2023 TAX PLANNING GUIDE

YOUR ROADMAP TO REDUCED TAXES THIS YEAR AND IN THE FUTURE.

SouthParkCapital

INTRODUCTION

After a tumultuous 2022, filing your taxes this year could be complicated. Maybe you stopped working, realized investment losses, created an estate plan, or went from itemizing to claiming the standard deduction or vice versa. There are many factors that can impact whether your taxes will increase and whether you need to rethink your tax strategy.

We believe it's important that you look to employ tax diversity in your retirement plan. Different types of investments can impact your taxes differently. Having accounts that receive varying tax treatments is a key strategy. You should work with a qualified professional to help determine exactly how much you should have in each tax "bucket" to help minimize your overall tax burden in retirement.

While the tax code can be incredibly complex, you still need to stick to the basics when it comes to filing and preparing your tax returns. So, here are our 5 tips to help you better prepare for tax filing this year.

5 HELPFUL TAX PLANNING TIPS

1. Get Organized and Prepare Your 2022 Taxes
2. Understand Year-to-Year Changes
3. Know What Deductions You May Be Able to Claim
4. Learn Strategies to Help Lower Your Tax Bill
5. Avoid Potential Tax Burdens on Your Retirement Plans

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GET ORGANIZED AND PREPARE YOUR 2022 TAXES

This may seem like a no brainer, but the sooner you get your W-2, receipts, and other information together, the easier the process. Make sure you take into account home improvements, charitable donations, business expenses, etc. A Certified Public Accountant (CPA) will be able to help you with your individual tax situation.

KNOW YOUR TAX TERMS

First, you'll want to make sure you understand what some of the basic tax terms mean, such as tax credit, tax deduction, tax deferrals, and tax-free. A tax credit is a dollar-for-dollar benefit. A tax deduction is worth your highest marginal tax bracket, for instance, 28 cents on the dollar. In this instance, if you spend $100, then you would get $28 back. Tax deferrals are those that you see with accounts like a 401(k) where you pay taxes at a later date. Tax-free means you owe no tax.

BE SAFE AND SECURE

The last part of the organization process includes certain precautionary safety measures. Tax identity theft is a significant threat and has been at the forefront of our minds given the recent security breaches and cyberattacks of major commercial organizations. Online tax filings allow for greater convenience, but also leave us more vulnerable to Cybersecurity threats if we're not careful. Be sure you're using a secure browser if you're going to file online. Beware if you receive a notice or letter regarding a tax return, tax bill or income that does not apply to you; or if you get an unsolicited e-mail or other contact asking for your bank account number, Social Security number, or other personal information/documents. Also, be cautious if you receive a spam robocall insisting that you must call back and settle your tax bill. The IRS does not demand immediate payment over the phone, threaten to arrest you, or demand your personal information, including credit/debit or bank account numbers.

2 UNDERSTAND THE CHANGES TO THE TAX BRACKETS

There are no structural changes to the tax brackets this year. There are still seven tax brackets, and the seven marginal tax rates -- 10%, 12%, 22%, 24%, 32%, 35%, and 37% -- remain unchanged.

However, the income ranges for each bracket have been adjusted for inflation. So with that in mind, here's a guide for the 2023 tax year brackets:

Marginal Tax Rate	Single	Married Filing Jointly	Head of Household
10%	*$0 - $11,000*	*$0 – $22,000*	*$0 – $15,700*
12%	*$11,000 – $44,725*	*$22,000 – $89,450*	*$15,700 – $59,850*
22%	*$44,725 – $95,375*	*$89,450 – $190,750*	*$59,850 to $95,350*
24%	*$95,375 – $182,100*	*$190,750 – $364,200*	*$95,350 to $182,100*
32%	*$182,100 – $231,250*	*$364,200 – $462,500*	*$182,100 to $231,250*
35%	*$231,250 – $578,125*	*$462,500 – $693,750*	*$231,250 to $578,100*
37%	*$578,125 or more*	*$693,750 or more*	*$578,100 or more*

[1]

Finally, a few types of income, particularly qualified dividends and long-term capital gains, are taxed according to different rates. Talk to your financial advisor for more information.

