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PLANNING SPOTLIGHT

Tax and Financial Planning Changes and Strategies for 2023

By Dylan Greene, CFP®, Affinia Financial Planning
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This past year has seen the price of just about everything go up significantly. While wages have also risen, inflation has and will continue to impact many families' lifestyle decisions in the near term. There is a sliver of silver lining in this dark cloud; the elevated level of inflation has triggered some unanticipated benefits to consider in your planning for 2023 and beyond.

This report details these policy changes, along with strategies and examples, for you to consider implementing in your planning. We have segmented the benefits into 3 groups to simplify the process of knowing which changes apply to your personal situation.

I. Changes to be aware of while you are still working
II. Changes to be aware of when you are retired
III. Changes everyone should be aware of

As always, please reach out to discuss significant changes in your personal circumstances, major purchases and sales you may be contemplating and with any questions concerning your financial planning.

Source: https://www.whitecoatinvestor.com/2022-retirement-plan-contribution-limits/

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I. Changes to be aware of while you are still working

These changes increase your ability to efficiently save for retirement and other goals via your retirement account(s).

A. Increased contribution limits - The IRS has announced an unprecedented increase in contribution limits for most retirement plans in 2023. If you can save additional money for the long-term, your retirement plan or account is the perfect place to do it. It allows you to take advantage of the tax benefits these accounts provide. The chart below shows the different contribution limits for the most popular type of plans.

Contribution Type	2022 Limit	2023 Limit	Difference	% Change
401(k), 403(b), 457(b) Participant Contribution	$20,500	$22,500	$2,000	9.76%
401(k), 403(b), 457(b) Catch Up Contribution	$6,500	$7,500	$1,000	15.38%
401(k) & 403(b) Total Contribution (Under 50)	$61,000	$66,000	$5,000	8.20%
401(k) & 403(b) Total Contribution (50+)	$67,500	$73,500	$6,000	8.89%
Traditional/Roth IRA Contribution	$6,000	$6,500	$500	8.33%
Traditional/Roth IRA Catch Up Contribution	$1,000	$1,000	$0	0.00%
SEP-IRA Contribution	$61,000	$66,000	$5,000	8.20%
SIMPLE IRA Contribution	$14,000	$15,500	$1,500	10.71%
SIMPLE IRA Catch Up Contribution (50+)	$3,000	$3,500	$500	16.67%

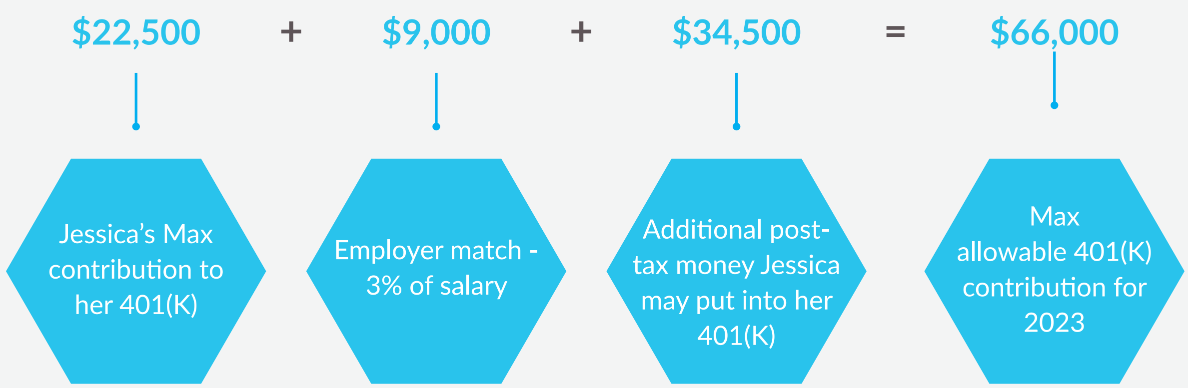
B. Make post-tax contributions to your retirement plan – Your additional retirement plan contribution will be in post-tax dollars, but the income earned will grow tax deferred. A major benefit is that contributions can be made in excess of the annual limit for both pre-tax and Roth contributions up to the total limit of $66,000 less any employer contributions (see example below). Another major benefit is that post-tax dollars can be converted to Roth dollars, with only the “earnings” portion being subject to ordinary income taxes. This can help to increase your tax-free savings for retirement. **You should consult a tax advisor to see if Roth conversions of post-tax savings makes sense for your specific financial situation.**

Example: Jessica, age 48, earns an annual salary of $300,000 and can afford to increase her long-term savings to save as much for retirement as allowable in 2023.

