a qualified appraisal to be submitted with your tax return if you donate any single clothing or household item that is not in good used condition or better. Refer to the Internal Revenue Service: Publication 526, Charitable Contributions and Publication 561, Determining the Value of Donated Property

You need to maintain proper documentation of your contributions. If you want to claim a charitable deduction for a cash gift, then you must be prepared to verify your claim. In other words, you cannot deduct the spare change dropped in a charity's collection bucket without the proper documentation. If you are audited, the IRS will only accept one of the following to substantiate a monetary gift: a canceled check, credit card statement, bank statement or a written acknowledgment from the charity. Donating online via Charity Navigator's Giving Basket helps you fulfill this requirement since all your giving records will be stored in one place enabling you to quickly obtain an annual record of your charitable giving for tax preparation.

If you contribute $250 or more, then you must prove to the IRS that you (a) made the donation and (b) you didn't receive anything in return for that donation. Therefore you'll need a receipt from the charity that includes the following information: the charity's name, the value of your gift, the date you made your donation and a statement verifying that you did not receive any goods or services in return for your gift.

Be especially careful when valuing a donated vehicle. Although a law implemented in 2005 attempted to crack down on taxpayers who were overvaluing donated vehicles, the government reports that many taxpayers still inflate the value of such donations. As a result, the IRS continues to take a close look at such deductions. If you donated a car worth more than $500, then you can only deduct the amount the charity received from the sale of your car. You can use the receipt from the charity to substantiate your claim. Do not attempt to use the fair market value unless one of the following conditions apply:
(1) Instead of selling the vehicle, the charity keeps and uses it.
(2) The charity makes improvements to the car before selling it.
(3) Your car is sold at a discounted price to a person with a low income.
(4) Or if the car is worth less than $500.

The IRA charitable rollover offers tax benefits for those that qualify. The IRA Charitable Rollover allows individuals who are $70^{1/2}$ years old to donate up to $100,000 to charitable organizations directly from their IRA, without that donation being counted as taxable income when it is withdrawn. To qualify, contributions must come from a traditional IRA or Roth IRA, and they must be made directly to a qualified charitable organization. Additionally, the donor may not receive goods or services in exchange for the donation, and they must retain a receipt from each charity to which a donation is made.

Casualty Losses

A casualty loss can result from the damage, destruction, or loss of your property from any sudden, unexpected, or unusual event such as a flood, hurricane, tornado, fire, earthquake, or volcanic eruption. A casualty doesn't include normal wear and tear or progressive deterioration.

Federal casualty losses, disaster losses and qualified disaster losses are three categories of casualty losses that refer to federally declared disasters. The requirements for each loss vary. If your property is personal-use property or isn't completely destroyed, the amount of your casualty loss is the lesser of:
- The adjusted basis of your property, or
- he decrease in fair market value of your property as a result of the casualty

If your property is business or income-producing property, such as rental property, and is completely destroyed, then the amount of your loss is your adjusted basis minus any salvage value or insurance or other reimbursement you receive or expect to receive.

For property held by you for personal use, you must subtract $100 from each casualty or theft event that occurred during the year after you've subtracted any salvage value and any insurance or other reimbursement. Then add up all those amounts and subtract 10% of your adjusted gross income from that total to calculate your allowable casualty and theft losses for the year.

If you have a qualified disaster loss you may elect to deduct the loss without itemizing your deductions. Your net casualty loss doesn't need to exceed 10% of your adjusted gross income to qualify for the deduction, but you would reduce each casualty loss by $500 after any salvage value and any other reimbursement.

Compensation

You can convert compensation to a tax-advantaged form, such as no-extra-cost-to-the-employer services (e.g., free standby flights for airline employees), working-condition fringe benefits, employee discounts, or de minimis fringe benefits.

Some types of noncash compensation are taxable—e.g., employer-provided automobile for personal use or employer aid for education not directly job-related or job-required. Also, stock options: the difference between the stock's fair market value and the option price is "income" when the option is exercised, but a special rule delays the tax on **Incentive Stock Options (ISOs)** until the stock is sold or exchanged. Even ordinary stock options let you speculate on the stock, while ISOs benefit from the low rate on capital gain. Certain conditions must be met to receive favorable tax treatment on ISOs. If you receive restricted stock or options from your employer or exercise ISOs, consider making a Section 83(b) election within 30 days. With respect to stock, the election lets you use long-term capital gains rates on the difference between the sales price and your basis when you sell the stock; with respect to ISOs, it lets you pay lower AMT. Firms must report to the IRS ISOs exercised in 2023 as well as employee stock purchase plans.

FINANCIAL PLANNING TIP #5

If you have a qualified disaster loss you may elect to deduct the loss without itemizing your deductions. Your net casualty loss doesn't need to exceed 10% of your adjusted gross income.

Severance pay is fully taxable and severance paid to employees laid off as part of a reduction in workforce is subject to payroll taxes. An ex-employer's continued payment of health and accident benefits is not taxable. An ex-employee who pays his or her own COBRA health premiums can deduct them to the extent they and other medical expenses exceed 10% of AGI. Outplacement services are no longer a tax-free benefit under the Tax Cuts and Jobs Act of 2017 because miscellaneous deductions which exceed 2% of your AGI are eliminated from 2018–2025, and this includes job search expenses. State unemployment benefits continue to be taxable.

Investment Expenses

To encourage taxpayers to invest, tax laws allow a deduction for

FINANCIAL PLANNING TIP #6

Under present tax law, many taxpayers lose the benefit of deducting legal fees for divorce as itemized deductions due to new limitations.

deduct all of your interest, up to the total of your net investment income. Qualified dividend income and net capital gains from the disposition of investment property are not considered investment income. However, you may elect to treat qualified dividends and net capital gains as investment income by subjecting them to ordinary income tax rates.

Under the Tax Cuts and Jobs Act of 2017, you can no longer deduct ordinary and necessary investment expenses as miscellaneous itemized deductions, subject to the 2% floor. Any fees you pay to buy, sell, or hold an asset or to collect interest or dividends are not eligible for income tax deduction. This would include brokerage or transaction fees, management and advisor fees, custodial fees, accounting costs, and fund operating expenses.

Professional Fees

Under the Tax Cuts and Jobs Act of 2017, many itemized deductions have been eliminated or modified. Tax preparation fees filed as a miscellaneous itemized deduction subject to the 2% floor is fully eliminated.

Under prior law, generally, you could not deduct personal legal expenses, such as the expense of acquiring, perfecting, or defending your title to property. However, these costs could qualify as capital expenditures, which were added to the basis of the property. Expenses related to tax-free income are not deductible.

Divorce-Related Fees. Under present tax law, many taxpayers lose the benefit of deducting legal fees for divorce as itemized deductions due to new limitations. Taxpayers who claim the standard deduction in 2023 instead of itemizing will not be able to deduct legal fees.

FINANCIAL PLANNING TIP #7

There are several strategies for those saving for a child's education, such as 529 plans, Coverdell Education Savings Accounts (ESAs), and education tax credits.

EDUCATION STRATEGIES

There are several strategies for those saving for a child's education, such as 529 plans, Coverdell Education Savings Accounts (ESAs), and education tax credits. Navigating the different options and the temporary nature of some opportunities, however, can be challenging. Take a look at the rules governing tax breaks for education.

OTHER EDUCATION RELATED TAX BENEFITS

Those who have student loans forgiven may not have to pay tax on the waived debt if they work in public service jobs or teach in schools in low-income areas for 120 months, and make regular loan payments during that time. This rule applies to loans first made by the government or by private lenders that are later consolidated into Federal loans. Information on Federal loan forgiveness programs can be found at studentaid.ed.gov.

Tax Benefit	Maximum Benefit	Qualified Expenses	2023 Income Phaseouts	Notes
Student Loan Interest Deduction	$2,500 above-the-line deduction	Student loan interest	Single and Head of Household $75,000–$90,000 Married, Filing Jointly $155,000–$185,000	Person obligated to make loan payment must be/have been at least half-time student in degree program
Employer Tuition Assistance	$5,250 exclusion from income per student	Tuition, fees, books, supplies, equipment	None	
Scholarships	Excluded from income	Tuition, fees, books, supplies, equipment	None	Student must be degree candidate

interest on loans used to purchase a taxable investment. You can

529 Plans

These qualified tuition programs, offered as prepaid tuition plans or college savings plans, are valuable tools to help finance your children's or grandchildren's education. Prepaid tuition programs allow you to lock in today's tuition rates at participating private and public colleges and universities. College savings plans, on the other hand, offer a range of investment options, typically a variety of mutual funds, which can be used to pay for tuition and other qualified education expenses at many colleges and universities nationwide.

The Benefits of 529 Plans

To qualify as a 529 plan under federal rules, plan balances cannot exceed the expected cost of a beneficiary's Qualified Higher Education Expenses (QHEE). The frequently accepted guideline is that this limit constitutes five years of tuition, room, and board at the most expensive college in the United States.

This guideline makes investment contribution limits quite large, although every state can individually interpret what five years of qualified education costs means. If you are a potential contributor to a 529 Plan you should check your states' 529 limits to determine specific investment maximums.

Although originally structured to fund post-secondary education, 529 plans can now also be used to fund private K-12 education and apprenticeship programs registered and certified with the U.S. Secretary of Labor. Here are the highlights:

- A 529 plan allows you to save and grow tax-free money for someone's education, including your own.
- Beneficiaries must spend the money on qualified education expenses for the withdrawal to be considered tax-free.
- There are two types of 529 plans: prepaid tuition and savings plans.
- Maximum plan contribution limits vary by state, but such limits generally do not apply across states.

Generally, annual contributions to any individual above a certain threshold ($17,000 in 2023, up from $16,000 in 2022) would count against your lifetime gift tax exemption of $12.92 million for singles and $25.84 million for married couples. This is an increase from 2022's $12.06 million and $24.12 million.

However, there is an exception made for contributions within a 529 plan. You can give five years' worth of contributions in a one-time lump sum. For example, a grandparent can give an $85,000 one-time lump-sum contribution to a 529 plan ($17,000 per year multiplied by five years) with the understanding that it would cover five years' worth of gifts. As long as that person doesn't contribute again in the next five years, there are no tax consequences.

Remember, your taxable income is not reduced by contributing to a 529 plan. However, more than 30 states give out tax deductions or credits for contributions made to one.

In addition, you may contribute to both a 529 plan and a Coverdell Education Savings Account (ESA) on behalf of the same beneficiary in the same year. As 529s have become more popular, many plan options have emerged. Each type of plan has its own rules and investment options. There are certain pros and cons associated with 529s, for example 529 plans may not be the best choice for low- and middle-income taxpayers who qualify for financial aid because 529 assets are considered when determining need for financial aid; you will be taxed and penalized on the earnings portion of any withdrawals if funds are not used for qualified education expenses; savings plans invested in stocks may lose money, so it may be wise to switch funds into less volatile investments as the beneficiary gets closer to college-age; you may not benefit from additional state tax breaks unless a plan is set up in your state of residence; and some states have residency requirements for establishing an account.

COVERDELL EDUCATION SAVINGS ACCOUNTS

You can use the Coverdell Education Savings Account (ESA) to help pay for your child's elementary and secondary school expenses, as well as college expenses. The annual contribution limit is $2,000, but keep in mind that income limits apply. (Refer to the chart on page 10.) You have until the April tax filing deadline in 2024 to make contributions for 2023. Grandparents and other family members may also make contributions for your children, as can corporations and other entities. There is no limit to the number of accounts that can be held in a child's name or the number of people who may make contributions to a Coverdell ESA—as long as total contributions remain within the $2,000 annual limit per child.

Funds withdrawn from an ESA (both contributions and earnings) are tax free if used to pay for qualified expenses. However, tax-free distributions are not allowed if an education tax credit is used for the same expenses for the same student. The beneficiary must use ESA funds by age 30. If not, the account may be transferred to a relative.

Education Bonds

Education Bonds offer tax-free interest on Series EE bonds issued after December 31, 1989, and all Series I bonds. Tuition and fees are qualified expenses. You can rollover an education bond into a 529 Plan or Coverdell ESA. Income phaseouts for 2023 are $91,850-$106,850 for single and head of household filers and $137,800–$167,800 for married filing jointly. Some important notes: income limits apply when bonds are cashed; bonds must be in the parent's name; the child must be the beneficiary, not co-owner; and the purchaser must be age 24 or older.

Education Tax Credits

If you are currently paying higher education expenses, two Federal tax credits may help lessen your tax bill: the American Opportunity Tax Credit and the Lifetime Learning Credit.

The American Opportunity Tax Credit is worth $2,500 in 2023. It is now available for all four years of college, and it can be used to cover the cost of course materials. Income phaseout levels for the credit begin at $160,000-$180,000 of modified AGI for joint filers and $80,000-$90,000 of modified AGI for single filers in 2023. In addition, 40% or $1,000 of the credit is refundable, which could enable lower-income taxpayers to get money back from the IRS.

