Building – and Navigating – Your Personal Financial Plan

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EMPOWER YOUR PURPOSE

Meet Our Speakers

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Today’s discussion

- The Benefits of Life Planning
- Roth IRA Conversions: The Pros and Cons
- Personal Planning: Tax & Wealth Considerations

Life Planning
What is your roadmap?

- Estate planning
- Retirement

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Roth IRA Conversions:
The Pros and Cons

ROTH IRA Refresher

Contributions are made with AFTER-TAX dollars

- Earnings and growth is tax free
  - *Traditional IRA contributions are tax deductible, growth is tax-deferred and distributions are taxed as ordinary income*

Adding contributions into a Roth IRA

- Direct contributions using after-tax funds (front door)
  - *Income limits for single filers phase out at $153k, Joint at $228k*

- Converting after-tax Traditional IRA funds to Roth IRA (back door)
  - *No income limits using this strategy*

- Contribution limits apply ($6,500/yr or $7,500/yr over age 50)

Roth IRA Conversions

- Convert Pre-tax IRA or 401k/403b funds to a Roth IRA
  - Pay the tax on the conversion and all future growth becomes tax free
  - No conversion limitations

ROTH IRA Conversions

Pros and cons

Pro:
You can move depressed assets from taxable account (IRA) to tax free account (ROTH)

Pro:
You may be able to lock in lower income tax rates than you were able to deduct

Pro:
You can use conversions to take advantage of lower tax brackets (before RMD?)

Con:
Navigating the **three 5-year rules**

1. Roth IRA must be open for 5 years
2. You must wait 5 years to withdraw converted IRA funds
3. Inherited IRA's must be open 5 years between the original owner and beneficiary

Con:
You are paying income tax on money that you can't immediately use. You don't want to over convert if you have charitable intent for the IRA in the future.

Con:
Income tax rates may change in the future

Con:
Make sure to think about your tax brackets down the road – will they be higher? What rate are your beneficiaries at?

Personal Planning: Tax & Wealth Considerations

Inflation Reduction Act

Learn more in Rehmann's on demand webinar: [Overview of the Inflation Reduction Act]

- Energy related credits and incentives
  - Clean Energy Credits
  - Electric Vehicle Credits
  - Charging Stations
- 15% corporate minimum tax on adjusted financial statement income for corporations with more than $1B financial statement income
- 1% excise tax on corporate stock buybacks for publicly traded corporations
- Extension of the excess business loss limitation rules until Dec. 31, 2028
- Approximately $80B increase in IRS funding

Retirement Plan Updates for 2023

401k/403b/qualified retirement plans	2022	2023	Change
Employee salary deferrals	$20,500	$22,500	$2,000
Employee salary deferral over age 50	$27,000	$30,000	$3,000
SIMPLE IRA	**2022**	**2023**	**Change**
Employee salary deferrals	$14,000	$15,500	$1,500
Employee salary deferral over age 50	$17,000	$19,000	$2,000
Total limit on ER/EE Defined Contribution plans	$61,000	$66,000	$5,000
Total limit on ER/EE DC plans over 50	$67,500	$73,500	$6,000
Maximum employee compensation consideration	$305,000	$330,000	$25,000
Highly Compensated Employee threshold	$135,000	$150,000	$15,000

HSA, IRA and Roth IRA Updates for 2023

Health Savings Accounts	2022	2023	Change
Single/Single over 55	$3,650/$4,650	$3,850/$4,850	$200 /$200
Family/Family over 55	$7,300/$8,300	$7,750/$8,750	$450/$450
Traditional IRA or Roth IRA	**2022**	**2023**	**Change**
Contribution limit / over 50	$6,000/$7,000	$6,500/$7,500	$500/$500
Income(AGI) phase out - Roth IRA			
Roth IRA - Single	$129-000-$144,000	$138,000-$153,000	$ 9,000
Roth IRA - Joint	$204,000-$214,000	$218,000-$218,000	$ 14,000
Income phase out - covered by workforce plan			
Deductible IRA contribution income - Single	$68,000-$78-000	$73,000-$83,000	$ 5,000
Deductible IRA contribution income - Joint	$109,000-$129,000	$116,000-$136,000	$ 7,000
Income phase out - not covered by workforce plan			
Deductible IRA contribution income - Single	$68,000-$78-000	$73,000-$83,000	$ 5,000
Deductible IRA contribution income - Joint	$204,000-$214,000	$218,000-$228,000	$ 14,000