1 https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/2023-tax-bracket-changes-could-increase-workers-take-home-pay.aspx

3 STANDARD AND ITEMIZED DEDUCTIONS HAVE CHANGED

The standard deduction amount is almost double from what it was before the Tax Cuts and Jobs Act. More taxpayers are expected to opt for the standard deduction over claiming itemized deductions. With inflation, those amounts will edge up as well. Here are the standard deduction amounts[2]:

FILING STATUS	STANDARD DEDUCTION RATE
Single	*$13,850*
Married Filing Jointly & Surviving Spouse	*$27,700*
Married Filing Separately	*$13,850*
Head of Household	*$20,800*

- For 2023, the additional standard deduction for married taxpayers 65 or over or blind will be $1,500 ($1,400 in 2022). For a single taxpayer or head of household who is 65 or over or blind, the additional standard deduction for 2023 will be $1,850 ($1,750 in 2022).[3]
- For those high-income taxpayers who itemize their deductions, there are no longer Pease limitations.
- A number of important retirement savings incentives were increased, including deductions for 401(k)s and health savings accounts (HSA).

2 https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/2023-tax-bracket-changes-could-increase-workers-take-home-pay.aspx
3 https://www.kiplinger.com/taxes/tax-deductions/602223/standard-deduction

ARE YOU SELF-EMPLOYED?

One key feature of the Tax Cuts and Jobs Act that went into effect for the 2018 tax year, is the 20% deduction on pass-through income for self-employed, sole proprietors (Schedule C on Form 1040), limited liability companies, partnerships and S corporations. This deduction allows the self-employed to keep more earnings tax-free and helps curb high tax rates and the 15.3% self-employment tax.[4] In addition, the SECURE Act 2.0 provides an increased amount of retirement savings options and benefits for small business employers.