The Lifetime Learning Credit, which applies to undergraduate study, as well as graduate and professional education pursuits, could be worth up to $2,000. The Consolidated Appropriations aligning its income phase out rule with the American Opportunity.

If you cannot claim either credit because your income is too high, your child can take the full credit if he or she has sufficient taxable income. However, you will not be able to claim a dependency exemption for the child. Your savings, therefore, will be the amount of the credit less the tax benefit of the lost dependency exemption. But, be aware that, based on your income, the exemption may be reduced.

Other Education Benefits

- See chart on page 7.
- You can withdraw from your IRA to pay qualified higher education expenses without being penalized. The amount withdrawn will be subject to taxation, however.

Financial Aid

Most colleges use Federal guidelines to determine the need-based aid for which your child may be eligible. (Criteria for colleges that use their own formulas may vary from what is discussed here.) Several factors determine the amount of the aid: the "cost of attendance" for the college in question; the money provided from outside sources (such as scholarships or tuition paid directly by a relative); and the "expected family contribution" (EFC). The information you provide each year on the Free Application for Federal Student Aid (FAFSA) is used to calculate your EFC. The college then uses that figure to calculate the amount of Federal student aid you are eligible to receive through loans, grants, and/or work-study programs.

> **FINANCIAL PLANNING TIP #8**
>
> Being self-employed has its benefits. However, if you are self-employed or have sources of income separate from you regular job, you must make quarterly tax payments.

The EFC formula considers several financial pools: 2.5%–5.64% of the parents' assets and 22%–47% of the parents' income (minus certain allowances for both); 20% of the student's assets; 50% of the student's income (minus certain allowances). If you have multiple children in college at the same time, this is taken into consideration. Some assets, such as retirement accounts and home equity, are not included in the financial pool. 529 account balances may be included in parents' assets but tax-free distributions from a 529 plan are not included in parents' income. If you have a child going to college in 2023, your assessment for aid will be based on your 2022 tax return. Consider minimizing your earned income, fully funding your retirement accounts, accelerating investment losses, and adjusting investments to hold down interest and dividend income.

ESTIMATED TAX PAYMENTS

Income tax is considered a pay-as-you-go tax, which means that tax must be paid as you earn or receive income during the estimated tax payments. Therefore, if you are self-employed or have additional sources of income outside of your regular job, you may be required to pay your Federal taxes four times annually.

To avoid penalties, make estimated payments in four installments equal to 90% of your 2023 tax liability or 100% of what you paid in 2022. If the AGI on your prior year's return was more than $150,000 ($75,000 if married filing separately), the percentage requirement increases to 110% of 2022 tax or 90% of the 2023 tax, whichever is lower. The minimum threshold for paying estimated tax remains at $1,000 for 2023.

HEALTH INSURANCE

Supplementary Medical Insurance Trust Fund

This trust is largely funded by the premiums paid by people enrolled in Medicare Part B (medical insurance) and Medicare Part D (Medicare prescription drug plans), but it is also funded by:

- Interest earned on the trust fund investments
- Funds authorized by Congress

The Supplementary Medical Insurance Trust Fund pays for:

- Medicare Part B benefits
- Medicare Part D prescription drug coverage
- Medicare Program administration costs

Medicare taxes and the Affordable Care Act

The Inflation Reduction Act, like the ARPA before it, extends eligibility for premium tax credits to reach people with incomes over 400% FPL ($54,360 for a single person in 2023, or $111,000 for family of 4). Now these consumers must contribute no more than 8.5% of their income toward the benchmark silver plan. This change is especially beneficial to older marketplace consumers (50 and older) whose premiums are age-adjusted in most states and can be up to 3 times that of young adult premiums for the same policy. The average unsubsidized silver plan premium for a 60-year-old couple in 2023 is more than $1,900 per month in 2023. Under the original ACA subsidy structure, subsidies were unavailable to people with incomes above 400% FPL, meaning premiums for older enrollees could easily cost more than 20% of their household income. But now, premium payments are capped at no more than 8.5% of household income.

Act (CAA) of 2021 changed the Lifetime Learning Credit by

Medicare taxes for the self-employed
Even if you are self-employed, the 2.9% Medicare tax applies. Typically, people who are self-employed pay a self-employment tax of 15.3% total – which includes the 2.9% Medicare tax – on the first $160,200 of net income in 2023.

The self-employed tax consists of two parts:
- 12.4% for Social Security
- 2.9% for Medicare

You can deduct the employer-equivalent portion of your self-employment tax in figuring your adjusted gross income.

JOB HUNTING

In December 2017, with the passing of the Tax Cuts and Jobs Act, many deductions including the option to deduct job search expenses were suspended or eliminated from 2018 to 2025. Also, as part of the 2017 tax law, taxpayers will not be able to deduct moving expenses starting in 2018 through 2025. An exception is that taxpayers who are members of the military on active duty who move as part of an order can deduct certain costs of getting themselves, their family, and goods to the new area, and this includes parking fees, tolls, and 16¢ per mile.

TAXES FOR DOMESTIC HELP

Here is an example for 2023, you hire a household employee (who is an unrelated individual over age 18) to care for your child and agree to pay cash wages of $100 every Friday. You expect to pay your employee $2,400 or more for the year. You decide to pay your employee's share of social security and Medicare taxes from your own funds. You pay your employee $100 every Friday without withholding any social security or Medicare taxes.

For social security and Medicare tax purposes, your employee's wages each payday are $100. For each wage payment, you will pay $15.30 when you pay the taxes. This is $7.65 ($6.20 for social security tax plus $1.45 for Medicare tax) to cover your employee's share plus $7.65 ($6.20 for social security tax plus $1.45 for Medicare tax) for your share. For income tax purposes, your employee's wages each payday are $107.65 ($100 + the $7.65 you will pay to cover your employee's share of social security and Medicare taxes).

CHANGES TO EXEMPTIONS

In 2018, the Tax Cuts and Jobs Act eliminated the deduction for personal and dependent exemptions. The tax law increased the standard deduction amounts. In 2023, the deduction amounts are $27,700 for married filing jointly, $13,850 for single filers, and $20,800 for heads of households, indexed for inflation. These changes expire at the end of 2025 unless Congress takes further action.

SUPPORTING YOUR PARENTS

Growing numbers of Baby Boomers are supporting their parents. If you are among this group, you may qualify for some valuable tax breaks.

As part of the law eliminating dependent exemptions for 2018 through 2025, taxpayers will no longer be able to claim their parent as a dependent. However, the Tax Cuts and Jobs Act does allow for a new $500 nonrefundable credit for dependents who do not qualify for the Child Tax Credit. Taxpayers can claim this for non-child dependents and children who are too old for the Child Tax Credit.

If you are single and a parent qualifies as your dependent, you may be able to file as "head of household" and receive the lower marginal tax rates and larger standard deduction of that filing status. You must pay more than 50% of the cost of maintaining the household in which your parent resides; however, you do not need to live in the same house.

If you pay qualified expenses for a parent who is physically or mentally incapable of self-care and you live in the same house, you may be able to claim a dependent care credit. To qualify, the care must be necessary in order for you to hold gainful employment, though the care can be received either inside or outside the home.

In 2023, the income threshold set for the child and dependent care credit scheme is set at $43,000 or less. This means those earning more will not be eligible to benefit. Those who do meet the required criteria will be eligible for a rebate worth up to $3,000. If you provide more than half of your parents support for the year, you may also deduct medical expenses paid on behalf of your parents, even if they do not qualify as your dependents.

CHILDREN'S TAXES

Congress has provided many favorable tax breaks to individuals in recent years. The "kiddie tax" is unearned income over $2,300 for children under age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students) is taxed at rates that apply to trusts and estates, not the parents' top rates as it has in years past.

The Kiddie Tax rules require that unearned income over $2,300 under your child's name is subject to the parent's margin tax rate. The first $1,150 on unearned income isn't taxed at all and the next $1,150 is taxed at the child's income tax rate which will be typically be lower than the parent's.

FINANCIAL PLANNING TIP #9

Encouraging children to save and invest through an IRA is an excellent education in financial responsibility. Saving money earned from babysitting and/or a summer job can grow into a significant sum.

After the initial $2,300 in unearned income, the rest of it is reported and taxed at the parents marginal tax rate. Your child would be responsible for paying the increased tax rate.

You can elect to report your child's unearned income on your income tax return and pay the taxes yourself if they earned less than $11,500 in gross income for the year, and the only unearned income is from interest, ordinary dividends, and capital gains distributions.

The Kiddie Tax is applied to all dependent children under the qualifications of the internal revenue code (IRC) that have taxable investment income. A qualifying child might be:

- Less than 18 years old at the end of the tax year.
- Age 18 years old at the end of the tax year if their earned income is less than 50% of their support.
- Age 19 to 24 years old if enrolled full-time as a student and earned income is less than 50% of their support.

IRAS FOR KIDS

If your child has earned income from outside the household, such as from a summer job or babysitting, consider opening an Individual Retirement Account (IRA). For 2023, your child can contribute $6,500 (or his or her earned income, whichever is less) to an IRA.

Just how important is it to start an IRA for your child now? Suppose your 15-year-old daughter saves $800 from babysitting and purchases a Roth IRA. If she makes no additional contributions and the funds grow 8% annually, she will have accumulated more than $37,000 by age 65, which will be tax free upon withdrawal. Or she opens a Roth IRA with $2,000 at age 15 and then makes

2023 INCOME TAX PHASEOUT RANGES

Provision	Single	Married Filing Jointly
Child Tax Credit[1]	Starts at $200,000-$240,000 AGI[2]	Starts at $400,000-$440,000 AGI[2]
Adoption Credit	$239,230 – $279,230 AGI	Same as single
Interest on Education Loans	$75,000 – $90,000 AGI	$150,000 – $180,000 AGI
Education Credits		
a) American Opportunity Tax Credit	Starts at $80,000-$90,000 AGI	Starts at $160,000-$180,000 AGI
b) Lifetime Learning Credit	Starts at $80,000-$90,000 AG	Starts at $160,000-$180,000 AGI
Coverdell Education Savings Accounts	$95,000 – $110,000 AGI	$190,000 – $220,000 AGI
Education Savings Bonds	$91,850 – $106,850 AGI	$137,800 – $167,800 AGI
Individual Retirement Accounts (IRAs)		
a) Active participant in another plan	$73,000 – $83,000 AGI	$116,000 – $136,000 AGI[3]
b) Not an active plan participant	No limitations apply	$218,000 – $228,000 AGI[4]
Contributory Roth IRAs	$138,000 – $153,000 AGI	$218,000 – $228,000 AGI

[1] The credit is reduced by $50 for each $1,000, or fraction thereof, of AGI above the threshold.
[2] AGI is adjusted gross income. Different modifications may apply depending on specific provisions.
[3] Applies when both spouses are active plan participants or only the participant spouse contributes.
[4] Applies if at least one spouse is not an active participant.

annual contributions of $2,000 for the next 10 years. The value of her tax-free account at age 65 will be about $700,000 if the annual growth rate is 8%.

NOTE: The previous hypothetical examples are for illustrative purposes only. They are not intended to reflect an actual security's performance. Investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.

TAXES & DIVORCE

Under new tax law, many taxpayers lose the benefit of deducting legal fees for divorce as itemized deductions due to new limitations. Taxpayers who claim the standard deduction in 2023 instead of itemizing will not be able to deduct legal fees.

Divorce and its associated tax issues can be complex. In many cases, neither spouse can file as single until the divorce is final. A joint return generally offers the lowest tax bracket, but each spouse is then responsible for the other's tax liability. The "innocent spouse" provisions of the tax law offer some protection to spouses who do not know about certain income and some relief from responsibility for the other's taxes.

One way for divorcing couples to avoid responsibility for the other's tax liability is to choose the married filing separately status. However, tax rates are generally higher, several potential credits may be lost, and if one spouse itemizes, both must do so.

Couples with children who lived apart during the last six months of the tax year have another option. The spouse paying the majority of household costs for a home that was also the children's home for more than half the year can file as head of household, which offers several additional credits over married filing separately and lowers certain marginal tax rates. Furthermore, the standard deduction for head of household filers is higher than the standard deduction for married filing separately or single filers.

The custodial parent is entitled to the new $500 nonrefundable credit for dependents who do not qualify for the Child Tax Credit since the dependency exemption for each child has been repealed under the Tax Cuts and Jobs Act of 2017, through 2025.

Qualified Domestic Relations Orders

During divorce, retirement and pension funds, such as those in 401(k) plans, may need to be divided. Early withdrawals from these accounts may incur penalties unless a Qualified Domestic Relations Order (QDRO) is obtained.* The QDRO directs a retirement fund's administrator to pay a specific amount to a former spouse or child. The former spouse may defer tax on the payments by rolling them into an IRA within 60 days of receipt. Payments made to a child are taxed to the plan participant.