Tax Updates for 2023

Standard Deduction	2022	2023	Change
Single	$12,950	$13,850	**$900**
Single over 65	$14,350	$15,350	**$1,000**
Joint	$25,900	$27,700	**$1,800**
Joint over 65	$28,700	$30,700	**$2,000**
Annual gift exclusion (non-reportable)	$16,000	$17,000	**$1,000**
Estate tax exclusion - Single	$12,060,000	$12,920,000	**$860,000**
Estate tax exclusion - Joint	$24,120,000	$25,840,000	**$1,720,000**

Tax Bracket Updates for 2023

Marginal Income Tax rate	Single Filers	Joint Filers	Change
10%	Under $11,000	Under $22,000	$725/1,450
12%	Over $11,000	Over $22,000	$725/$1,450
22%	Over $44,725	Over $89,450	$2,950/$5,900
24%	Over $95,375	Over $190,750	$6,300/$12,600
32%	Over $182,100	Over $364,200	$12,050/$24,100
35%	Over $231,250	Over $462,500	$15,300/$30,600
37%	Over $578,125	Over $693,750	$38,225/45,900
Capital Gains Tax rate	**Single Filers**	**Joint Filers**	**Change**
0%	$0	$0	$0
15%	Over $44,625	Over $89,250	$2,950/$5,900
20%	Over $492,300	Over $553,850	$32,550/$36,650
NIIT (Net Investment Income Tax) is an additional 3.8% tax assessed on investment income to households over $200k (single) or $250k (joint) MAGI			

Tax Loss Harvesting

Scenario #1
Hold onto investment

- $100,000 investment into Fund ABC
- Due to market losses, Fund ABC is now only worth $75,000 which is a $25,000 unrealized loss
- Hold onto Fund ABC until it recovers back to $100,000

Scenario #2
Tax loss harvest

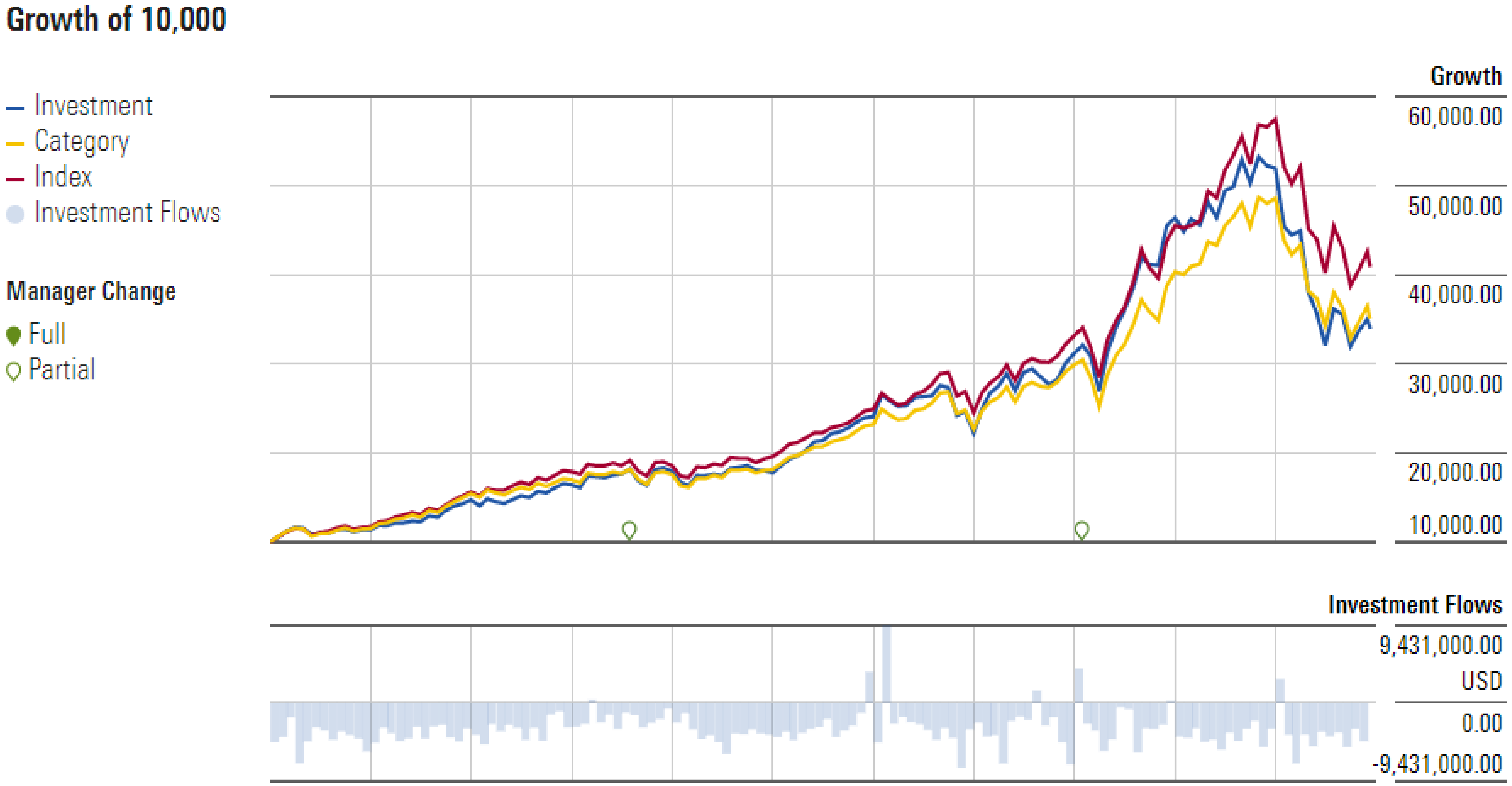
- $100,000 investment into Fund ABC
- Due to market losses, Fund ABC is now only worth $75,000 which is a $25,000 unrealized loss
- Sell Fund ABC and "harvest" the $25,000 losses
- Invest $75,000 into Fund EFG, which is a similar investment but not *substantially identical*
- Fund EFG recovers to $100,000 (presumably like Fund ABC would)
- $25,000 in realized tax losses can offset other capital gains, carried forward to future tax years and reduce current tax year ordinary income by $3,000
    - Potential savings of the tax loss times your capital gains tax rate