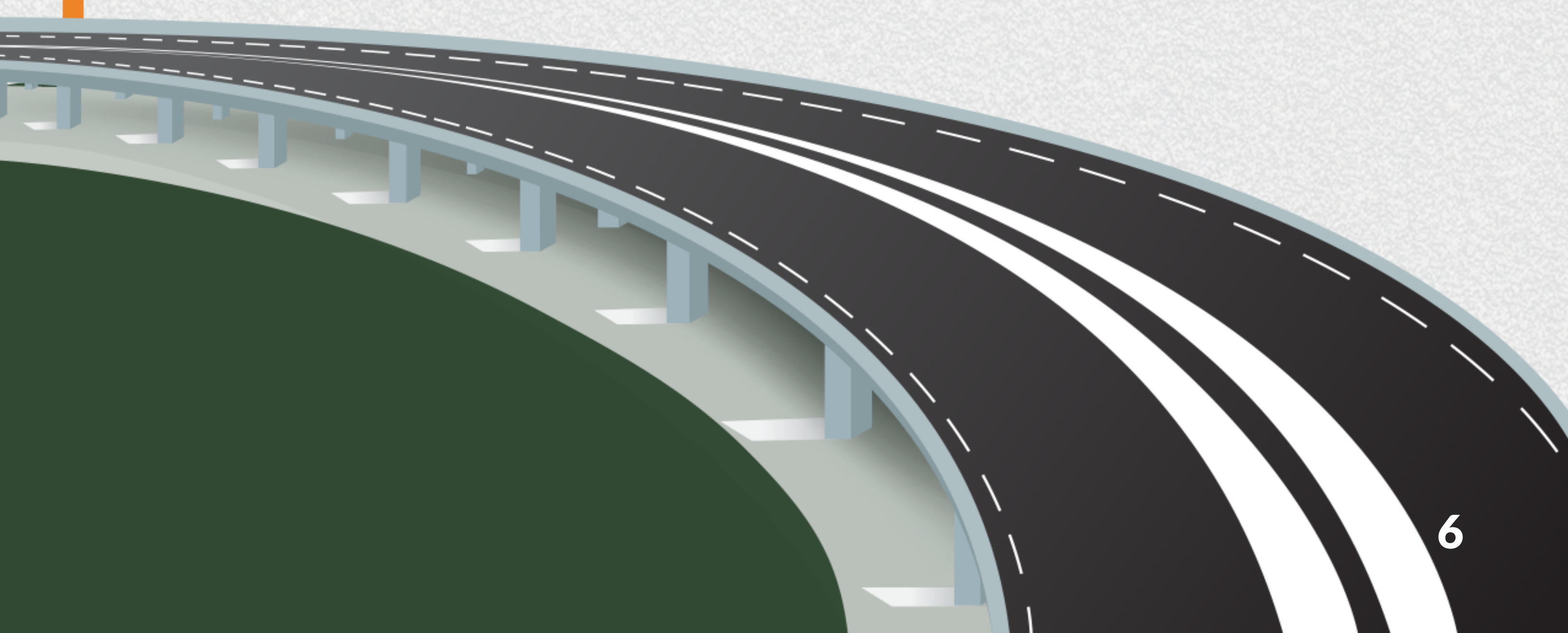
STANDARD DEDUCTION

The standard deduction for married couples filing jointly for tax year 2023 rises to $27,700 up $1,800 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to $13,850 for 2023, up $900, and for heads of households, the standard deduction will be $20,800 for tax year 2023.[5]

MEDICAL EXPENSE DEDUCTION

For tax year 2023, participants who have self-only coverage in a Medical Savings Account, the plan must have an annual deductible that is not less than $2,650, up $200 from tax year 2022; but not more than $3,950.[6]

4 https://www.irs.gov/newsroom/qualified-business-income-deduction
5 https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023
6 https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023



The tax code has several rules that can make it complicated to decipher how your retirement savings will be taxed. To help avoid these common mistakes, it is important you discuss your options with a qualified tax advisor.

RMDS OR REQUIRED MINIMUM DISTRIBUTIONS

Tax-deferred retirement saving is one of the best tools at investors' disposal, but you can't simply let your money grow forever -- at some point, you have to start withdrawing it. This is known as required minimum distributions (RMDs), which is an IRS rule that says you need to start taking distributions from certain retirement accounts beginning at age 73. An RMD is a certain amount of money that the government requires you to withdraw from a 403(b), SEP IRA, 457(b), or traditional IRA every year. Even if you don't want or need the money, you are required to take it or else the IRS can take 25% of what you didn't withdraw.[7]

The IRS provides an IRA RMD table that gives IRA holders the distribution factor for their age. Starting at age 73, the pre-tax money you put away over the course of your career will now be subject to tax, and the government has a specific method of calculating how much you must withdraw every year.

Age	Distribution Period	Age	Distribution Period
73	26.5	87	14.4
74	25.5	88	13.7
75	24.6	89	12.9
76	23.7	90	12.2
77	22.9	91	11.5
78	22.0	92	10.8
79	21.1	93	10.1
80	20.2	94	9.5
81	19.4	95	8.9
82	18.5	96	8.4
83	17.7	97	7.8
84	16.8	98	7.3
85	16.0	99	6.8
86	15.2	100	6.4

[8]

7 https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions
8 https://www.myfederalretirement.com/rmd-rules/

Your first RMD is due by April 1st of the year after you turn 73. So, if you turn 73 in 2023, you won't need to take your first RMD until April 1st, 2024. Keep in mind that by pushing back the first RMD, you could end up having to take two RMDs in one year, since all RMDs after the first are due by December 31st. This could mean you'll have to withdraw more than you want, potentially resulting in a higher tax burden. When it comes to RMDs, planning is key.