** The exception to the early withdrawal penalty only applies to 401(k)s and other qualified plans. An early withdrawal from an IRA would still be subject to penalty.*

Property Transfers

The basis of property transferred in a divorce proceeding carries over from one spouse to the other. Therefore, it is important to consider not only the value of property received, but also its tax basis. The recipient of appreciated property may owe tax on its inherent appreciation when it is later sold. This future liability can be recognized, quantified, and properly reflected in the divorce settlement.

Gift tax consequences can be avoided if the transfers are made under the terms of a qualifying written agreement between spouses.

Child Support & Alimony

The Tax Cuts and Jobs Act of 2017 eliminated deductions for alimony payments required by divorce agreements executed after December 31, 2018. Recipients of affected alimony payments will no longer have to include them in taxable income.

FINANCIAL PLANNING TIP #10

Divorcing spouses should consider the married filing separately option. This offers each one the ability to be free of the others tax liability.

STRATEGIES FOR HOMEOWNERS

Home Offices

If you operate a business out of your home, you may qualify for a home office deduction. However, because of the Tax Cuts and Jobs Act of 2017, even fewer taxpayers than in years past will be eligible for this deduction. Home office expenses for employees of companies are considered a miscellaneous itemized deduction. Under the law from 2018-2025, company employees who work from home will not be able to deduct any home office expenses. If you are self-employed, however, you can deduct eligible home office expenses against your self-employment income. |

There are eligibility requirements for the deduction. If you are self-employed, generally your home office must be your principal place of business, though there are exceptions. Any personal use of the area makes you ineligible for the deduction. The space must be used regularly and exclusively for business purposes.

If you meet these requirements, you have two options for the deduction: You may deduct a portion of your homeowners insurance, home repairs, mortgage interest, property taxes, utilities and certain other expenses equal to the percentage of the space the office occupies. Or, you can take the "safe harbor" deduction with one calculation: $5 x the number of square feet of the office space. This is capped at $1,500 per year, based on a maximum of 300 square feet.

Home-Buying Fees

When buying and selling real estate, keep in mind the rules for deducting certain expenses. Homebuyers face two major fees: closing costs and points. Closing costs are generally not deductible, but they add to the cost basis of the home, reducing the gain when the house is sold.

Points, on the other hand, may be fully deducted in the year they are paid, if the following conditions are met:

- The loan is secured by your home.
- The loan is for the purchase or improvement of the primary home.
- The points are for the use of money (not a service charge).

If the purpose of the loan is not to acquire or improve your principal residence but the other two conditions are met, you can still deduct the points in monthly increments over the life of the loan. If the mortgage ends early because of prepayment or refinancing, you may deduct the remaining, or unamortized, points at that time.

When refinancing, points paid on a loan to improve the principal residence may be deducted immediately. If you are refinancing to improve your interest rate, the points are deductible over the life of the loan. Points paid by the seller are also deductible by the buyer.

Home Equity Loans

The Tax Cuts and Jobs Act of 2017 suspends from 2018 to 2025 the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan. Under the law, for example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the

FINANCIAL PLANNING TIP #11

If you are refinancing your home because of renovations and/or improvements, points paid are deductible immediately.

same loan used to pay personal living expenses is not. As under prior law, the loan must be secured by the taxpayer's main home or second home, not exceed the cost of the home and meet other requirements.

Second-Home Deductions

Your cabin by the lake may provide you with more than rest and relaxation–it could also be a valuable source of deductions. For tax purposes, a qualified second home must have a place to sleep, a toilet, and cooking facilities, whether it be a condominium, recreational vehicle, boat, etc.

You may be able to deduct interest on a loan for a second home, provided your primary and secondary mortgages do not total more than $750,000 (or $375,000 if married filing separately). If you rent out the second home, you must use it personally for more than 14 days or for more than 10% of the rental days, whichever is greater, for it to qualify as a personal residence. In addition to mortgage interest, you may be able to deduct property taxes and prorated monthly portions of your points paid over the life of the loan.

If you rent the home for more than 14 days per year and it qualifies as a personal residence, you can also deduct the appropriate portion of upkeep, insurance, utilities, and similar costs to offset rental income. The property may be depreciated, which can help reduce your rental income without expending cash. As long as you use the place yourself for less than 14 days or 10% of the rental days, it is considered rental property, and you can claim a rental loss (subject to certain limitations).

Selling Your Home

Losses from home sales cannot be deducted. Business or rental property is subject to different rules. You can take extra deductions by staying in the home and converting part of it for business or rental use. When you sell your home, you can claim a

FINANCIAL PLANNING TIP #12

Bitcoin, Ethereum, and other cryptocurrencies are taxable. The IRS considers cryptocurrency holdings to be "property" for tax purposes, which means your virtual currency is taxed in the same way as any other assets you own.

business loss if the property declines in value below its current tax basis, but only on the portion of property that is actually used for business or rental purposes.

Married couples can exclude up to $500,000 of gain when they sell their home ($250,000 for singles). The home must have been the principal residence for at least two of the last five years. Homeowners can receive a portion of the exclusion based on how long they lived in the home, as long as the sale is due to a change in place of employment or health, or unforeseen circumstances. The exclusion can be used once every two years and at any age.

MORE FINANCIAL PLANNING STRATEGIES

For Families And Individuals

- ✔ Lower your taxable income by shifting income to other family members. However, watch out for the kiddie tax.
- ✔ Calculate the value of the tax benefits to see who should claim education deductions and/or credits–you or your child.
- ✔ Consider your plans for the near future. How will marriage, divorce, a new child, retirement, or other events affect your year-end tax planning?
- ✔ Take maximum advantage of your employer's Section 125 flexible spending account, 401(k) plan, health savings account (HSA), and health reimbursement arrangement (HRA).
- ✔ For tax purposes, a deductible purchase is considered "paid" when charged. If you need the deductions this year but do not have the cash, consider charging contributions, medical expenses, business expenses, and some state tax payments. Just remember to pay them off quickly to avoid increasing debt.

MANAGING RECEIPT OF INCOME

When considering how to best manage your taxes, keep in mind that deductions are only part of the story. Income must also be considered. For example, if you expect to be in a higher income tax bracket next year, it may be a good idea to accelerate income into the current year. If, on the other hand, you expect to be in a lower tax bracket next year, then you would defer the receipt of income. However, tax brackets are not the only consideration.

HOW ARE CRYPTO CURRENCIES TAXED?

Bitcoin, Ethereum, and other cryptocurrencies are taxable. The IRS considers cryptocurrency holdings to be "property" for tax purposes, which means your virtual currency is taxed in the same way as any other assets you own, for example stocks or gold. Taxes are due when you sell, trade, or dispose of cryptocurrency in any way and recognize a gain.

With crypto currencies, you can run afoul of the IRS in a few surprising ways, so it pays to learn the rules. What's the big picture? If your employer or client pays you in crypto, that payment is taxable income. You report your transactions in U.S. dollars, which generally means converting the value of your cryptocurrency to dollars when you buy, sell, mine or use it. There are also rumblings that the FED is considering a FED Coin.

QUALIFIED PLUG-IN ELECTRIC VEHICLE CREDITS

You may qualify for a credit up to $7,500 under Internal Revenue Code Section 30D if you buy a new, qualified plug-in EV or fuel cell electric vehicle (FCV). The Inflation Reduction Act of 2022 changed the rules for this credit for vehicles purchased from 2023 to 2032.

The credit is available to individuals and their businesses.
To qualify, you must:

- Buy it for your own use, not for resale
- Use it primarily in the U.S.

In addition, your modified adjusted gross income (AGI) may not exceed:

- $300,000 for married couples filing jointly
- $225,000 for heads of households
- $150,000 for all other filers

You can use your modified AGI from the year you take delivery of the vehicle or the year before, whichever is less. If your modified AGI is below the threshold in 1 of the two years, you can claim the credit.

The credit is nonrefundable, so you can't get back more on the credit than you owe in taxes. In addition, you can't apply any excess credit to future tax years.

YEAR END TAX PLANNING TIPS

Tax planning is more advantageous when done during the year and in advance of year's end. Opportunities exist for you to minimize tax liability, which will leave more income for you and/or your family.

Generally, people put off tax planning because paying income taxes is an obligation. This view may cause frustration. It is often simpler to say, "Let's see how everything shakes out between January 1 and April 15." However, after December 31, all you can do is deal with your tax liability. On the other hand, if you take care of the tax planning now, you may save more on April 15.

1 Do a trial tax return based on your projected personal income and deductions. Afterward, adjust your W-4 Form accordingly.

2 If you expect to have income that is not subject to withholding, review your required quarterly estimated tax payments. If you fail to have enough tax withheld or make sufficient estimated tax payments by the end of the year, you may be subject to penalties and interest. Adjust your W-4 or estimated payments to make up any shortfall.

3 Always keep an eye on what is happening in Congress. Tax reform is an ongoing process, and there may be more changes ahead.

4 If you can control when you receive income or take deductions, consider deferring income into next year if you expect to be in a lower tax bracket. Likewise, accelerate your deductions if you expect to be in a higher tax bracket this year as opposed to next. If you expect a tax change for the upcoming year, you may want to revisit this issue.

5 Watch out for the alternative minimum tax (AMT) if you expect to have any large tax items this year such as depreciation deductions, tax-exempt interest, or charitable contributions. To avoid the AMT, consider strategies such as re-positioning assets or delaying charitable contributions.

However, if you are subject to the AMT, consider accelerating next year's income into this year if your regular tax bracket would be higher than the AMT rate. If your itemized deductions increase the likelihood of triggering the AMT and do not generate significant tax savings, consider postponing deductions into next year if you are subject to the AMT this year.

By considering the above tips and establishing the most advantageous strategies for your situation, you may optimize your opportunities and minimize your liability. Consult one of our qualified tax professionals for more information according to your unique circumstances.

Investment Planning

INVESTORS

Proper planning can help you time your transactions and make tax-efficient investing decisions. In December 2017, the Tax Cuts and Jobs Act changed the brackets for long-term capital gains and dividends. From 2018-2025, the rates have their own brackets, which are no longer tied to the ordinary income brackets. Below are the 2023 brackets for long-term capital gains and dividends:

2023 LONG-TERM CAPITAL GAINS AND DIVIDEND BRACKETS

	0%	15%	20%
Single	$0-$44,625	$44,626-$492,300	$492,301+
Married filing jointly	$0-$89,250	$89,251-$553,850	$553,851+
Head of Household	$0-$59,750	$59,751-$523,050	$523,051+
Married filing separately	$0-$44,625	$44,626-$276,900	$276,901+
Trusts and estates	$0-$3,000	$3,001-$14,650	$14,651+

*Determine your capital gain bracket by adding your net long-term capital gains and/or qualified dividends to your other taxable income net of deductions.

For example, assume a joint filer has net taxable income of $100,000 which includes $20,000 in net long-term capital gain. The first $9,250 of the gain falls within the 0% rate threshold of $89,250 and will be taxed at 0%; while the remaining $10,750 of long-term capital gain is above the $89,250 threshold and will be taxed at 15%.

Short-term capital gain rate (one year or less)	**Taxed at ordinary income tax rate**
Dividends	**Qualified dividends are taxed at the long-term capital gain rates. Nonqualified dividends are taxed at ordinary income tax rates.**

Higher rates apply to collectibles and unrecaptured §1250 gain. Consult your tax advisor about how they apply to your situation.

Netting capital gains and losses

1. Net short-term gains and short-term losses.
2. Net long-term gains and long-term losses.
3. Net short-term against long-term.
4. Deduct up to $3,000 of excess losses against ordinary income per year.
5. Carry over any remaining losses to future tax years.

TIMING IS EVERYTHING

When it comes to investing, timing is everything. So, unless you risk a significant loss by holding a volatile stock, consider the tax benefits of holding it for at least a year and one day. Even if the stock price drops, you may cut your taxes on the profit nearly in half if you wait.

Timing is also important at the end of the year. If you have cashed in some big gains during the year, review your portfolio for unrealized losses. You may want to sell off stock unlikely to rebound and use the losses to offset your gains. If you end up with more losses than gains, you can use $3,000 against ordinary income (i.e., compensation, dividends, and interest) and carry over remaining losses to next year.

Always review gains and losses before the end of the year so you can offset gains and make sure you have paid enough in estimated taxes.

DIVIDENDS

Qualified dividends are taxed at the same rates as long-term capital gains.

APPRECIATING INVESTMENTS

Investments that increase in value while paying no income to you are not taxed until they are sold. By timing that sale carefully, you can improve your tax and financial position.

For example, you can wait to sell investments until a year in which your tax rate is low. Or you can give the investments to your children who are older than age 19 (or age 24 for full-time students); they may sell them and be taxed at their lower rate. (Be sure to consider potential gift tax implications.)

