

WEBINAR

Year-End Tax Planning for High-Net-Worth Individuals

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Learning Objectives



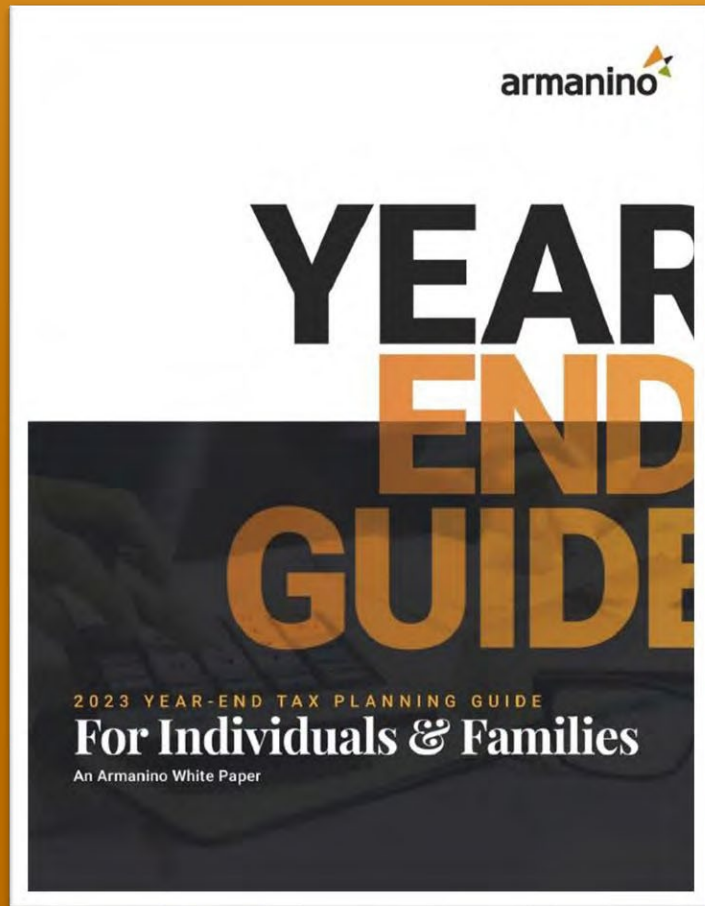
Review the impacts of recent legislation



Explain the potential results of charitable gifts and estate tax decisions



Explore new income tax planning ideas



Download our
2023 Year-End Tax Planning
Guide for Individuals &
Families today!



WELCOME

Today's Presenters



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Year-End Tax Planning

Agenda

- Income tax
- Retirement
- Business Related Tax Issues
- Miscellaneous Tax Items
- Charitable Giving
- Wealth transfer
- Q & A

Polling Question #1

Do you feel prepared for year-end?

- a) Yes
- b) No
- c) Getting there

YEAR-END PLANNING
Income Tax



Key Tax Considerations From Recent Tax Legislation

- SECURE 2.0 Act

SECURE 2.0 Act of 2022–Signed 12/29/2022

- **Increase in RMD Age to 73** (in 2023), then to **75** (in 2033)
 - **Age 72** Born **1950** or earlier
 - **Age 73** Born **1951 –1959**
 - **Age 75** Born **1960** or later
- **Reduced the RMD penalty** from **50%** to **25%**, and **10%** if timely corrected by making up the missed RMD within 2 years.
- **Increased catch-up contributions for plans for taxpayers between the ages of 60-63, effective 2025**
 - Catch-up in a workplace retirement plan is \$10,000 (adjusted for inflation) (standard catch up is \$7,500)
 - Catch-up IRA limit is 150% of 2025 regular catch-up amount (adjusted for inflation) (standard catch up is \$1,000)
- **➤ \$1,000 IRA catch-up contribution amount (for those age 50 or over) will be indexed for inflation increases**
 - *Beginning in 2024, in \$100 increments*

- **QCDs (qualified charitable distributions)** *Beginning in 2024*, the Annual \$100,000 will be increased for inflation

- **Eliminated Roth 401(k) RMDs**
 - Beginning in **2024**, Roth 401(k)s will ***no longer be subject to lifetime RMDs***. Roth IRAs were never subject to lifetime RMDs, and now employer plans will have that same benefit.
 - **NOTE** – Roth designated beneficiaries are still subject to the 10-year distribution rule upon death of the IRA owner. But they will have no Required Minimum Distributions in years 1-9. They can wait until the end of the 10-year term to withdraw the entire balance in the inherited Roth account.

