Take advantage of new RETIREMENT RULES

New retirement rules are now in effect after the passage of the SECURE Act 2.0 late last year. Here are some of the major changes and ideas to help you take advantage of them:

More time before you MUST take money out

You now have until age 73 before you are required to make minimum distributions from qualified retirement accounts. This is an increase of one year from the prior age of 72.

Taking advantage: *If you turn age 72 in 2023, you have an extra year to minimize the tax bite on your distributions. By efficiently planning your withdrawal amounts after age 60 and before age 73, you can often reduce the tax on these funds when withdrawn. So review the minimum distribution requirements of your IRAs, 401(k)s and other retirement savings accounts and develop a plan to take advantage of this new rule.*

Bigger tax break for setting up a workplace retirement plan

A tax credit equal to 100 percent of the administrative costs for establishing a workplace retirement plan is available for up to three years for eligible businesses with 50 or fewer employees. Businesses with 51 to 100 employees will still adhere to the original tax break rules, which caps the credit at 50% of administrative costs and with an annual cap of $5,000. There is also a new tax credit based on a business's matching or profit-sharing contributions, capped at $1,000 per employee.

Taking advantage: *This credit could cover all set-up and administrative costs during the first three years of a plan's existence, as average 401(k) set-up costs range from $1,000 to $2,000, while average annual administrative costs range from $1,000 to $3,000. To keep your annual administrative costs as low as possible, it may be worth shopping around for different plan providers as the fees can vary.*

Higher catch-up limits help you save more

Starting in 2024, the $1,000 catch-up contribution for IRAs will receive an annual cost-of-living adjustment in increments of $100, while the $7,500 catch-up contribution for 401(k)s will increase to at least $10,000. This higher 401(k) catch-up limit will also be indexed for inflation starting in 2025.

Taking advantage: *If you are age 50 or over, remember to account for the catch-up contributions attached to your retirement plan currently set at $6,500 for traditional and Roth IRAs and $7,500 for 401(k)/403(b) plans. Towards the end of 2023, find out the annual savings limit of your retirement savings plans for next year, including the catch-up amount. Then make adjustments to your retirement savings plan as soon as possible in 2024 to take advantage of next year's higher savings limits.* ❑

MidYear 2023: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

TAX PLANNING INSIGHTS

MidYear 2023

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Dear Clients and Friends,

The summer months are a great time to shift your tax planning strategies into high gear. And with more opportunities to cut your tax bill in 2023, it's more important than ever to leave yourself plenty of time to put your strategy into action. Included in this issue are several tax planning ideas that you can start working on right away.

Also included are some tips to avoid getting hit with IRS penalties, an idea that can create a million-dollar retirement account for your child, and how to take advantage of new retirement saving rules.

These insights are sent as a reminder of our commitment to help you minimize your taxes and plan for a better financial future. Please call if you have any questions about tax planning for your 2023 return.

Your 2023 go-to tax moves

It's never too early to start thinking about your tax planning strategies for 2023. Here are some ideas to help get you started.

▶ Forecast your taxable income

Consider conducting a taxable income forecast and update it once a quarter. Use this information for your 2023 estimated tax payment obligations. You can also use your forecast to budget how much you'll need to save each month so you won't have a huge tax balance to scramble to pay at the end of the year. Your starting point for this forecast can be last year's income, but with investments or potential business income, this exercise becomes more important.

▶ Be aware of Form 1099-K

If you have income from other sources, including side gigs like selling tickets or selling on Amazon or eBay, you will need to forecast the taxable income for the year. This is more important in 2023 as new rules may mean that you'll have a Form 1099-K mailed to you and the IRS to ensure this income is captured on your 2023 tax return. You'll need accurate records so you can compare your dollar amounts to the tax forms you receive.

▶ Check your withholding

If you're an employee, confirm you have the right amount withheld from your paycheck for the balance of the year. It's especially important to review if you recently had a change in income, or you've experienced a big life event, like a new child or a home purchase. This exercise will help you to avoid paying underpayment penalties or inadvertently providing an interest-free loan of your money to the IRS. If you need to change your withholding, complete a new Form W-4 and submit it to your employer as soon as you can.