Jessica has the choice of owning the same investment in her taxable investment account or making a supplemental contribution to her 401(K) plan. She chooses to contribute the maximum allowable amount to her 401(K) plan as the earnings on her contribution will grow tax deferred.

(This example applies to both a Traditional (pre-tax) and/or Roth (after-tax) plan.)

Here is Jessica's plan for 401(K) saving in 2023 – the additional $34,500 will grow tax-free until she withdraws the funds from her 401(k) Plan.



Source : Affinia Financial Group

C. **Increased phase-out limits for Roth and Traditional IRAs-** When it comes to contributing to an IRA, there are certain restrictions that can apply depending on your filing status and income. For 2023, the IRS has increased these limits, as seen on the following page, allowing more taxpayers to contribute to an IRA and receive tax benefits for it.

Increased phase-out limits for Roth and Traditional IRAs

Contribution	Filing Staus	2022 MAGI	2023 MAGI	Contribution
Roth IRA Contributions	Single	<$129,000	<$138,000	Full
		$129,000 - $144,000	$138,000 - $153,000	Partial
		>$144,000	>$153,000	None
	Married Filing Jointly	<$204,000	<$218,000	Full
		$204,000 - $214,000	$218,000 - $228,000	Partial
		>$214,000	>$228,000	None
Tax-Deductible Traditional IRA Contributions (Covered Taxpayer)	Single	<$68,000	<$73,000	Full
		$68,000 - $78,000	$73,000 - $83,000	Partial
		>78,000	>$83,000	None
	Married Filing Jointly	<109,000	<$116,000	Full
		$109,000 - $129,000	$116,000 - $136,000	Partial
		>$129,000	>$136,000	None
Tax-Deductible Traditional IRA Contributions (Noncovered)	Single	No Restrictions	No Restrictions	Full
	Married Filing Jointly	<$204,000	<$218,000	Full
		$204,000 - $214,000	$218,000 - $228,000	Partial
		>$214,000	>$228,000	None

Source: https://www.irs.gov/newsroom/401k-limit-increases-to-22500-for-2023-ira-limit-rises-to-6500

**Note: For married couples, if both spouses are not covered by a workplace retirement plan, they can both make and then deduct contributions to a Traditional IRA without any restrictions.*

D. Backdoor Roth Strategy - If you want to contribute to a Roth IRA but your MAGI (Modified Adjusted Gross Income) is higher than the phaseout limit (see table above), one strategy to consider is the Backdoor Roth IRA contribution.

The image below illustrates the concept of a Backdoor Roth IRA. In summary:

- You contribute to a Traditional IRA and do not claim a tax deduction for it. Anyone with earned income can make a non-deductible contribution to a Traditional IRA.
- Shortly after making the contribution, you "convert" the contribution by transferring the funds from your Traditional IRA to a Roth IRA. If you make the conversion quickly, any earnings will be minimal.

BEFORE implementing this strategy, KNOW THIS:

1. You may have to pay taxes on this transfer; any pre-tax contributions and earnings that are converted are subject to ordinary taxation. **You should always consult with a tax advisor before making any conversions.**
2. **Watch out for the Pro-Rata rule:** If you have multiple Traditional IRAs, the IRS treats all of them as one IRA, and therefore you will be taxed on the percentage of your total pre-tax IRA balances to your total IRA balances. SEP and SIMPLE IRAs are included as well.

E. Spousal IRA Contributions- For married couples, a spouse who does not earn income through employment may contribute to an IRA. The working spouse must earn enough income to support the contribution and their MAGI must be below the phaseout limits. This can help couples save more towards their retirement, whether on a pre-tax and/or after-tax basis.

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F. SECURE Act 2.0 Catch-Up Contribution Provisions

- 401(k)s, 403(b)s, 457(b)s: **Beginning in 2025, the catch-up contribution limit increases** to the greater of $10,000 or 150% of the age 50 catch-up contribution amount for those between ages 60-63.

  **Note: Starting in 2024, if you earn more than $145,000 in the previous calendar year, all catch-up contributions for participants ages 50 or older will need to be made to a Roth account in after-tax dollars.*

- SIMPLE IRAs: **Increases the catch-up contributions in 2025 to the greater of $5,000 or 150%** of the 2025 catch-up contribution amount for other eligible workers.
- Traditional and Roth IRAs: In 2024, the catch-up amount of $1,000 will be adjusted annually for inflation in multiples of $100

G. SECURE Act 2.0 Employer Matching Provisions

- Roth Election: Beginning in 2023, participants will have the option of receiving matching contributions to Roth accounts. However, please understand that these contributions will be considered taxable income in the year the contribution is made.
- Student Loans: Effective in 2024, an employee making student loan payments may qualify for their employer's 401(k) match, even when the employee is unable to make contributions to the plan. This helps employees save for their retirement while paying off their student loan obligations.