Alternatively, if you plan to pass the investment to your spouse tax-free at your death under the unlimited marital deduction, you may wish to keep the investment. The investment may also pass to your beneficiaries tax-free at your death if your gross estate is less than $12.92 million or $25.84 million for married couples (the estate tax exemption amount in 2023). In addition, your heirs can benefit from a step-up in the investment's basis to its fair market value at the date of your death. In other words, at the time of eventual sale, capital gains taxes are assessed only on the increase in property value from the time of inheritance to the time of sale by the heir.

When deciding whether to buy or sell, consider the costs associated with an appreciating investment, including brokers' fees, closing costs, and property taxes, as well as potential appreciation.

OTHER CONSIDERATIONS

- Think twice about selling stocks to pay a tax bill. Some experts suggest it is usually a bad idea and if they have appreciated, you are generating more taxable income.
- Remember to use the correct basis for stocks or assets you inherit.
- Keep your "buy and hold" stocks in your taxable account and stocks you may hold for shorter periods (as well as high-yield fixed income securities and CDs) in your tax-deferred account.
- The "wash sale" rule disallows losses on stocks and bonds if you buy substantially identical securities (or funds) within 30 days of the sale. Caution: if you sell a mutual fund within 30 days of a reinvested dividend, you could inadvertently violate the rule.
- Owners of worthless securities (but not of worthless partnerships) have seven years to file retrospective claims for tax refunds.
- The penalties for tax-shelter investments the IRS deems lack economic substance are stiff—up to 40%.
- Bond interest is taxable at regular rates that can reach 37% and, when interest rates rise, bond and bond mutual fund values generally fall. Municipal bonds may be good investments for high-incomers, especially in high-tax states.

MUTUAL FUND STRATEGIES

Mutual funds usually pay capital gain distributions in November or December. If you buy into a fund before the distribution date, you can be taxed on the gains distributed even though they have already been reflected in your purchase price. Consider waiting until January to buy into the fund.

Although you have no control over the timing of sales in a mutual fund, you can look for mutual funds that employ certain tax-saving strategies. Some funds trade actively, while others employ a buy-and-hold strategy.

To calculate exact gains or losses on mutual fund investments, save every statement. Determining which shares are sold can reduce your gain, or at least qualify it as a long-term gain, which is subject to lower tax rates. Also consider everything that comprises your basis:

- Commissions or fees paid when you bought the shares.
- Reinvested dividends for which you have been taxed.
- Nontaxable returns of capital.

PASSIVE ACTIVITIES

Some investment activities are defined as "passive" to prevent their use as tax shelters for other types of income. Passive activities are of two types: 1) the owner (often limited partnerships or S Corporations) does not "materially participate" and 2) any rental activity (irrespective of the level of participation) for which payment is mainly for the use of tangible property. (There are a few exceptions.) Passive activity investments do not include stocks and bonds. There is an exception to the passive-loss restrictions for those who actively participate in renting real estate.

Calendar year filers must report new groupings or changes in how passive activities are grouped. The reporting rules are intended to keep filers from playing games to deduct losses. The grouping rules are important because if two or more activities are grouped as one, the disposition of an activity will not trigger any suspended passive losses until all the others are disposed of.

Passive losses you can't deduct this year can be carried forward and deducted when you dispose of the entire activity or have passive income to offset them. Any interest owners receive on loans to passive activities is treated as portfolio income, and can't be used to offset passive losses—except that interest earned on loans owners make to partnerships or S Corporations with passive activities (such as rental realty) is passive income to the owners. The owners need not have a 10% share in the S Corporation or partnership to use this break.

To reduce your passive-activity interest expense, reduce your debt in a rental activity or convert the debt to home-equity debt, the interest on which may be deductible. (Use the proceeds from a home-equity loan to repay passive-activity loans.)

BONDS

Instead of borrowing money from a bank or a company, a municipality may sell bonds to investors to help raise capital. The interest on tax-exempt bonds (those issued by a municipality) is usually not taxed at the Federal level, but it may be subject to the AMT or cause Social Security benefits to be taxed.

ANNUITIES

Annuities, contracts with life insurance companies, offer another tax-deferred retirement planning opportunity. Potential earnings of an annuity grow tax deferred, just as with a traditional IRA or 401(k) plan. Two popular types of annuities are variable annuities and fixed annuities.

With a variable annuity, premiums are invested, and future payments to the purchaser are based on the performance of the underlying subaccounts. Variable annuities may be redeemed for more or less than their original costs. If you die before receiving income from your variable annuity, your beneficiaries are generally entitled to the amount invested in the annuity, regardless of the portfolio's performance. Variable annuities are suitable for long-term investing, particularly for retirement. In contrast to a variable annuity, a fixed annuity guarantees regular, fixed payments for a specified period of time or for life. You may pay the premium either as a lump sum or in installments. Guarantees are based on the claims-paying ability of the issuer. Early termination of an annuity contract may result in certain surrender charges. Furthermore, early withdrawals, prior to age 59½, may result in a 10% Federal income tax penalty.

In addition to sales and surrender charges, variable annuities may impose a variety of fees, including mortality and expense risk charges, administrative and annual contract fees, underlying fund expenses, deferred sales charges, and charges for special features, such as stepped-up death benefits. Investment options, including the objective of each subaccount, are detailed in the annuity's prospectus, which also provides information on past performance, management history, fees, and risks. Be sure to obtain and read the prospectus carefully before investing.

REAL ESTATE INVESTMENTS

Real estate professionals can deduct some rental real estate losses that might be lost by other investors. Generally, you are considered a real estate professional if you (or your spouse, if you file jointly) spend more than half your business time dealing with real estate. This can include time spent on rental properties. Keep detailed records of your time and expenses.

Low-Income Housing Credit

If you are a real estate investor or builder, you can reduce your tax bill with the low-income housing tax credit. This annual credit applies to your qualified new low-income housing construction costs. The credit is granted for ten consecutive years. Some or all of it can be taken against tax on any type of income, and the unused credit can be carried forward or carried back. For Federally subsidized construction, and for existing housing acquisition, there is a similar credit.

Like-Kind Exchanges

Some people who own real estate for investment purposes are reluctant to sell the property because they may incur a large income tax liability on the realized gain. However, the property can be exchanged and the gain postponed (but not eliminated) under the like-kind exchange rules. To qualify, the property received must also be real estate (land and/or buildings) intended for investment or income-producing purposes. Under the Tax Cuts and Jobs Act of 2017, the types of property eligible for this tax treatment are reduced.

To defer gain on an exchange, you must identify one or more parcels as replacement property. The maximum number that you may identify is either three properties without regard to the fair market values, or any number of properties as long as their aggregate fair market value does not exceed 200% of the aggregate fair market value of all of the relinquished properties. You must identify the property within 45 days and complete the exchange within 180 days after you relinquish your property, or by the due date of your tax return (including extensions), whichever comes first. Due to the Tax Cuts and Jobs Act, the like-kind exchange rules cannot be used for personal property, such as vehicle trade-ins unless one portion of the exchange was completed by December 31, 2017, and one portion remained open by that date.

If you receive anything in addition to the property, such as cash, or if you are relieved of any liabilities, you must recognize the gain up to the value of this additional amount received. Any gain you defer reduces the basis of the replacement property by that amount. While you do not have to recognize the gain, you also cannot recognize the loss.

The like-kind exchange rules can also be used for property that is not real estate, such as equipment or vehicle trade-ins.

Personal Financial Planning

EVALUATE YOUR FINANCIAL SITUATION

Two financial "snapshots" you can take at any time to help view your financial landscape are a balance sheet (or net worth statement) and a cash flow statement. These tools demonstrate where you are today, and they can also help you make important financial comparisons in the future. Although various software programs are designed to help with developing a net worth statement, it can be easy and helpful to create your own worksheets on paper.

For many people calculating and knowing their net worth is an eye-opening experience. Make certain that you are as accurate as possible.

ASSESSING YOUR NET WORTH

Note the structure of your assets in three categories:
1) cash or cash alternatives—checking and savings accounts, money market funds, and certificates of deposit (CDs);
2) investments—stocks, bonds, mutual fund accounts, and retirement accounts;
3) personal property—your house, home furnishings, autos, boats, and other personal items.

Liabilities can be labeled as follows:
1) short-term—auto loans, most personal loans, and credit card debt; or
2) long-term—home mortgages, some home equity loans, and some educational loans.

Enter all of the relevant numbers and add up the two columns.

Your Net Worth Worksheet

BEGIN WITH YOUR ASSETS

Cash or Cash Alternatives

Savings account(s)	**$**
Checking account(s)	**$**
Money Market Funds	**$**
Certificates of deposit (CDs)	**$**
Savings bond(s)	**$**
Life Insurance policies (cash value)	**$**
Health savings account(s)	**$**

Investments

Stocks	**$**
Bonds	**$**
Mutual Funds	**$**
IRAs and/or Roth IRAs	**$**
401(k)s and/or 403(b)s	**$**
Pension	**$**
Annuity (accumulated value)	**$**

Personal Property

Home (market value)	**$**
Market value of other real estate (investment or rental property, timeshare, vacation home)	**$**
Vehicle(s) (fair market value) See www.edmunds.com or kbb.com	**$**
Value of household items	**$**
Special collections (art, coins, antiques or collectibles)	**$**
Business value	**$**
TOTAL ASSETS	**$**

THEN, SUBTRACT YOUR LIABILITIES

Short Term

Car loan(s)	**$**
Car lease	**$**
Credit card debt	**$**
Estimated taxes	**$**

Long Term

Home mortgage	**$**
Other real estate loans (investment or rental property, timeshare, vacation home)	**$**
Home equity loan	**$**
Student loan	**$**
401(k) loan	**$**
Life insurance loan	**$**
TOTAL LIABILITIES	**$**
MY NET WORTH (Assets minus Liabilities)	**$**

HOW FLUID IS YOUR CASH FLOW?

Create a cash flow statement. Complete the table below and fill in the columns for “Cash Inflow” and “Cash Outflow.” On the inflow side of the ledger, list monthly or yearly income from all sources, such as wages, self-employment, rental properties, and investment income (interest and dividends).

On the outflow side, list all monthly or yearly expenditures, separating fixed expenses (mortgage payments, other periodic loan payments, and insurance premiums) and variable or discretionary expenses (utilities, food, clothing, entertainment, vacations, hobbies, and personal care). You may choose to put taxes (Federal, state, FICA) in a separate category. Again, fill in the relevant numbers and total the columns.

THE RESULTS

If your balance sheet (Page 18) shows your assets exceeding your liabilities, you have a healthy net worth, especially if your cash flow statement shows more inflow than outflow. This picture shows that you are solvent and spending within your means. The degree of your financial health depends on the amount of your surplus.

Your financial picture may look somewhat different if your balance sheet shows your liabilities exceeding your assets and/or your cash flow statement shows more outflow than inflow. This indicates that you may be spending beyond your means. It may be time to assess areas in which you can decrease your liabilities.

Each year, strive to increase your net worth and keep your expenditures under control. If your financial picture is a little out of focus, taking action now to sharpen the view may help you create a more promising snapshot in the future.

Your Cash Flow Statement
Tracking Inflows and Outflows

INFLOWS

Record All Income

Your salary	**$**
Your spouse’s salary	**$**
Bonus / tips / commission	**$**
Freelance, consulting income	**$**
Child support, alimony received	**$**
Investment Income	**$**
Interest Income	**$**
Dividends	**$**
Capital gains	**$**
Distributions	**$**
Pension	**$**
Social Security	**$**
IRA and/or 401(k) withdrawals	**$**
Annuity distribution	**$**
Any government benefits (welfare, disability, veterans’ benefits, unemployment)	**$**
Inheritance	**$**
Other	**$**
TOTAL INFLOWS	**$**

OUTFLOWS

Record All Expenses

Mortgage or rent	**$**
Property Insurance	**$**
Auto loan or lease	**$**
Auto insurance	**$**
Health insurance	**$**
Life Insurance	**$**
Alimony/child support	**$**
payments	**$**
Professional / accounting / legal	**$**
fees	**$**
Investment contributions	**$**
Groceries	**$**
Utilities	**$**
Out of pocket medical care	**$**
Meals & entertainment	**$**
Travel	**$**
Home maintenance	**$**
Auto maintenance (include gas)	**$**
Clothing & personal care	**$**
Other	**$**
TOTAL OUTFLOWS	**$**

Shakespeare wrote "To thine own self be true," . This may be considered sage advice for investors looking to personalize their portfolios. Defining your goals, your comfort with risk, and your time frame can help you select investments and strategies suited to your particular situation. The following discussion can help you learn more about risk and return, asset classes, mutual funds, diversification, asset allocation, and dollar cost averaging.

DEFINE YOUR GOALS

When considering your overall investment plan, start by defining both your short- and long-term goals. You may be planning to fund a child's education, buy a house, start a business, or retire early. Whatever your goals, seek investments that help you work toward them. The most appropriate strategies for you may also depend on your personal investment profile—your comfort with risk, your investment experience, your timeframe, the amount of your investment, and your ultimate objectives.