Wash sale rule – you cannot buy the same security within 30 days before or after the sale or else the loss is disallowed.
This applies to different investment accounts (IRA or taxable), spousal accounts or any account that the original owner has control

Capital losses can offset other capital gains – real estate, investments, business, etc.

Capital Gains Distributions

What are they and how to minimize them



Total Return %	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD
Investment	13.70	29.42	11.58	9.33	-1.00	35.53	-7.57	39.94	48.94	11.88	-34.59
Category	15.34	33.92	10.00	3.60	3.23	27.67	-2.09	31.90	35.86	20.45	-27.47
Index	17.11	33.26	14.66	3.84	5.46	27.12	-1.40	34.98	37.24	26.37	-28.90

- Mutual Funds must distribute capital gains to shareholders
- Even in a year like 2022, where almost all asset classes are negative, you could receive a taxable distribution
- The unnamed fund in the table to the left is down almost 35% YTD, yet they going to distribute a 15% taxable capital gain distribution if you hold the fund on Dec. 20, 2022

How you might avoid these unexpected surprises:

1. Hold tax in-efficient investments in qualified accounts
2. Try to tax loss harvest other losses to offset these unexpected gains
3. If it makes sense, sell the fund before the record date
4. Avoid buying actively managed funds in the latter part of the year
5. Work with an experienced advisor to help minimize unexpected tax surprises

Source: morningstar.com

Charitable Giving

Qualified Charitable Deduction (QCD)

- Fulfills annual RMD requirement from your IRA
- Can start making QCD distributions at age 70 ½
- Can do a QCD of up to $100,000 per year ($200,000 on a married filing joint return)
  - Income never makes it into your tax return
  - Don't have an Adjusted Gross Income limitation

Charitable Giving

Donor Advised Fund (DAF)

- Funds are held in an earmarked account with a qualified 501c3 organization
- As the person who funded the account you have some ability to direct how funds are disbursed
- Can be an excellent tool if you want to bunch a charitable deduction into one year, but gift to the charity over a period of time
- Can be a reasonable alternative if you have the desire for a charitable fund in your name, but aren't donating enough to make a private foundation worthwhile

Charitable Giving
Charitable Trusts

- Come in a variety of formations
  - **Charitable remainder** – Income stream to beneficiaries with assets to charity at the end of the trust term
  - **Charitable lead** – Income stream to the charity with assets to the beneficiaries at the end of the trust term

- Charitable contribution deduction is all at the time you set up the charitable trust and fund with assets


QUESTIONS

THANK YOU

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