- **Rollovers from 529 plans to Roth IRAs –limited to \$35,000** and must go to beneficiary's Roth IRA
 - 529 must have been in existence for 15 years
 - 529 contributions made in the last 5 years don't qualify
 - Limited to annual IRA contribution amounts (cannot use the full \$35,000 in one year)

Inherited IRAs – Required Minimum Distributions

- There is also recent changes in legislation for RMDs for inherited IRAs.
 - **Spouse can:**
 - Move the money into their own IRA
 - Move the money into an inherited IRA
 - **Non-Spouse can:**
 - Move the money in an inherited IRA – where it must be distributed with 10 years following the death of the original owner.
 - There are exceptions for eligible designated beneficiaries such as minor child or disabled individuals
- **No fix for the 10-year rule problem!**
 - This affects beneficiaries subject to the 10-year rule who must take RMDs for years 1-9 if they inherited from someone who had already begun taking lifetime RMDs (died after their required beginning date –RBD).

What's **NOT** in SECURE 2.0 Act of 2022?

- **No effect on “back-door” Roths** –they are still ok to do
- **No income limitations for Roth conversions**
- **No restrictions on IRA investments** in start-ups or privately held stock
- **No change in QCD age** – it is still age 70 ½ (even though RMD age increased to 73, and 75)



IRAs and Retirement Plans

- **401(k)** - For 2023, you can contribute up to \$22,500 (\$23K for 2024) to a 401(k) plan (\$30,000 if you're age 50 or older-\$30,500 for 2024)
- **IRA** – For 2023, you can contribute up to up to \$6,500 (\$7K in 2024) to a traditional IRA or Roth IRA (\$7,500 if you're age 50 or older-\$8K for 2024).
- **SEP** - Contribute the lesser of 25% of self-employment income or each eligible employee's salary or \$66,000 for 2023 (\$69K for 2024).

Roth Conversions

- When you convert a traditional IRA to a Roth IRA, or a traditional 401(k) account to a Roth 401(k) account, the converted funds are generally subject to federal income tax in the year that you make the conversion (except to the extent that the funds represent nondeductible after-tax contributions).
- If a Roth conversion does make sense, you'll want to give some thought to the timing of the conversion, considering current and future tax rates.
- If you have NOLs available, they can offset the income generated by the Roth conversion

YEAR-END PLANNING

Business Related Tax Issues



Download our
2023 Year-End Tax Planning
Guide for Privately-Held
Businesses today!



Depreciation Changes

- Bonus Depreciation
 - The Tax Cuts and Jobs Act includes a built-in phase out of the bonus depreciation allowance (100% deductible 2018 to 2022):
 - 2023 – 80% deductible
 - 2024 – 60% deductible
 - 2025 – 40% deductible
 - 2026 – 20% deductible
 - 2027 – bonus depreciation fully phased out
- Section 179 Deduction
 - Less popular during the era of 100% bonus depreciation
 - 2023 limitation of \$1,160,000 maximum write off with a phaseout of the deduction beginning once total assets purchased exceeds \$2,890,000

Business Travel and Meals



- Mileage reimbursement rates increased to **65.5 cents per mile** for business travel.
- **50% deduction** for expenses paid for food/beverages.

PTET – Pass-through entity tax

- Designed to work around \$10,000 State and Local Tax Deduction Limit
 - **Typically**, a pass-through entity pays no tax at the entity level and all income is passed through to the partners or shareholders.
 - The partner/shareholder files a state tax return and pays tax
 - The deduction for this state tax paid is limited to \$10,000 on their federal tax return
 - **Alternatively**, with a PTET tax is paid at the entity level.
 - The entity receives a deduction at the federal level (not limited to \$10K)
 - The shareholder or partner receives a credit on their individual tax return for the tax paid by the entity

Do NOT Make CA PTET Election

Partnership Income	1,000,000
Federal Tax @ 37%	370,000
California Tax @ 9.3%	93,000
Social Security	18,228
Medicare	38,000
Total Tax	519,228

DO Make CA PTET Election

Partnership Income	907,000
Federal Tax @ 37%	335,590
California Tax @ 9.3%	84,351
Social Security	18,228
Medicare	34,466
Total Tax	472,635

Pass-Through Entity Issues

- Net Investment Income Tax (NIIT) - 3.8% tax on investment earnings
 - Exclusion for operating income and gains for activities in which you materially/actively participate
- 199A – 20% deduction of qualified business income for non-corporate taxpayers
- Excess Business Loss Limitation – extended through 2028
 - Individuals and trusts may not deduct business losses in excess of \$289,000 (\$578,000 for joint returns). Increased to \$305,000 in 2024.