▶ Prioritize retirement and savings plans

Take time to review your 401(k), individual retirement account (IRA), health savings account (HSA) and other savings accounts to ensure you're maximizing your tax savings. Establish a regular contribution schedule early in the year, while taking into account new maximum contribution limits. And if you're working, take full advantage of your employer's retirement contribution matching program. Remember, if you fail to contribute up to the maximum in these tax-deferred and tax-advantaged accounts each year, that year's opportunity for saving is gone.

▶ Conduct an investment review

If you have not already done so, now is the time to conduct a review of your investment portfolio. This will help you create a tax-efficient strategy that allows you to allocate assets to accounts where tax savings can be maximized. For example, up to $3,000 of investment losses can be used to reduce your taxable income after netting losses against any investment gains during the year.

Finally, part of minimizing your tax bite this year should also include sitting down to conduct several tax planning sessions periodically throughout the year. Tax laws continually change and you can almost always adjust to take full advantage of these changes. ❑

Avoid IRS penalties with these tips

Penalties and interest from the IRS await if you underpay your tax obligation throughout the year. Here are some tips to help you avoid giving any more money to the IRS than you need to in 2023:

✔ **Use the safe harbor.** Because of the more than 500 pages of tax code changes, it may be best to use the safe harbor option that uses last year's taxes as a basis for this year's estimated tax payments. The safe harbor states that as long as your 2023 tax payments are at least 100% of your 2022 tax obligation, you won't face an underpayment penalty. This is true even if you end up getting a bill from the IRS after filing your return next year. The good thing about this option is that it's simple. Just look at what you paid last year and do the same this year. The downside is that if you owe less this year you will be owed a refund that may take some time to arrive.

✔ **Be careful if your income is expected to be more than $150,000.** In this case your 2023 safe harbor payments must be 110% of your 2022 tax amount versus 100% to avoid an underpayment penalty.

✔ **Get your estimated payment calculated.** You can calculate your estimated payments based on what you expect to earn in 2023. As long as your estimated payments are at least 90% of the actual tax obligation you report on your 2023 tax return, you won't face an underpayment penalty. Consider using this option if you expect your income to be the same or lower than last year. It gets harder to make the correct adjustments to your quarterly estimated payments the greater your forecasted income for next year is compared to 2022. ❑

Make your child a tax-free millionaire!

Do you want to jump start your child's retirement with a million dollar, tax-free account? Consider this million-dollar idea.

The million dollar idea

As soon as your child begins earning income, open a Roth IRA and set a contribution goal to reach before they graduate from high school. Assuming an 8% expected rate of return, the investments made by age 19 will grow to FORTY times its value by the time they reach 67 (current full retirement age). For example, $2,500 invested before graduation will be $100,000 at retirement. If you can bump that up to a $25,000 investment before graduation, it will be worth $1 million at retirement!

Why it works

Compounding interest occurs when interest is earned based on the interest generated from the initial contribution. The more time the investment has to grow, the more exponential growth will occur. By starting to save prior to graduating from high school, the investment will have almost fifty years of compounding growth.

Even better, while contributions to Roth IRAs must be after-tax contributions, any earnings are TAX-FREE as long as the rules are followed! Simple to say, but how do you get $25,000 into a child's Roth IRA? Here are some tips.

Tips to achieve the goal

- **Hire your child.** Roth IRA contributions are limited to the income your child earns. If you own a business or make some money on the side, consider hiring your child to help with cleaning the office, filing, or other tasks they can handle.
- **Look for young-age work ideas.** Babysitting, yard work, walking pets, shoveling, and lawn work are some of the ways to get your child earning an income at a younger age. Cash-based income is harder to prove, so don't forget to keep track of the income and consider filing a tax return, even if not required.
- **Leverage high school years.** Ages 15 through 18 is when your child has their highest earning potential before graduation. Summer jobs, internships, and part-time jobs during the school year can produce a consistent income flow to contribute to their Roth IRA and still provide spending money.
- **Parent or grandparent matching idea.** The income earned by your child doesn't have to be directly contributed by them to the Roth IRA – it simply sets the contribution limit. Make a deal that for every dollar of income your child saves for college, a parent or grandparent contributes a matching amount to their Roth account. It can be a college and retirement savings plan in one!

Helping your child get a head start on saving should ease any anxiety regarding retirement and help them focus on school, starting their career, and other personal development goals. ❑