Don't forget to make your withdrawal because you could be hit with an unnecessary 25% penalty tax. Also, keep in mind that you're allowed to donate up to $100,000 of your RMD to a 501(c)(3) organization to help lower your tax burden. You can request the IRS to waive the penalty if you had "reasonable cause" for missing the deadline, and they typically will oblige. But not if you have a habit of missing your RMDs every year.[9]

SOCIAL SECURITY BENEFITS

We tend to think of Social Security as being simple: it's a benefit that you receive every month from the government. Did you know that your Social Security benefit is taxable – up to 85% of it, in fact. These laws can be confusing, and they depend on your age, income, and other factors. You can avoid a lot of these taxes by just adjusting your income and your cash flow. If you don't know, "income" refers to any money that you receive, and "cash flow" is your money after taxes. By adjusting your sources of taxable income, you can minimize the amount of taxes that you would otherwise owe on your Social Security benefits.

CONVERTING A TRADITIONAL IRA TO ROTH IRA

Roth IRAs can be a unique and powerful way to save for retirement. You pay taxes up front on a Roth IRA. After that, all growth and withdrawals are tax-free. This is most beneficial when your taxes are lower now than you expect they will be in the future.

9 https://www.irs.gov/retirement-plans/correcting-required-minimum-distribution-failures

THE PROBLEM

People who earn over a certain amount aren't allowed to open Roth IRAs—under the regular rules, anyway. If you think tax-free income in retirement would be important to you, but you make too much to open a Roth, you might want to consider the back door. In a backdoor Roth, you first make a contribution to a Traditional IRA, then convert it to a Roth IRA.

You can do a backdoor Roth IRA in one of two ways. The first method is to contribute money to an existing Traditional IRA, sell shares, and then roll over the money to a Roth IRA account. Or, you can convert an entire Traditional IRA account to a Roth IRA account.

ROTH IRA INCOME LIMITS:

In 2022, if your modified adjusted gross income is $144,000 (single) or $214,000 (married filing jointly or qualifying widow[er]) or over, you may not conventionally contribute to a Roth IRA. The income limit for 2023 is $153,000 and $228,000 for those married, and filing jointly.[10]

ROTH IRA CONTRIBUTION LIMITS:

In 2023, the Roth IRA contribution limits will increase to $6,500. If you are over 50 you may contribute $7,500 annually. These limits do not apply to backdoor Roth Conversions.[11]

The conversion cap was removed in 2018 as older and higher-income investors asked for the benefit of tax-free withdrawals in retirement. Also, since there are no required minimum distributions (RMDs) for Roth IRAs during the lifetime of the account owner, the entire amount of money saved in a Roth can be passed down to your beneficiaries after your death.[12]

10 https://www.irs.gov/newsroom/irs-announces-changes-to-retirement-plans-for-2022
11 https://thefinancebuff.com/401k-403b-ira-contribution-limits.html#:~:text=The%20Traditional%20or%20Roth%20IRA,2022%20to%20%246%2C500%20in%202023
12 https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds

5 STRATEGIES TO HELP LOWER YOUR TAX BILL

Taxes are one of the biggest expenses facing retirees today. There are investment options that may help minimize your tax burden without minimizing your gains, withdrawals, or distributions.

MAX OUT YOUR RETIREMENT ACCOUNTS

Maxing out your 401(k) with your employer, or if you're self-employed, contributing to a defined-benefit or defined-contribution plan can not only help to grow your investments but can also help to reduce your tax burden. This is because your traditional 401(k) is funded with pre-tax dollars that, in turn, decrease your taxable income. But, be careful not to withdraw early from your account as the amount you withdraw will become part of your taxable income, and there could be additional taxes and penalties to pay if you withdraw early. At age 73, you are required to take minimum withdrawals (RMDs) from your select retirement accounts each year. In addition, the recent passage of the SECURE Act 2.0 provides further benefits and options for how to max out your retirement account contributions.

CHARITABLE GIVING STRATEGIES

If there's a charitable cause you feel strongly about, then you can gift your stock in the short or long-term. But first, make sure you check up on the charity's effectiveness to know what percentage of their revenues go to actual programming versus administrative and fundraising expenses. For the short-term, where you're holding the stock in question for less than a year, you can receive a full deductible credit for your cost basis, but you'll give up the ability to deduct your additional investment gains. Note that the holding period starts on the day after you buy a stock and ends on the day you sell it. However, if you hold for a full year, you can deduct the fair market value as of the date the gift was made. But you must be able to itemize deductions to use these giving strategies.