As each investor is different, no one portfolio works for everyone, but one concern shared by investors is inflation. How can you keep inflation from diminishing the purchasing power of your money? Consider the following hypothetical example. Suppose you invested $10,000 in a fixed-income account at 4%. Assuming a 3% annual inflation rate, your total investment would be worth only $12,132 in 20 years—and that's before taxes! However, achieving a greater return may entail more risk.

RISK VS RETURN

Risk measures the likelihood of loss or less-than-expected returns, and it is often based on historic or average returns. Return refers to the profit you make on your investments. All investments carry a tradeoff between risk and return—generally, the higher the risk, the higher the potential return or loss Conversely, the lower the risk, the lower the potential return or loss.

Risk tolerance, simply defined, is the measurement of your ability to handle declines in the value of your investment portfolio. This highly individual matter may be based on your temperament, age, stage in life, investment experience, financial goals, and time horizons—each factor typically affects your ability and willingness to shoulder risk.

Your time horizon represents the amount of time you have to meet your financial goals. For example, a short time horizon (less than five years) may involve a more conservative portfolio that emphasizes protecting principal. However, a longer time horizon may allow you to take greater risks, as you have time to recover from potential market downturns.

INVESTING STRATEGIES

Diversification is an investment strategy used to manage the risk of an overall portfolio. Techniques involve mixing holdings to include a variety of stocks (small-cap, mid-cap, and large-cap), international investments, bonds (short- and long-term), and cash alternatives. By varying the investments, diversification attempts to minimize the effects a decline in a single holding may have on the portfolio as a whole.

Note: Diversification does not assure a profit or protect against loss in a declining market.

The main objective of asset allocation is to match the investment characteristics of the various asset categories (stocks, bonds, cash alternatives) to an investor's personal profile. Since asset categories tend to react differently to changes in the economy, different allocations may be needed to meet an investor's objectives.

If you have assembled a portfolio without a clear strategy, you may be unaware of the extent to which your investments are (or are not) consistent with your objectives. Investment categories rarely rise or fall at the same time, so combining different asset classes can help reduce risk and improve a portfolio's overall return. Furthermore, within the stocks category, you could diversify among large company stocks, small company stocks, international stocks, and mutual funds. Within the bond category, you could diversify with short-term and long-term bond investments.

Many investors employ systematic investing as part of their overall savings plan through dollar cost averaging. With this approach, an individual invests a set amount of money at specified intervals, regardless of investment performance. This means he or she buys more shares when prices are low and fewer shares when prices are high, which may result in a lower average cost per share than purchasing a constant number of shares at the same periodic intervals or making a single investment. It is important to note that dollar cost averaging cannot guarantee a profit or a lower cost per share, nor can it protect against a loss. However, it reinforces the discipline of regular investing and offers a systematic alternative to "market timing."

Before implementing dollar cost averaging, consider your ability to continue purchases through periods of fluctuating price levels. The chart below demonstrates a scenario where investing $1,000 a month for one year would yield a lower cost per share to you than the average market price over the same time period.

Month	Investment	Hypothetical Market Price Per Share	Approximate No. of Shares Purchased
1	$1,000	$100	10.0
2	$1,000	$ 80	12.5
3	$1,000	$ 50	20.0
4	$1,000	$ 80	12.5
5	$1,000	$ 70	14.3
6	$1,000	$ 90	11.11
7	$1,000	$100	10.0
8	$1,000	$ 70	14.3
9	$1,000	$ 50	20.0
10	$1,000	$ 70	14.3
11	$1,000	$ 80	12.5
12	$1,000	$ 90	11.1
Totals:	$12,000	$930	162.6
Average market price per share:		**$70.50**	**($93/12)**
Average cost per share:		**$73.80**	**($12,000/162.6)**

This example is hypothetical. Be aware that investment returns and principal values of stocks and mutual funds will fluctuate due to market conditions. Therefore, when shares are redeemed, they may be worth more or less than their original cost.

LIFE INSURANCE

Life Insurance, in all its varied forms, is quite simply a method for handling financial risk in the event of death. Instead of trying to amass a sizable emergency fund—a task that may be difficult to achieve—life insurance can help create a fund for your family in the event of your death. Life insurance proceeds may be used to help pay off a mortgage, fund a child's education, or cover estate tax liabilities.

Thinking about our own mortality can be difficult, but preparing for such an event may be necessary to help ensure financial obligations are met. Certain life events often trigger the need to purchase life insurance. If you already own a policy, be sure to reevaluate your coverage on a regular basis, as well as when you reach one of life's milestones, to ensure it continues to meet your needs. Consider the following: own a policy, be sure to reevaluate your coverage on a regular basis, as well as when you reach one of life's milestones, to ensure it continues to meet your needs.

CONDUCT A NEEDS ANALYSIS

Many people buy life insurance before conducting a financial needs analysis. They might choose a benefit amount that seems appropriate, without considering the potential expenses their family might face in the event of their death. To make a comprehensive assessment, take the time to conduct a thorough analysis.

Consider the following steps: First, write down the total value of all assets that you own. When totaling your assets, be sure to include savings, retirement funds, real estate, and life insurance you already own. Next, list and evaluate all expenses you or your family might face if one spouse were to die. These are your potential liabilities. Take a look at these potential needs and assign an estimated amount to each:

1. **Immediate Money Fund.** This may include medical and hospital expenses, outstanding bills, burial costs, and attorney/executor fees.

2. **Debt Liquidation.** Your debt, if any, may be in the form of credit card bills, school and auto loans, unpaid notes, outstanding bills, etc.

3. **Emergency Fund.** Unexpected bills not readily payable from current income could include major home and car repairs, or medical emergencies.

4. **Mortgage/Rent Payment Fund.** How much would you need to pay off your mortgage or provide for house payments or rent?

5. **Child/Home Care Fund.** Extra expenses may arise following the death of a parent. Estimate the cost of hiring help for child care, shopping, food preparation, laundry, and yard care.

6. **Education Fund.** Be sure to include the cost of funding higher education for your children. The above total, less your liquid assets and life insurance, would provide your new financial needs. Now that you have performed a needs analysis, you may be interested in discovering other uses for life insurance.

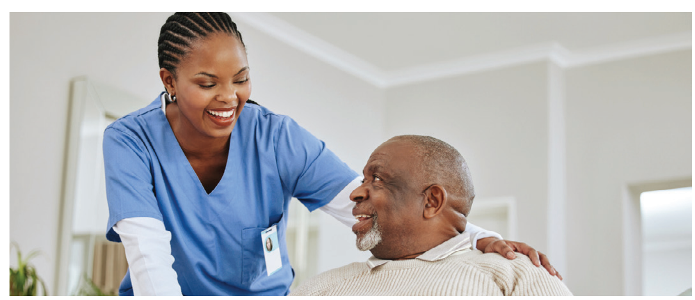
LIFE INSURANCE FOR SMALL BUSINESS

Life insurance is also an important feature of many business arrangements. Here are some of the more common ways you can use life insurance to help benefit and solidify your business:
Funding Buy-Sell Agreements. Under a typical buysell agreement, business partners agree to purchase each other's interest if one of them dies. Life insurance can be a cost-effective method of funding this type of agreement, as long as the partners are insurable.

Providing an Employee Benefit. Life insurance is a basic component of many employee benefit packages. One example is a traditional employee group term plan, which generally covers most employees. You can also use life insurance to enhance the benefits of select (key) employees who are vital to the success of your business. Be sure to consult your tax and legal advisors for specific guidance.

Insuring Key Employees. The death of a key employee can create financial challenges for a business. Revenue may be affected; customers may need assurance that business operations will continue; and a replacement may need to be recruited and trained. Key person life insurance can provide funds to help meet these needs without jeopardizing your business operations or interfering with cash flow.

Guaranteeing Business Loans. Owners of new or growing businesses may have difficulty obtaining business loans. Lenders may need to be assured that loans will be repaid, even if the owner dies unexpectedly. Business credit life insurance may make it easier to obtain financing by guaranteeing repayment with the proceeds from life insurance.



LONG-TERM CARE INSURANCE

Our ability to meet the financial challenges associated with long-term care, for ourselves or a loved one, may be based on common misconceptions about the cost of care, the likelihood that we may need care, where that care will be provided, and the availability of public funding.

Long-term care refers to a variety of services that include medical and non-medical care to individuals with a chronic illness or disability. Long-term care helps meet health and personal needs. The majority of long-term care is to assist people, through various support services, with activities of daily living (ADLs). ADLs refer to daily tasks such as dressing, bathing, eating, transferring, and toileting. An individual is generally considered to be in need of long-term care if he or she has difficulty performing two or more ADLs due to physical limitations, cognitive impairment, or both. Long-term care can be provided at home, in the community, in an assisted living facility, or in a nursing home. It is vital to consider long-term care insurance.

PERMANENT LIFE INSURANCE

Permanent life insurance helps provide financial security for surviving loved ones upon the death of the insured, and also builds cash value for the policyholder. Premium payments first pay the cost of the policy coverage, including the expenses and mortality factors of the insurance company. Then, the insurance company invests any remaining amount in order to build the cash value of the policy. Permanent life insurance combines protection with cash value as assets and earnings accumulate over the life of the policy, and the policyholder can generally access these funds for any purpose.

Some permanent policies provide policyholders with nonguaranteed dividends, which are the result of favorable mortality experience, investment results and expense savings that result in a surplus for the insuring company.

TERM LIFE INSURANCE

In a term life insurance policy, there are three basics to consider: 1) The period of protection is for a predetermined, specified term; 2) policies do not accumulate cash values like permanent insurance; and 3) premiums may initially be lower than permanent life insurance premiums, but will rise over time as set forth in the policy document.

Nonrenewable, nonconvertible term insurance for one, five, or 10 years may provide the most affordable protection, especially for those who require coverage to back a business loan, cover the cost of a mortgage, protect minor children, etc. Premiums will, however, increase over the period of protection. Term insurance is also available for longer durations (e.g., to age 95), but increasing premiums may result in higher overall costs than permanent life insurance over the long term.

Frequently, a combination of permanent and term life insurance can satisfy the diverse needs of families and/or businesses.

How Much Life Insurance Do You Need?

Life insurance is designed to help you reach future financial goals and provide asset and income protection, financial stability and peace of mind to your family, loved ones or business. A tax-free death benefit can be used to help replace lost salary to pay for household expenses, debts and even outstanding tax bills. It can also provide a lump sum of cash that can be earmarked for childcare, college tuition or other future expenses.

Assets

1. Spouse's annual income	$
x Number of years	$
= Total projected	$
income	$
2. Cash savings	$
3. Investments	$
4. Home equity	$
5. Retirement income	$
6. Existing insurance*	$
7. Other	$

8. Total assets

(add lines 1-7) $

Note: Employer Life Insurance Coverage

IRC section 79 provides an exclusion for the first $50,000 of group-term life insurance coverage provided under a policy carried directly or indirectly by your employer.

There are no tax consequences if the total amount of such policies does not exceed $50,000. The imputed cost of coverage in excess of $50,000 must be included in income, using the IRS Premium Table, and are subject to social security and Medicare taxes.

Expense

9. Annual living expenses	$
x Number of years	$
= Total projected living cost	$
10. Annual mortgage/rent	$
x Number of years	$
= Total projected mortgage/rent	$
11. Outstanding debt(car loans, credit cards, personal loans, etc.)	$
12. Annual childcare cost	$
x Number of years	$
= Total projected childcare cost	$
13. College for child one	$
+ Child two	$
+ Child three	$
= Total projected college costs	$
14. Funeral and settlement costs	$

15. Total assets(add lines 9-14)	$
Difference (between line 8 and 15)	$
Amount of insurance needed	$

Planning For Business

CHOOSING A BUSINESS STRUCTURE

Your business structure must fit your business needs. As your business grows or your personal financial situation changes, the business form in which you operate may need to change, as well. Keep in mind that the business structure you choose will impact your personal liability, as well as the amount of tax owed by you and your company.

Each business structure has its advantages and disadvantages. Which is right for you? That's a decision that may be best made between you and your team of financial and legal advisors.

2023 Tax Year

For tax years beginning after 12/31/17, the "C" corporation Federal tax rate is a flat 21%. Owners of business entities, which are not taxed as "C" corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual, as well as such factors as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business.

For joint filers with income above $364,200 and $182,000 for single filers, the legislation phases in limits on what otherwise would be an effective marginal rate of not more than 29.6%.
Personal Service Corporations – 21% flat tax rate.
Capital Gains Tax Rate for "C" corporations – Same as regular rate.