Polling Question #2

Have you read our 2023 Year-End Tax Planning Guide for Individuals & Families?

- a) Yes
- b) Not yet
- c) Partially
- d) Other

YEAR-END PLANNING

Miscellaneous Tax Items

New Credits

- Inflation Reduction Act brought us:
 - Energy Efficient Home Improvement Credit extended through 2032
 - 30% of cost of improvement with \$1,200 annual limit – previously it was a \$500 lifetime limit
 - Doors, windows, gas heat pumps, water heaters, central air, furnaces
 - Residential Clean Energy Credit extended through 2034
 - 30% - 22% of cost of property
 - Solar, wind, geothermal, biomass or fuel cell powered systems
 - Clean Vehicle (Electric) Car Credits extended until 2032
 - Now allows credits for previously owned vehicles – lesser of 30% of price or \$4,000 (AGI limitation \$75K single/\$150K married)
 - For new vehicles, there is now an AGI limitation to take the credit - \$150K for single and \$300K for married filing joint
 - In order to take any credit for new or previously owned vehicles, the final assembly of the vehicle must be completed in North America

Itemized Deductions and Loss Limitations

- Personal exemptions are still eliminated.
- Standard deductions have been increased to \$13,850 in 2023 for single tax filers (\$27,700 if married filing jointly, \$20,800 if the head of household).
- The overall limitation on itemized deductions based on the amount of AGI is not applicable.
- The AGI threshold for deducting unreimbursed medical expenses is 7.5% in 2023.
- The deduction for state and local taxes is limited to \$10,000 (\$5,000 if married filing separately).
- Individuals can deduct mortgage interest on no more than \$750,000 of qualifying debt mortgage. If debt incurred before December 16, 2017, limit is \$1 million.
- Individuals can deduct up to 60% of cash contributions or 30% of appreciated assets donated to public charities
- Beginning in 2021 all business NOLs, other than farming losses, can only be carried forward, not back.
- Capital losses are limited to \$3,000 net loss with the remaining loss carrying forward

Timing Is Everything – Deferral or Acceleration?



Deferral - What opportunities do you have to move income to 2024?



Accelerating – What opportunities do you have to take deductions into 2023?

Special Concerns for High-Income Individuals

01

The **top marginal tax rate (37%)** applies if your taxable income exceeds \$578,125 in 2023 (\$693,750 if married filing jointly, \$346,875 if married filing separately or \$578,100 if the head of household).

02

Your **long-term capital gains and qualifying dividends could be taxed at a 20% rate** if your taxable income exceeds \$492,300 in 2023 (\$553,850 if married filing jointly, \$276,900 if married filing separately or \$523,050 if the head of household).

03

A **3.8% net investment income tax** (unearned income Medicare contribution tax) may apply to some or all of your net investment income if your modified AGI exceeds \$200,000 as a single tax filer (\$250,000 if married filing jointly or \$125,000 if married filing separately).

04

High-income individuals are subject to an additional **0.9% Medicare (hospital insurance) payroll tax** on wages exceeding \$200,000 for single tax filers (\$250,000 if married filing jointly or \$125,000 if married filing separately).

Polling Question #3

What part of planning for year-end are you most anxious about?

- a) Income tax planning
- b) Retirement planning
- c) Charitable giving
- d) Wealth transfer planning

YEAR-END PLANNING

Charitable Giving

Charitable Giving



For those who itemize, gifts to charity offset your income taxed at the highest tax bracket first, which in 2023 is as high as 37% (or 28% if you are subject to the AMT).



For the 2023 tax year, you are able to deduct cash contributions to a public charity up to 60% of your AGI and the value of appreciated property such as marketable securities held for more than a year and a day of 30% of your AGI.



