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2023 YEAR-END PLANNING CHECKLIST

BY JULIA ZIECHMANN, JD, LLM & ANDREW GREEN, CFP®

THIS HAS BEEN ANOTHER YEAR OF UNCERTAINTY IN CURRENT EVENTS AND IN U.S. FINANCIAL MARKETS. ONE THING THAT REMAINS TRUE AND STEADFAST IS THE OBLIGATION TO PAY INCOME TAXES. REGARDLESS OF WHAT THE FUTURE BRINGS, PROACTIVE YEAR-END PLANNING IS ESSENTIAL. HERE IS A CHECKLIST OF THINGS TO CONSIDER BEFORE THE END OF 2023.

1. Revisit Your Estate Plan as Soon as Possible

- As of today, an individual taxpayer can gift up to $12.92 million ($25.84 million for married couples) without paying federal estate or gift tax. This elevated exemption amount is set to sunset at the end of 2025 and revert to $5 million ($10 million for married couples) adjusted for inflation.
- It is possible that the lifetime exemption amount could change post-election and before the projected sunset. If you potentially would be impacted by a significant reduction in the exemption amount, consider taking advantage of utilizing the higher exemption before year end.
- Re-examine your wills. Possible changes in exemption levels could warrant revising your documents.

2. Make Charitable Contributions

- Contribute to a Donor Advised Fund (DAF). If you want to take advantage of itemizing deductions through charitable giving but do not want all the money to go to charity immediately, a DAF is the perfect mechanism to do so.
- Consider a Qualified Charitable Distribution (QCD). Instead of taking cash distributions from an Individual Retirement Account (IRA), taxpayers age 70 ½ and over may transfer up to $100,000 from their IRAs directly to public charities. With a QCD, the distribution is not recognized as income, and you do not record a charitable deduction on your Itemized Deductions. The income tax benefit is derived from lowering your Adjusted Gross Income (AGI).
- Contributing appreciated securities held for longer than a year directly to charities or to a DAF is an excellent planning technique. Taxpayers receive a charitable deduction equal to the fair market value of the securities contributed and avoid tax on the embedded investment gains. The total deduction for making charitable contributions in this manner is limited to 30% of adjusted gross income. Any excess contributions can be carried over for up to five years.

3. Time Your Income - Accelerate or Defer

- Capital Gains/Losses:
  - Normally, we would suggest harvesting capital losses to offset capital gains in your portfolio; however, depending on your income level and the possibility of higher future tax rates, harvesting gains may be beneficial. Recognizing capital gains before year end would lock in the gains at 2023 rates.
- 2023 Bonus/Other Compensation:
  - Ask your employer to defer your bonus until early next year if you anticipate less taxable income in 2024, or accelerate your bonus into 2023 if you are experiencing a low income year.
  - The normal strategy is to defer income where possible to the following tax year; however, consideration should be given to accelerating income into 2023 because tax rates could increase in 2024 post-election.
- IRA Distributions:
  - Distributing assets from an IRA or Inherited IRA to maximize tax efficiency in future years may be appropriate.

4. Convert to a Roth IRA

- Consider converting all or part of your IRA to a Roth IRA. This can be a powerful planning tool if any of the following considerations apply to your situation:
  - You are in a low income year or anticipate having larger deductions, such as a net operating loss, large charitable deductions or significant medical expenses.
  - You expect to be subject to higher tax rates in the future.
  - The value of your portfolio and the assets to be converted are considerably lower given changes in financial markets.
  - You currently have no other pretax IRA accounts, making the 'backdoor Roth strategy' attractive.

5. Contribute to 529 College Savings Plans

- Contribute to 529 plans before the end of the calendar year. Pennsylvania residents can deduct contributions to any state's 529 plan subject to certain limitations. 529 Plans grow free of federal, state and local income tax, if used for qualified education expenses. Distributions for K-12 education are limited to $10,000 per year.
- With the passage of the SECURE 2.0 Act in 2022, funds in a 529 plan that are not needed for education can potentially be rolled into a Roth IRA in the name of the plan beneficiary.

6. Consider Participating in EITC (Educational Improvement Tax Credit) or OSTC (Opportunity Scholarship Tax Credit) Programs

- Pennsylvania residents can make cash contributions to certain educational institutions through established entities. Taxpayers receive Pennsylvania tax credits of up to 90% of their contribution and a Federal charitable deduction for the remainder. Please see our article for further details on the Educational Improvement Tax Credit and Opportunity Scholarship Tax Credit.

7. Make Gifts

- Make annual exclusion gifts before the end of the year to reduce your taxable estate. You may gift up to $17,000 per recipient to as many recipients as you like. Married couples can gift up to $34,000 per recipient.
- If utilizing the $34,000 exemption for a married couple, the gift should ideally be made from a jointly registered account. In general, a gift by check is not complete until the check is paid or deposited.
- Also consider gifting appreciated securities in-kind as this can lead to potential tax savings.

8. Take Advantage of Energy Efficient Tax Credits

- More attractive tax credits exist under current tax law for qualified energy-efficient upgrades. The Inflation Reduction Act removed the previous lifetime limit for energy tax credits. With this in mind, it could be beneficial to accelerate the purchase and installation of qualified property prior to year-end, allowing the tax credit to reset again for next year.

9. Make Contributions to Tax-Favored Accounts

- In general, contributions to such accounts can lessen current taxable income, while increasing future savings.
- Maximize contributions to retirement plans such as a 401(k), 403(b), IRA, SEP IRA and after-tax retirement plans.
- Capitalize on contributions to other plans, such as Health Savings Accounts, Flexible Spending Accounts and deferred compensation plans.

10. Make Estimated Tax Payments

- Fourth quarter estimated tax payments for the tax year ending December 31, 2023 must be paid by January 15, 2024. Generally, you could be penalized for underpayment if your 2023 payments are less than 90% of your actual 2023 tax.

Please note these planning ideas may not apply to everyone. Taxpayers should take into consideration their unique set of circumstances and any life events on the horizon, as well as current market conditions.

CONTACT US AT FAIRMAN GROUP FAMILY OFFICE TO ENSURE YOUR COMPREHENSIVE PLANNING NEEDS WILL BE MET BEFORE THE CRITICAL YEAR-END DEADLINE.

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