FIND AN INVESTOR FOR YOUR BUSINESS THROUGH A SMALL BUSINESS INVESTMENT COMPANY (SBIC)

An SBIC is a privately owned company that's licensed and regulated by the SBA (Small Business Administration). SBICs invest in small businesses in the form of debt and/or equity. The SBA doesn't invest directly into small businesses, but it does provide funding to qualified SBICs with expertise in certain sectors or industries. Those SBICs then use their private funds, along with SBA-guaranteed funding, to invest in small businesses.

SBICs invest in small businesses through debt, equity, or a combination of both. Debt is a loan an SBIC gives to a business, which the business must pay back, along with any interest. Equity is a share of ownership an SBIC gets in a business in exchange for providing funding. Sometimes, an SBIC invests in a business through both debt and equity. Such an investment includes both loans and shares of ownership. A typical SBIC investment is made over a 3-year period.

Debt: A typical SBIC loan ranges from $250,000 to $10 million, with an interest rate between 9% and 16%.

Equity: SBICs will invest in your business in exchange for a share of ownership in your company. Typical investments range from $100,000 to $5 million.

Debt with equity: Financing includes loans and ownership shares. Loan interest rates are typically between 10% and 14%. Investments range from $250,000 to $10 million.

	TAX RATES	LIABILITY
C Corporations	C corporations' federal marginal tax rates are a flat 21%. Distributions may be taxed again. Shareholders pay tax on dividends. Losses do not pass through to shareholders.	Shareholders are shielded from personal liability for business debts. Only their investment is at risk.
S Corporations	Generally, no Federal tax is imposed on the business entity. Income and expenses are allocated among shareholders. Taxable income is subject to individual rates from 10% to 37%, whether profits are distributed or not. Losses pass through to shareholders. Restrictions on loss deductibility apply. State treatment of S corporations may vary.*	Shareholders are shielded from personal liability for business debts. Only their investment is at risk.
General Partnerships	No Federal tax is imposed on the business entity. Income and expenses are allocated among partners, and each pays tax of 10% to 37% (plus self-employment tax, if applicable) on their share of partnership profits, whether distributed or not. Losses pass through to partners. Restrictions on loss deductibility apply.*	Personal liability rests with each partner.
LLCs & LLPs	No Federal tax is imposed on the business entity. Income and expenses are allocated to members or partners, and each pays tax of 10% to 37% (plus self-employment tax, if applicable) on their share of LLC or LLP profit, whether distributed or not. Losses pass through to members or partners. Restrictions on loss deductibility apply.*	Members or partners are shielded from personal liability for business debts. Only their investment is at risk.
Sole Proprietorships	Reported on Schedule C of Form 1040, income is subject to individual rates of 10% to 37%, plus self-employment tax.*	Proprietors are subject to personal liability for all aspects of the business.

* Owners of business entities, which are not taxed as "C" corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-out, depending on the taxable income of the individual, as well as such factors as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business. For income above $329,800, the legislation phases in limits on what otherwise would be an effective marginal rate of not more than 29.6%.

EMPLOYER-PROVIDED BENEFITS

It is important for companies to offer generous benefit packages to attract and retain quality employees. Businesses can avoid payroll taxes on compensation shifted from salary to benefits. Employees who receive certain benefits in lieu of salary also decrease their taxable compensation. Such benefits may include retirement plans, group term life insurance (up to $50,000), medical insurance, parking, employee discounts, and noncash gifts.

Employer-provided group term life insurance coverage for more than $50,000 produces taxable income for covered employees. The amount of taxable income is determined by using a uniform premium table based on employee age.

Qualified & Nonqualified Retirement Plans

One of the most effective benefits for attracting and retaining employees is a company-sponsored retirement plan. Many pension and profit-sharing plans are "qualified" retirement plans. In other words, each employee's share and earnings are held until the employee either leaves the company or retires. The employee pays taxes upon receiving the money, and the employer receives an immediate deduction when making contributions.

Pension plans usually base eventual benefits on wages and length of service. Profit-sharing plans typically define the employer's annual contribution. Benefits are determined by the size of the contributions and their earnings.

Two types of qualified retirement plans—SIMPLEs and 401(k) plans—can be offered at little cost to a business. Contribution limits for these plans have increased over the years, so there is no better time to sponsor one. Refer to the chart on page 20 to determine which plan might be appropriate for your business.

Because qualified retirement plans often restrict the amount of benefits a higher-paid employee can receive, nonqualified plans can be attractive. Nonqualified plans do not have to cover every employee. There are no compensation, benefit, or contribution limits other than an overall reasonableness test. The bookkeeping and reporting requirements are minimal. However, nonqualified plans do have some disadvantages.

The main drawback is that the benefits are unsecured—they are merely "promises to pay." A company cannot formally set aside funds as future benefits. Assets intended for these benefits must remain general company assets and, therefore, may be subject to a creditor's claims. Another disadvantage is that payroll taxes are generally due when services are performed, not when compensation is paid. Finally, the employer does not receive a tax deduction until the benefits are actually paid to the covered employees.

Retirement Strategies

RETIREMENT STRATEGIES

It is never too early to start saving for retirement. Tax reform through the years has enhanced certain planning opportunities, most recently with the Setting Every Community Up for Retirement Enhancement (SECURE) Act signed into law in December 2019. It is the most far-reaching retirement legislation passed by Congress since the Pension Protection Act of 2006. The SECURE Act incentivizes employers to offer defined contribution (DC) plans, promotes lifetime income options, and improves retirement plan accessibility, design and administration You may still have time to accumulate sufficient retirement assets, provided you plan ahead, stay disciplined, and regularly review your strategies. In late December 2022, Congress passed and the President signed the Omnibus Appropriations Bill which included the SECURE Act 2.0. Please continue to the following pages where we provide more in depth information about many retirement plan options, definitions, and contribution limits.

Retirement plan contributions can offer two large tax benefits: they can 1) potentially reduce your AGI and current income tax and 2) grow faster than your other assets because they're sheltered from tax until withdrawn. (Roth-type accounts are notable exceptions; withdrawals are generally not taxed.) Take advantage of your employer's plan especially if it features an employer match (which is free money for you once it is vested) or you qualify for catch-up contributions (age 50 or older).

If you have stock from your company in your retirement plan, find out its "cost basis" now; this number will help determine your later taxes and affect how you should take distributions. Employee contributions to pension plans can be rolled over into another plan via a trustee-to-trustee transfer. Non-spousal as well as spousal beneficiaries can roll over a decedent's interest in a qualified plan under strict rules. Consult with your advisor.

We can help you make sense of your options, as well as advise you on how tax law changes may impact your current plans. By choosing tax-favored retirement vehicles, you can save money now and later.

If you withdraw funds from your IRA before you reach age 59½, you may be subject to a 10% tax penalty. Withdrawals for qualified college expenses or to fund up to $10,000 of a first home purchase are taxed, but you are not penalized for the early withdrawal.

FINANCIAL PLANNING TIP #13

If you have stock from your company in your retirement plan, find out its "cost basis" now; this number will help determine your later taxes and affect how you should take distributions.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAS) 2023

IRAs remain an attractive option for retirement savings. Traditional IRA contributions may be tax deductible, depending on your income and participation in an employer-sponsored retirement plan. Contributions and earnings accumulate on a tax-deferred basis. However, income taxes are due when distributions are taken.

The contribution limit is $6,500 in 2023 (and will be adjusted for inflation in subsequent years). If you are age 50 or older, you can contribute $7,500. The total of your contributions to one or more IRAs may not exceed these limits. Deductions phase out for active participants in an employer-sponsored plan as follows: for single filers with AGIs between $73,000 and $83,000, and for joint filers with AGIs between $116,000 and $136,000. Due to changes from the SECURE Act, for tax years beginning in 2020, working individuals are now allowed, regardless of their age, to contribute to a traditional IRA. The age cutoff used to be 70½.

A "nonparticipant" spouse may make a deductible IRA contribution, as long as the couple's AGI is less than $218,000. Couples with a nonworking spouse can make a combined contribution of up to $13,000 (plus catch-up, if applicable).

Required minimum distributions (RMDs) are required once the owner of a traditional IRA reaches age 73. The first RMD can be delayed until April 1 of the year after turning 73 (a change since the passing of The SECURE Act). For each year thereafter, the deadline is December 31. The RMD amount is determined by 1) the previous-year year-end IRA balances and 2) a life-expectancy schedule provided by the IRS. With the passing of The SECURE Act in December 2019, fewer beneficiaries will be able to extend distributions from the inherited IRA over their lifetime. Many will instead need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder.

Exceptions to the 10-year distribution requirement include assets left to a surviving spouse, a minor child, a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent. It is important to recognize that anyone who has inherited an IRA from an original IRA account holder prior to January 1, 2020 may continue to receive the same RMD's based on their current distribution schedule. Tax will be due on withdrawal of the deductible contributions and earnings (see worksheet on page 29).

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) temporarily provided for special distribution options and rollover rules for certain retirement plans and IRAs. This included expanded distribution options and favorable tax treatment for up to $100,000 of COVID-related distributions from eligible retirement plans (such as section 401(k) plans and IRAs) to qualified individuals, as well as special rollover rules for those distributions.

ROTH IRAS 2023

Roth IRAs, with their tax-free distributions, continue to be popular savings vehicles. Contributions to Roth IRAs are not deductible and are subject to income limitations. As with traditional IRAs, you may contribute up to $6,500 to a Roth IRA in 2023 ($7,500 if you are 50 or older). Again, combined contributions to one or more IRAs may not exceed these limits.

The greatest benefits of Roth IRAs may be in transferring wealth to heirs. A Roth IRA is not subject to Required Minimum Distributions (RMDs) during the owner's lifetime, contributions are allowable at any age, and may provide far more to a beneficiary than other plans. Assets in the account for five tax years can pass to heirs without current income tax. Non-spousal beneficiaries of a Roth IRA have to take minimum distributions (which are tax-free) but can stretch them out over a lifetime. In the meantime, the Roth continues to enjoy tax-free growth.

A Roth can grow into a large sum for a child who has earned income. The parent can fund the account but the contribution amount cannot exceed the child's earned income.

IS MY IRA CONTRIBUTION DEDUCTIBLE?

Work	Status	Modified AGI	Contribution Limit
You're covered by retirement plan at work	Single and Head of Household	$73,000 or less $73,000–$83,000 $83,000 or more	Full Partial None
	Married, Filing Jointly	$116,000 or less $116,000–$136,000 $136,000 or more	Full Partial None
Neither you nor your spouse is covered by retirement plan at work	Single and Head of Household	No Limits	Full
	Married, Filing Jointly	No Limits	Full
You're not covered by retirement plan at work but your spouse is	Married, Filing Jointly	$218,000 or less $218,000–228,000 $228,000 or more	Full Partial None
	Married, Filing Single	Special rules apply	

Estimating Your Retirement Worksheet

To retire comfortably, a general rule of thumb may be to project a post-retirement income stream of approximately 60 percent to 80 percent of your pre-retirement income. This worksheet may help you determine what you need to save annually to reach your retirement goal.

1. Input your current income.	$	Line 1
2. Multiply Line 1 x 80% for income needed at retirement.	$	Line 2
3. From Table I, select the "years to retirement" multiplier.	$	Line 3
4. Multiply the income amount on Line 2 by the multiplier on Line 3. This total is your projected income at retirement.	$	Line 4
5 and 6. First, you will need to find out from Social Security what your benefit will be, and from your place of employment, your likely pension benefit, if any. If you would like an estimate of Social Security benefits you are currently eligible to collect, contact the Social Security Administration (SSA) at 1-800-772-1213.	$	Line 5
	$	Line 6
7. Add your projected Social Security benefit to your projected company pension benefit.	$	Line 7
8. Subtract the total on Line 7 from Line 4. The total is the projected income you must generate.	$	Line 8
9. Input your total current savings and investments.	$	Line 9
10. From Table II, select the "years to retirement" multiplier.	$	Line 10
11. Multiply amount on Line 9 by the multiplier on Line 10. This total is your projected savings and investments at retirement.	$	Line 11
12. Calculate the estimated income you'll generate from your projected savings on Line 11. (Our example uses an 6% interest rate.)	$	Line 12
13. Subtract Line 12 from Line 8. This total is the additional income you will need for each year of retirement. To make up this shortfall, consult with a financial professional who can help you establish a strategy for saving and investing to meet your retirement goal.	$	Line 13

Table I

Years to Retirement	Multiplier	Years to Retirement	Multiplier
1	1.0450	11	1.6229
2	1.0920	12	1.6959
3	1.1412	13	1.7722
4	1.1925	14	1.8519
5	1.2462	15	1.9353
6	1.3023	16	2.0224
7	1.3609	17	2.1134
8	1.4221	18	2.2085
9	1.4861	19	2.3079
10	1.5530	20	2.4117

*[NOTE: Table I assumes your **SALARY** grows by 4.5% per year.]*

Table II

Years to Retirement	Multiplier	Years to Retirement	Multiplier
1	1.0600	11	1.8982
2	1.1236	12	2.0122
3	1.1910	13	2.1329
4	1.2625	14	2.2609
5	1.3382	15	2.3966
6	1.4185	16	2.5404
7	1.5036	17	2.6928
8	1.5938	18	2.8543
9	1.6895	19	3.0256
10	1.7908	20	3.2071

*[NOTE: Table II assumes your **SAVINGS** grow by 6% per year.]*

FINANCIAL PLANNING TIP #14

Remember that you may be subject to a 10% penalty if you withdraw funds from your retirement plan under the age of 59 1/2. The exceptions are for higher education expenses, qualified first home purchase, certain major medical expenses or long-term unemployment.