Consider a Qualified Charitable Distribution of your Required Minimum Distribution (RMD) from your retirement account each year to reduce or eliminate the portion of your RMD that is taxable.

Charitable Considerations

- Holding period of non-cash assets
- Timing of gifts
- Complex gifts
- Qualified appraisals of donated property
- Bunching charitable gifts

Leaving a Charitable Legacy

Donor
Advised
Funds

Private
Foundations

Charitable
Remainder
Trusts

Charitable
Lead Trusts

Polling Question #4

Would you like to connect with someone from Armanino regarding year-end planning?

- a) Yes
- b) No
- c) N/A

YEAR-END PLANNING

Wealth Transfer



Why You Need to Act Now

- The amount of assets that can pass without being subject to the 40% estate/gift tax for 2023 is \$12.92 million per person (\$25.84 million per couple). This number is set to decrease to approximately half the amount of the exclusion in 2026.
- As a result, making a taxable gift could be helpful to avoid paying gift/estate tax, as well as reducing the size of your estate, which could shift future appreciation out of your estate.

Estate Planning Before the End of 2023

- Make your annual exclusion gifts - \$17,000 annual exclusion per person (increased from 2022 limit of \$16,000)
- Use it or lose it! Use the increase lifetime exemption before you consider any other technique.
- Sell a low-tax basis asset and gift the cash.
- Decreased values of marketable securities may allow for larger gifts of assets with future appreciation post-transfer.
- You can still use the benefits of a grantor trust.
- Use up one spouse's exemption and keep the other.
- Update your estate plan, wills, and other accounts that have designated beneficiaries.
- Review distribution of powers of trusts and potentially make distributions to beneficiaries.
- The exemption increased by \$860,000 in 2023 and will likely increase by \$690,000 in 2024.

Action Items

- ✓ Due to decreased values in the stock market, there are more opportunities for loss harvesting. If you recognized capital gains in 2023, you may want to harvest capital losses to offset capital gains.
- ✓ Let your tax advisor know about any major changes in your life such as a marriage or divorce, births or deaths in the family, job or employment changes, starting a business and significant expenditures (real estate purchases or sales, college tuition payments, etc.).
- ✓ Consider Sec. 529 plans to help save for education; there can be income tax benefits to do so.
- ✓ Schedule your Required Minimum Distribution (RMD) if one is required (IRA holders that are 73 or above)
- ✓ Consider gifting strategies to take advantage of higher lifetime exemption set to expire on January 1, 2026
- ✓ Consider converting a Traditional IRA to a Roth IRA if 2023 is a low income year

YEAR-END PLANNING

Q&A

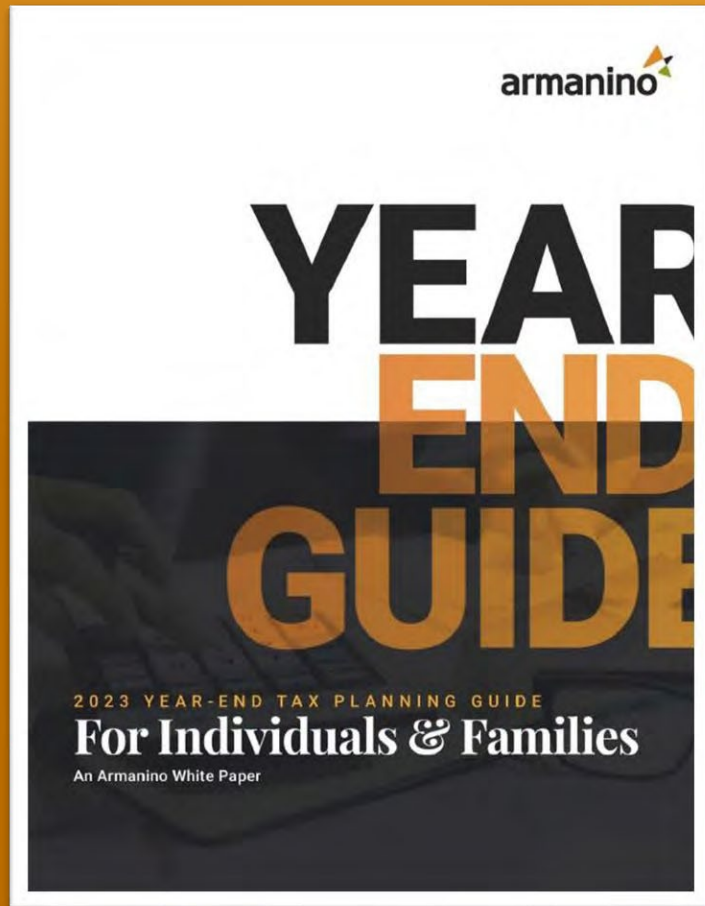
Thank you for
attending

Additional Questions?