Another option is to consider using RMDs for charitable contributions. If you don't need the money and you take RMDs from your IRA, you can put up to $100K from your RMD directly into a charity. This is known as a Qualified Charitable Distribution or QCD. This is beneficial because you won't owe taxes on the amount of the RMD you contributed to charity.

In addition, SECURE 2.0 specifies that the $100,000 QCD limit will be indexed for inflation in future years. In addition, individuals may make a one-time rollover of up to $50,000 (also indexed for inflation for future years) to certain charitable remainder trusts or charitable gift annuities as part of their annual QCDs. This additional rollover can be an efficient way to fund a charitable remainder trust.[13]

Or, another opportunity is to make a charity the beneficiary of your IRA if you want to make charitable giving part of your estate plan. The charity will receive the assets tax-free and your estate will also be eligible for a charitable deduction. If you plan on giving part of your estate to charity, the rest of your beneficiaries are probably better off inheriting non-IRA assets and letting the charity benefit from the IRA.

TAX-LOSS HARVESTING

An investment typically only impacts your taxes once it is sold. Tax-loss harvesting allows you to take your losses earlier, delay payment on the gains, and - as a result - pay a similar total tax bill, but at a later date. The result is you can earn a return on the money you would have paid in tax as you keep it for longer. In essence, you delay paying your tax bill by making sure you realize your investment losses quickly but your gains more slowly.

With this approach, you can help reduce your income tax liability from your investment losses. If you have more capital losses than you have gains for a given year, then you can claim up to $3,000 of those losses and deduct them against other types of income, such as wage or salary income. If you have more capital losses than that, then you're allowed to carry the excess forward for use in future years. There's no time limit for using the capital loss deductions that you've carried forward.[14]

ESTATE TAX PLANNING

Due to inflation, on January 1, 2023, the unified exemption amount increased to $12.92 million, or $25.84 million for a married couple, meaning that each taxpayer may be able to transfer an additional $860,000 free of transfer tax liability beginning in 2023. Keep in mind that these limits are set to expire in 2026 along with the Tax Cuts and Jobs Act and could expire sooner if that legislation is repealed. The annual gift exclusion amount is $17,000.[15]

13 https://www.reinhartlaw.com/news-insights/secure-2-0-act-brings-additional-estate-planning-opportunities
14 https://www.irs.gov/taxtopics/tc409
15 https://www.kiplinger.com/taxes/gift-tax-exclusion

CONCLUSION

Consider managing your overall financial situation as if you are the CEO of "YOU Corporation." This doesn't mean that you will be acting as a financial advisor or CPA, but you should be active in the decision-making process. Solidifying your involvement in your own wealth is the first step in taking control over your financial situation.

In the end, one of the biggest expenses retirees face is taxes. No matter what lies ahead of you in retirement, make sure you discuss specific tax strategies with your financial professional. There may be serious implications for your financial health if are not understood or planned for properly.

At Southpark Capital, we know that taxes can be confusing. That's why we're there to help you uncover long-term strategies for tax minimization in regard to your Social Security benefits, retirement, investments, and your overall financial plan.

Click to Request Your Complimentary, No Obligation Review!

We'll work with you to help you better understand the new tax laws and how they may impact your individual situation. Call us today at **(704) 325-9406**.

Additional IRS Website Links, Charts, Calculators, etc.

* ***"IRS Withholding Calculator"*** https://www.irs.gov/individuals/irs-withholding-calculator

* ***"2022 Federal Tax Rates, Personal Exemptions, and Standard Deductions"*** https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2022

* ***"Retirement Topics - Required Minimum Distributions (RMDs)"*** https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds

****"Estate and Gift Tax FAQs"*** https://www.irs.gov/newsroom/estate-and-gift-tax-faqs

Disclosure Statement(s)

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