TRADITIONAL IRA OR ROTH IRA? WHICH IS BEST FOR YOU?

Owners of traditional IRAs may continue to convert these accounts to Roth IRAs, regardless of income, allowing more taxpayers to take advantage of the Roth IRA through direct contributions or conversions. When converting, the distribution from your traditional IRA is taxed, but you are not penalized for the early withdrawal.

Switching to a Roth from a traditional IRA can make more of seniors' Social Security benefits taxable in that year, and the increase in income could cause loss of some tax breaks. Try to schedule the conversion in a year your income dips or you have investment losses. Upper-incomers may have to pay a surcharge on their Medicare Part B premiums, and Roth conversion income counts toward the AGI trigger point. Even lower-income seniors who convert might see more of their Social Security benefits taxed, but at least they won't have to take minimum distributions from the Roth and any withdrawals will be tax-free.

A conversion must meet certain conditions and the taxation on the conversion can be complex. Always consult with your advisor before making a conversion to determine if it is right for you.

If you are fairly young, expect to be in a similar tax bracket when you retire, or are concerned about cash flow during retirement, a Roth IRA may be an appropriate choice. If you are older and expect to be in a lower tax bracket, you may be a candidate for a deductible IRA. Keep in mind, however, that a number of factors need to be considered when choosing an investment vehicle. We can help you calculate which retirement savings strategies are right for you. For additional information on IRAs, see the chart on page 27. Whichever IRA you choose, start making contributions now, and continue making them each year. Doing so will allow you to take full advantage of the tax benefits.

ROTH IRA INCOME LIMITS*

	Contributions Reduced	Ineligible
Single Filers	$138,000 – $153,000	Over $153,000
Joint Filers	$218,000 – $228,000	Over $228,000
	*Modified Adjusted Gross Income	

NOTE: If you withdraw any of the amount rolled over or converted into a Roth IRA within five years of the rollover, you may be charged a 10% early withdrawal tax.

EMPLOYER-SPONSORED PLANS SECURE 2.0

In December 2023, the SECURE 2.0 Act ("SECURE 2.0") was passed, a package of retirement provisions providing comprehensive updates and changes to the SECURE Act of 2019. The legislation includes some key changes that affect employer-sponsored defined contribution plans, such as profit-sharing plans, 401(k) plans, 403(b) plans and stock bonus plans. While some of the changes are effective immediately upon the law's enactment, most required changes are not effective before the plan year beginning on or after January 1, 2024, so employer sponsors have time to prepare for compliance.

Plan sponsors are currently allowed to provide for automatic enrollment and automatic escalation in 401(k) and 403(b) plans. SECURE 2.0 requires new 401(k) and 403(b) plans to automatically enroll participants at a new default rate, and to escalate participants' deferral rate each year, up to a maximum of 15%, with some exceptions for new and small businesses. This provision applies to new plans with initial plan years beginning after December 31, 2024.

TRADITIONAL IRA OR ROTH IRA? WHICH IS BEST FOR YOU?

	TRADITIONAL	ROTH
Eligibility Requirements	Any age with compensation,subject to income limits	Any age with compensation, subject to income limits
Tax Benefit	Tax-deferred growth	Tax-free growth
Tax Treatment of Withdrawals	Earnings and deductible contributions are taxed when withdrawn	Tax-free withdrawals (five-year requirement and other conditions must be met)
Contributions	Tax deductible (deductibility depends on retirement plan participation status and income limits)	Not deductible
Maximum Annual Contribution (2023)	$6,500 or 100% of compensation, whichever is less, per person per tax year (aggregate to both a traditional or Roth IRA, plus an additional $1,000 for those age 50 and older)	Same
10% Early Withdrawal Penalty	Yes, if under age 59½ and withdrawal is not for higher education expenses, qualified first home purchase, certain major medical expenses, or certain long-term unemployment expenses	Same
Mandatory Distributions	Distributions must start at age 73	No requirement

The Act currently requires 401(k) plans to permit participation in the deferral part of the plan only by an employee who worked at least 500 hours (but less than 1000 hours) per year for three consecutive years. SECURE 2.0 changes this participation requirement by long-term part-time employees working more than 500, but less than 1000, hours per year to two consecutive years instead of three. However, this two-year provision does not take effect until January 1, 2025, which means the original SECURE Act three-year provision still applies for 2024. Employers should start tracking hours for part-time employees to determine whether they will be eligible in 2024 or 2025 under this provision. For vesting purposes, pre-2021 service is disregarded, just as service is disregarded for eligibility purposes. This provision is applicable to 401(k) plans and 403(b) plans that are subject to ERISA and does not apply to collectively bargained plans. This provision applies to plan years beginning after December 31, 2024.

If a defined contribution plan permits participants who have attained age 50 to make catch-up contributions, the catch-up contributions are now required to be made on a Roth basis for participants who earn at least $145,000 (indexed after 2024) or more in the prior year. This provision is effective for taxable years beginning after December 31, 2023.

SECURE 2.0 provides for an exception from the 10% early withdrawal tax on emergency expenses, defined as certain unforeseeable or immediate financial needs, on a limited basis (once per year, up to $1000). Plans may allow an optional three-year payback period, and participants are restricted from taking another emergency withdrawal within three years of any unpaid amount on a previous withdrawal. This provision is effective for plan years beginning on or after January 1, 2024.

401(K) PLANS

401(k) plans are qualified plans offered by many employers. As an employee, you can contribute a certain percentage of your salary, as defined by the plan, or up to the contribution dollar limit, whichever is less.

The limit for elective salary deferrals in 2023 is $22,500. Those age 50 and older can contribute an additional $7,500. You do not pay taxes on contributions until you receive money from the plan, which is usually when you retire and may be paying taxes at a lower rate.

Some employers match a portion of employee contributions and may also make additional contributions on behalf of the employees. Self-employed taxpayers may make deductible matching contributions to their plans. Employer contributions may be distributed according to the plan's vesting schedule. So, if you leave a job before being fully vested, you may not receive all of the employer's contribution. You will, however, always be 100% vested in the funds you have contributed and their earnings.

ROTH 401(K)S

A Roth option may be available to those participating in traditional 401(k) plans. Like the Roth IRA, contributions to a Roth 401(k) are made with after-tax dollars, and earnings and distributions are tax free, provided you have owned the account for five tax years and are at least 59½ when you make withdrawals. However, unlike the Roth IRA, Roth 401(k)s have no income restrictions, and they are subject to the more generous elective salary deferral limits that apply to conventional 401(k)s—$22,500 for taxpayers under the age of 50 and $30,000 for older workers in 2023.

You may choose to designate all or part of your elective 401(k) contributions as Roth contributions. However, matching contributions made by an employer must be invested in a traditional account, not a Roth. Participants in 401(k), 403(b), and 457(b) plans are permitted to roll over funds into Roth accounts within their plans, if available. Because contributions to traditional 401(k)s are made on a pre-tax basis, any funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion.

Simplified Employee Pension Plans (SEPs) and SIMPLE Programs

SEPs let employers make deductible contributions to the IRAs of employees and avoid much paperwork. All eligible employees must be covered but there's no waiting period for vesting. SEPs are easily converted to Roths.

Savings Incentive Match Plans for Employees (SIMPLEs) can be adopted by companies with 100 or fewer employees who earned at least $5,000 last year. The plan must be made available to every employee who made at least $5,000 in each of the previous two years, and owner-employees are allowed to participate.

SIMPLE programs can be designed as either an IRA plan or as a simplified 401(k) plan. These plans have contribution requirements and are not subject to nondiscrimination rules. The employer must match the contribution dollar for dollar, up to 3% of the employee's compensation, or make an overall 2% contribution to every eligible participant. All contributions to a SIMPLE account are immediately fully vested.

Social Security Benefits

In retirement, up to 85% of your Social Security benefits may be taxed, depending on your income level. You may be affected if your modified adjusted gross income (AGI plus half of Social Security benefits plus tax-exempt income) exceeds $32,000 ($25,000 if you are single).

The age at which individuals may start collecting full Social Security benefits is increasing. Full retirement age will increase gradually for those born after 1937 from age 65 to age 67. Early retirement at age 62 is still an option, but your monthly benefit will be reduced.

Taking benefits at age 62 may be tempting, even with the reduced benefit. However, if you choose to continue working to supplement your Social Security income, your benefits may be reduced further if you earn more than the maximum amount allowed. If you are under the full retirement age, receive Social Security benefits, and earn additional income in 2023, your benefits will be reduced by $1 for each $2 earned over $19,560. If you reach full retirement age in 2023, your benefits will be reduced by $1 for every $3 earned over $56,520 in months leading up to full retirement age. Upon reaching full retirement age, Social Security benefits are not reduced because of earnings.

The Social Security Administration offers online calculators to help you plan your retirement income. For more information, visit their website at www.ssa.gov.

IRA REQUIRED MINIMUM DISTRIBUTION TABLE

Based on the SECURE Act (Setting Every Community up for Retirement Enhancement) and SECURE ACT 2.0 changes, you must take out your first RMD (Required Minimum Distribution) by April 1 of the year after you turn 73. For all subsequent years, you must take the money out of your accounts by December 31.

Generally, your marital status is determined as of January 1 of each year. If your spouse is the beneficiary of your IRA on January 1, he or she remains a beneficiary only for purposes of calculating the required minimum distribution for that IRA even if you get divorced or your spouse dies during the year.

You must increase your IRA balance by any outstanding rollover and recharacterized Roth IRA coversions that were not in any traditional IRA on December 31 of the previous year.

Here is the IRS RMD table to 120 years old.

AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD
72	27.4	97	7.8
73	26.5	98	7.3
74	25.5	99	6.8
75	24.6	100	6.4
76	23.7	101	6.0
77	22.9	102	5.6
78	22.0	103	5.2
79	21.1	104	4.9
80	20.2	105	4.6
81	19.4	106	4.3
82	18.5	107	4.1
83	17.7	108	3.9
84	16.8	109	3.7
85	16.0	110	3.5
86	15.2	111	3.4
87	14.4	112	3.3
88	13.7	113	3.1
89	12.9	114	3.0
90	12.2	115	2.9
91	11.5	116	2.8
92	10.8	117	2.7
93	10.1	118	2.5
94	9.5	119	2.3
95	8.9	120	2.0
96	8.4		

USE THIS WORKSHEET TO CALCULATE YOUR RMD

You can easily figure out how much you need to take out based on the RMD table. Here's how to do the calculation:

1. Determine the balance of your IRA account(s).
2. Find your age on the table and note the distribution period number.
3. Divide the total balance(s) of your account by the distribution period.

This is your RMD.

EXAMPLE

You are 77 years old and the balance of your IRA account is $650,000:

Balance $650,000

Distribution period for Age 78 22.0

(use chart on adjacent column)

SAMPLE CALCULATION FOR REQUIRED MINIMUM DISTRIBUTION

Balance divided by distribution period

$650,000 divided by 22.0 = $29,545.45

This amount is the RMD you would have to withdraw for that year.

RETIREE #1 CALCULATE YOUR RMD HERE

Your IRA Balance $__________

Distribution period for your Age ÷__________

(use chart on page 29)

RMD $__________
Balance divided by distribution period

RETIREE #2 CALCULATE YOUR RMD HERE

Your IRA Balance $__________

Distribution period for your Age ÷__________

(use chart on page 29)

RMD $__________
Balance divided by distribution period

OTHER RETIREMENT CONSIDERATIONS

You may want to investigate state taxation and its implications for you if you're deciding where to live in retirement. Take into account the state income tax rate, state taxation of retirement benefits and Social Security, state and local property taxes, state estate taxes, and state sales tax. These can vary widely from state to state and could have a measurable impact on your finances.

An important consideration when planning your estate is the selection of a competent executor and perhaps a trustee to ensure your wishes are fulfilled. Generally, you have two choices:

1. Use the services of a financial institution's trust department.
2. Name a family member or friend.

Institutions offer the benefit of technical know-how and continuity over time and the benefits of these should not be understated. However, since they must adhere to established corporate policies, they charge fees, use conservative investment policies, and could possibly be less responsive to the needs of your beneficiaries.

Selecting a family member or trusted friend could potentially reduce or eliminate fees and add a personal touch to the process, but consider your choice carefully because the responsibilities are significant. Your executor needs to be adept at filing tax returns, making complex tax elections, and implementing investment strategies (but they may have limited knowledge of investments).