Reach out to us at

Experts@armanino.com





Download our
2023 Year-End Tax Planning
Guide for Individuals &
Families today!

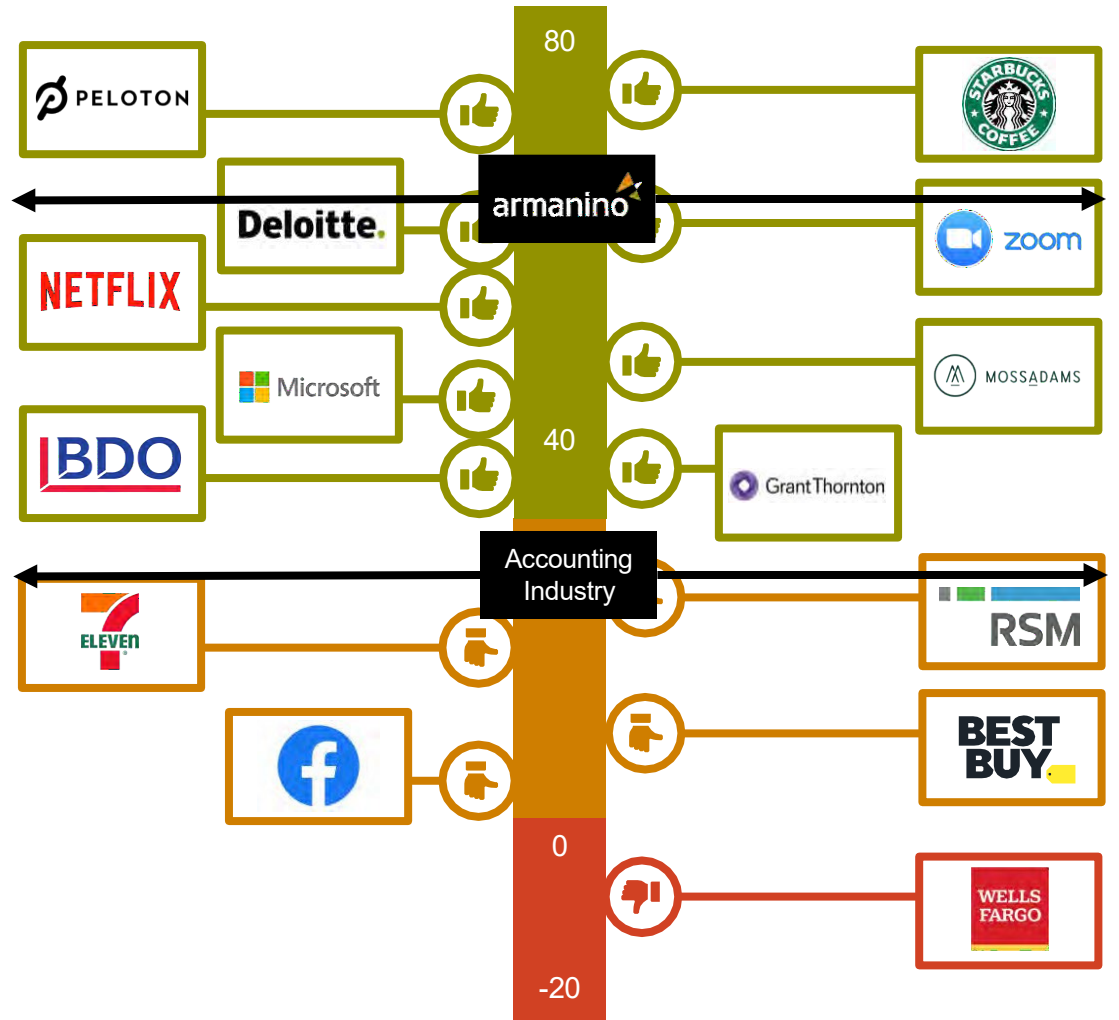


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