Source: https://www.kiplinger.com/retirement/catch-up-contributions-improved

II. Changes to be aware of when you are retired

You have worked and accumulated money and now the task is to manage your savings in the most beneficial manner for you and your family. The goal is to minimize the tax liability on the distributions you will need from your savings to live on, as well as on the assets you will pass along to your beneficiaries upon your death.

A. SECURE ACT 2.0 Required Minimum Distributions (RMD)

- The **earliest age at which an RMD is required has increased to 73** starting in 2023 and will increase again to age 75 in 2033.
- **RMDs are eliminated from Roth accounts** in 401(k)s and 403(b)s after 12/31/2023.
- Also in 2023, the penalty for failing to take an RMD will decrease from **50% of the RMD amount not withdrawn to 25%**. The penalty can be reduced to 10% if the account owner corrects the mistake in a timely manner.

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B. Social Security: Benefits have been adjusted for COLA (Cost of Living Adjustment), which is pegged to inflation, and recipients will have up to an 8.70% increase in their monthly benefits in 2023.

C. Medicare changes: There are several changes to Medicare including a decline in premiums and deductible for Medicare Part B will decline in 2023.

Source: https://tax.thomsonreuters.com/news/retirement-expert-secure-2-0s-impact-on-rmd-penalty-tax-collection-is-tbd/

III. Changes everyone should be aware of

A. Tax rate adjustments

1. **Increased marginal brackets-** To help taxpayers retain purchasing power, the IRS adjusts marginal tax brackets and other limits/deductions for inflation on a yearly basis. For 2023, they are increasing each marginal bracket by 7%, as evidenced below.

	Single		Married Filing Jointly (MFJ)	
Bracket	2022	2023	2022	2023
12%	$10,275	$11,000	$20,550	$22,000
22%	$41,775	$44,725	$83,550	$89,450
24%	$89,075	$95,375	$178,150	$190,750
32%	$170,050	$182,100	$340,100	$364,200
35%	$215,950	$231,250	$431,900	$462,500
37%	$539,900	$578,125	$647,850	$693,750

Source: IRS.gov

2. **Standard Deduction:** The standard deduction has increased about 7% to $13,850 for single taxpayers and $27,700 for married couples in 2023. Taxpayers over age 65 will receive an additional standard deduction of $1,850 if single and $1,500 per person for married couples. This change lessens your taxable income when you file your taxes.

B. Estate Tax

1. **Federal Estate Tax Exclusion:** Increases to $12,920,000 per person in 2023, up $860,000 from 2022. This will further reduce the taxable estate of decedents, which will allow their families to pay less federal estate taxes.
2. **Annual gift tax exclusion:** The annual gift-tax exclusion limit will increase to $17,000 per recipient for 2023, up $1,000 from 2022.

Here are some popular planning strategies impacted by the increase in the gift tax exclusion:

1. Cash Gifts: For parents and grandparents who want to gift money to their family and others, each individual can gift up to $17,000/year to any person they choose with no tax consequence to the donor or recipient. Done over a period of years, this can be a very effective means to control the level of assets in a taxable estate and confer benefits to descendants.
2. 529 plan contributions: Will also increase limit for super funding, which allows donors to contribute up to five years' worth of contributions at once. For an individual, donors can contribute up to $85,000 ($17,000 x 5 years) per donee in 2023. Married couples electing to split gifts can contribute up to $170,000 per recipient.
3. UGMA/UTMA contributions
4. ABLE account contributions - up to $17,000
5. Gifting of appreciated securities
6. Gifts to irrevocable trusts

C. SECURE Act 2.0 529 & 529 ABLE Accounts

1. **529 Plan to Roth IRA:** Beginning in 2024, 529 account owners will be allowed to roll over funds to a Roth IRA for the account's beneficiary. The account must be open for at least 15 years and the amount cannot be more than the annual Roth contribution limit ($6,500 in 2023). There is also a lifetime limit of $35,000 total in the beneficiary's lifetime. This will be beneficial for those who have left over funds in their children and/or grandchildren's 529 plans and don't know what to do with it.
   Note: You cannot roll over contributions or earnings from the last five years.
2. **529 ABLE account:** Effective in 2026, the onset of disability age for ABLE account eligibility expands from age 26 to 46. This will allow more families to receive tax benefits when saving for their family member with special needs.

Source: https://www.planadviser.com/529s-able-accounts-get-boost-secure-2-0/

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Affinia Financial Group

80 Blanchard Road, Suite 201 | Burlington, MA 01803 | 781.365.8586

www.AffiniaFG.com

www.SpecialNeedsPlanning.com

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