Just because a family member is the oldest surviving sibling or is willing to serve does not mean he or she is the most appropriate choice. Consider also choosing a successor executor or trustee. Then, if the designated individual cannot or will not serve, you have an alternative plan.

FINANCIAL PLANNING TIP #15

It is also important to re-evaluate your estate plan periodically to help protect your beneficiaries and heirs from having to choose between fulfilling your wishes and meeting estate tax requirements.

ESTATE PLANNING

For most people, transferring wealth to loved ones or a favorite charity is a long-term goal. Appropriate tax planning for your personal situation may help ensure you leave a legacy. Estate planning involves many strategies generally designed to preserve assets, minimize taxes, and distribute property according to your wishes.

If it has been a while since you reviewed your estate plan, consider doing so, as the landscape of estate and gift planning is changing. Several changes in the SECURE Act, passed in December 2019 and SECURE 2.0 passed in December 2022 may materially influence estate planning and beneficiary decisions that were previously made in an effort to minimize Required Minimum Distributions (RMDs) to heirs and beneficiaries. It is also important to note that state estate tax laws may differ from Federal estate tax laws, and state estate tax laws may differ from state to state.

Federal regulations concerning the taxation of property owned at death contain a catch-all definition stating that the "gross estate of a decedent who was a citizen or resident of the United States at the time of his death includes the value of all property—whether real or personal, tangible or intangible, and wherever situated—beneficially owned by the decedent at the time of his death." The first step in understanding the potential implications of the Federal estate tax is to know what major assets comprise your estate. Consider the following:

- Personal assets, such as personal property, savings, real estate, retirement plans, and proceeds from your life insurance policies.
- Rights to future income, such as payments under a deferred compensation agreement or partnership income continuation plan. These rights are commonly referred to as "income in respect of a decedent (IRD)" and may be includable at their present cash value.
- Business interests, whether as a proprietor, a partner, or a corporate shareholder.

It is important to note, however, that the value of Social Security survivor benefits, received as either a lump sum or a monthly annuity, is not includable in your gross estate.

Determining what may be included in your gross estate may require professional, in-depth analysis. It is also important to re-evaluate your estate plan periodically to help protect your beneficiaries and heirs from having to choose between fulfilling your wishes and meeting estate tax requirements.

Failure to plan your estate not only has the potential to increase your heirs' possible tax liability, but it also leaves responsibility to the state courts to divide your assets, assign guardians for your children, and dictate all other details in handling your estate. Your involvement now can help you prepare for your loved ones' future.

Estate Tax Law Changes

The estate planning landscape has been marked by change and uncertainty over the years. Under 2001 tax law, the Federal estate tax became progressively generous in the run-up to 2010, when it was phased out completely for a single year. Under the 2010 Tax Relief Act, the Federal estate tax was reinstated. The Tax Cuts and Jobs Act of 2017 doubled the exemption amounts from 2018 to 2025. In 2023, there is a top tax rate of 40% and an exemption amount of $12,920,000, or $25,840,000 for married couples.

Early preparation is key to developing appropriate strategies to minimize potential estate taxes and ultimately maximize the amount transferred to your heirs. Bear in mind that an unlimited amount may be passed tax free to a spouse. If you are married and your combined assets (including life insurance) surpasses $25.84 million, consider implementing advanced planning tools, such as trusts, to help minimize taxes.

ESTATE, GIFT, AND GST TAX EXEMPTIONS		
Estate Tax Rate Exemption	40%	$12.92 million
Gift Tax Rate Exemption	40%	$12.92 million
GST Tax Rate Exemption	40%	$12.92 million

The Portability Provision

In the years after The American Taxpayer Relief Act of 2012, the estate tax exemption can be transferred between spouses, so if one spouse dies and does not use the full exemption amount, the remainder can be used by the survivor. To make use of the "portability" option, the executor of the first spouse must actively elect it on the estate tax return, even if no liability is owed. Then, when the remaining spouse dies, the heirs will owe estate tax only on any amount above the combined exemption. This means that husbands and wives do not have to split assets between them, or be concerned about who holds the title on various assets.

Yet, this does not eliminate the need for planning. Wealthy taxpayers who currently fall within the exemption limits may still want to consider setting up a bypass trust in anticipation of future changes in the rules. In addition, couples with different sets of final beneficiaries, such as children from previous marriages, may wish to set up a bypass trust in order to clarify the beneficiaries of their separate assets. See chart on page 32 for more information about commonly used trusts.

Gifts to Family and/or Friends

One way to gradually transfer your estate tax free is to use the annual exclusion and "gift" up to $17,000 per person, per year, to an unlimited number of recipients. If you and your spouse choose to "split" gifts, then $34,000 per year can be given away without you or the recipients paying transfer tax. (Gift-splitting is not necessary in community property states.)

You may also want to take advantage of the lifetime gift tax exemption. In 2023 the top tax rate is 40% and the exemption is $12,920,000 for singles and $25,840,000 for married couples.

If you would like to make a gift to a grandchild (or anyone else) and not be limited by the annual exclusion amount, make a direct payment to the providers for education (tuition only) and medical expenses. Gifts of this nature do not count toward the annual limit. You can also exclude gifts of tuition or medical payments made now for future services.

If you transfer realty to a relative for little or no consideration, make certain you report the gift. The IRS searches property records to uncover unreported gifts.

Gifts may be made directly to the donee or deposited in a trust for the donee's benefit. Many estates can be completely transferred to others in this way over time. There are special requirements when the trust beneficiary does not have a present interest in (does not enjoy current benefits from) the trust property. Gifts to such trusts do not qualify for the $17,000/$34,000 annual exclusions. In the case of trusts set up for minors, annual exclusion gifts are allowed, but beneficiaries must have full access to the trust assets at age 21.

FINANCIAL PLANNING TIP #16

A trust, simply defined, is an arrangement whereby one person holds legal title to an asset and manages it for the benefit of another.

One possible solution to the "present interest" problem is to create a "Crummey" trust for greater flexibility and control. This requires that you give each trust beneficiary a right of withdrawal when funds are transferred to the trust. Transfers subject to Crummey powers will qualify for the annual exclusions.

To enhance your gifting strategy, you may want to consider creating a family limited partnership (FLP), to which you can transfer property (such as rental property) and then gift interests to family members without relinquishing full control.

Gifting Benefits

1. Post-gift appreciation escapes the estate tax.
2. To the extent of the $17,000/$34,000 per donee, per year annual exclusion, no transfer tax is imposed.
3. Gift tax paid reduces your taxable estate. (Limited exceptions apply.)
4. Post-gift income produced is taxed to lower tax bracket donees.

Generation-Skipping Transfer Tax

Transfers to your grandchildren may be subject to the generation-skipping transfer (GST) tax. The generation-skipping transfer (GST) tax is equal to the highest estate and gift tax rate in effect for the year (40% for 2023). The GST tax may be avoided by making gifts that qualify for the annual exclusion directly to your grandchildren. (Crummey power trusts will not work for this purpose.)

Trusts

A trust, simply defined, is an arrangement whereby one person holds legal title to an asset and manages it for the benefit of another. One of the valued characteristics of a trust is its ability to bridge the gap between life and death, allowing a person to "rule from the grave," so to speak. Generally, a trust may be established to last for many generations, ending 21 years after the death of the last named beneficiary, or after a specific number of years as permitted by state law.

During your lifetime, you could establish a trust for your own benefit. For example, you could use a trust to minimize taxes, obtain professional asset management, or accomplish other goals. You may want to participate in a new business venture with strong potential, but high risk. In this case, you could use a trust to help ensure your income in the event of business failure.

On the other hand, trusts can be established for the benefit of others, such as your spouse, parents, children, or grandchildren. Trusts may also be created for the benefit of independent adults for many reasons, including freedom from management burdens, expert administration, mobility, and other practical purposes, like cash savings. While avoiding probate may be a consideration, the estate and gift tax savings associated with the use of trusts may also be important. See the chart on page 32 for other trusts used in estate planning.

Life Insurance Proceeds

If you own a life insurance policy, it is important for you to know that life insurance proceeds are subject to estate tax upon your death if you retain any powers over the policy (such as the right

COMMONLY USED TRUSTS		
TYPE	**PURPOSE**	**BENEFITS**
Credit Shelter or Bypass Trust	Created at death to hold and manage assets for your heirs in an amount equal to the estate tax exemption.	Distributes assets free of estate tax to heirs at a predetermined age.
Irrevocable Living Trust	Created by gifts to manage assets you transfer, for beneficiaries you designate. Terms are specified at your discretion.	Keeps trust assets out of your estate if you give up all control. Post-gift appreciation is also excluded. Can be set up so that you pay the taxes on trust income, maximizing the amount available to beneficiaries.
Revocable Living Trust	Protects and manages your assets in the event of your incapacity. Becomes irrevocable at death and provides for asset distribution.	Helps avoid probate and preserves privacy.
Insurance Trust	Owns life insurance policies on your life, and can be used to manage and distribute policy proceeds in accordance with your wishes.	Keeps insurance proceeds out of your estate. Can loan proceeds to your estate to help meet liquidity needs, such as paying estate tax.
Charitable Remainder Trust	Holds appreciated property you transfer for the benefit of a charity. Makes annuity payments to you (or other beneficiaries) and transfers any remainder to the charity at your death.	Gives you an immediate income tax deduction, avoids capital gains tax, provides you with annuity payments, and keeps the transferred property out of your estate.
QTIP (Qualified Terminable Interest Property) Trust	Created at death for the benefit of your spouse and children. Pays all trust income to your spouse for life. Remainder then passes to your children.	Qualifies for the unlimited estate tax marital deduction. Gives you complete control over the final disposition of your property. Often used in second marriages to protect interest of children from a previous marriage.

to change the beneficiary or borrow against the policy) or if the proceeds are made payable to your estate.

You can transfer a policy to certain life insurance trusts at least three years before you die, or you can give money to the trust to buy a new policy and pay the premiums. Under either method, the proceeds will be free from estate tax, although your initial gift and the premiums paid may be subject to gift tax. If the trust is properly structured, the insurance proceeds can still be available to meet the liquidity needs of your estate.

Residency Concerns

Where you decide to retire can be very important because state income and estate taxes can have a pronounced impact on your overall tax picture.

Changing your domicile (residency) to a state with a more favorable tax climate can save you a lot of tax dollars. For example, some states don't tax retirement account distributions, while some states assess estate tax at much higher marginal tax rates than others.

A state can tax you and your assets only if you are domiciled in that state. To determine your residency status, states will consider factors such as the following:

- Where you are registered to vote
- Where your automobiles are registered
- Where you own real estate
- Where you lived for most of the tax year

Advance Directives

If you were to experience a debilitating illness or become incapable of managing your own affairs, who would make your important legal, financial, and health care decisions? On what authority would this individual act? Fortunately, advance directives—legal instructions that express your wishes regarding financial and health care decisions in the event that you become incapacitated—can help deal with such contingencies.

A durable power of attorney grants authority to another person to make legal and financial decisions on your behalf in the event of mental incapacity. The powers granted can be broad or limited in scope. A durable power of attorney can assist you with your personal finances, insurance policies, government benefits, estate plans, retirement plans, and business interests.

A living will generally allows you to state your preferences prior to incompetency regarding the giving or withholding of life-sustaining medical treatment. A health care proxy allows you to appoint an agent to make health care decisions on your behalf in the event of incapacity. These medical decisions are not limited to those regarding artificial life-support.

Advance directives by durable power of attorney, living will, or health care proxy are essential estate planning tools for all individuals, regardless of age. Without such documents, court intervention, involving a great deal of time, expense, and stress to your family, may be necessary to carry out your legal, financial, and health care wishes.

Meet the Team.

BARBARA NOONEY, CPA/PFS

Barbara has over three decades of experience in public accounting. She has specialized in non-profit auditing, financial reporting, and personal financial planning. Her experience also includes tax compliance, preparation and planning at the federal, state and local level for individuals and all forms of business entities.

MATTHEW TRESKOVICH, CFA, CPA/PFS, CITP, CMA, CFP®, AEP®, MBA, CLU, CHFC, FLMI

Matt has over two decades of experience in wealth management, tax planning, and financial planning. He helps individuals, businesses, and non-profits plan well so they can achieve and protect their financial independence.

CHUCK ELLEFSON, CPA/PFS

Chuck has over two decades of experience in individual and corporate taxation and outsourced accounting services. His specialties include tax planning for families and businesses, and outsourced accounting services for all types of businesses.

THOMAS P. FLAVIN, CPA/PFS

Thomas P. Flavin has over three decades of experience as a Certified Public Accountant providing a broad range of services to businesses, non-profits, professionals and individuals. He has extensive experience in auditing, accounting and financial reporting; developing financial projections, forecasts and budgets; business valuations and litigation support.

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