TFC FINANCIAL
The Financial Counselors

FINANCIAL PLANNING UPDATE
November 21, 2023

OUR VIEW

SECURE ACT 2.0 – Extension of the Required Beginning Date age for IRA required minimum distributions from age 72 to 73 (for those born in 1951 or later).

2023 Year-End Tax & Financial Planning Update

As we approach the end of another year, this is a great time to look ahead and consider financial planning and tax strategies to keep you on track with your personal goals. In this update, we will first review some recent changes in the law that could have an impact on your situation this year and in the future. We will also revisit and highlight some key planning considerations for our clients and potential steps to take before the end of the year. As always, consult with your tax and legal advisors and your advisory team here at TFC to determine whether a particular strategy will help you and your family accomplish your long-term goals.

The SECURE ACT 2.0 (signed into law on December 29, 2022):

The follow-on to the original SECURE ACT isn't deemed to be as earth moving as the original, but there are some significant provisions, nonetheless. Below, we have highlighted some of those, along with some related planning ideas.

1. Extension of the Required Beginning Date age for IRA required minimum distributions from age 72 to 73 (for those born in 1951 or later). Retirees not in need of funds may benefit from an additional year of tax-deferral.
    a. Planning Idea: Although distributions aren't required until age 73, it may make sense to consider earlier voluntary distributions depending on other factors, such as the relative size of IRA accounts to other taxable accounts, current and future projected income tax brackets, and other sources of liquidity.
    b. Planning idea: Consider converting part or all of a traditional IRA to a Roth IRA. Amounts converted are taxed in the current year, but then grow tax-free either for use later in life or to be passed down to heirs without any future income taxes due. Unlike a traditional IRA, there are no required minimum distributions from a Roth IRA while the account owner is alive. Roth IRA accounts are generally considered to be one of the best legacy assets because of the tax benefits to the inheritor. Inherited Roth IRAs are still subject to the 10-year distribution rule, but beneficiaries avoid tax on the distributions.
2. Increased catch-up provisions: The Act increases the "catch-up provision" for workers with workplace retirement plans starting in 2025. Those between the ages of 60 and 63 will be able to contribute an additional 50% of the standard catch-up provision in effect.
    a. Planning Idea: Workers between the ages of 60-63 and part of an employer retirement plan should work with their HR department in late 2024 and be prepared to increase their catch-up contributions starting in 2025.
3. Inherited IRAs: The SECURE ACT imposed a new 10-year rule for distributions from IRAs inherited after 1/1/20 (accounts must be fully distributed in 10 years after the death of the account owner). The IRS has clarified a confusing element of the 10-year rule - distributions for years 1-9 are required if the original deceased owner of the IRA was

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required to take minimum distributions during their lifetime. Because of the initial confusion around the rule, the IRS has provided relief by waiving the RMDs for inherited IRAs subject to this rule for 2021, 2022, and 2023. Annual RMDs will need to be taken in 2024, and the inherited IRA account must be fully distributed within 10 years after the original owner's date of death.

   a. Planning idea: For those with recently inherited IRAs, review projected income levels over the 10-year distribution period. Consider the impact of taking distributions from the IRA on your overall tax liability under different scenarios – i.e., taking only the RMD, spreading distributions equally over each year, or taking more than the RMD in certain years when income from other sources may be lower.

Year-end Planning Items:

1. Quarterly estimated tax payments may be due if you have not adequately met the safe harbor rules through income tax withholding. Remember that failure to pay sufficient estimated tax could result in penalties. The fourth quarter 2023 estimated tax payments are due by January 16, 2024.
   a. Planning idea: If you have earned income or large required minimum distributions from IRAs, consider using tax withholdings to pay some or all of your estimated taxes. Taxes withheld are treated as if they were paid throughout the year, so taking RMDs late in the year and withholding taxes could be a viable way to cover your taxes due.
2. Manage tax brackets, when possible, by controlling the timing of income and expenses/deductions. If you have variable income (bonuses, stock compensation, deferred compensation) where you have control over the timing, determine the best year to realize the income. The general expectation is that income tax rates will rise, but your specific situation should be reviewed with your tax advisor to minimize the total tax impact using a multi-year view.
3. Make Annual Exclusion Gifts before year-end. An individual may give up to $17,000 per beneficiary to as many individuals as they desire, without the necessity of filing a gift tax return. In addition, these annual exclusion gifts do not reduce the lifetime gift and estate exemption amount (currently $12.92 million per individual). Although this strategy does not reduce current taxes, any gifted assets and future appreciation of those assets are removed from the estate. This could help reduce estate taxes down the road and is an excellent wealth transfer strategy.
   a. Planning Idea: The annual gift exclusion amount will be increased to $18,000 in January 2024. Consider gifting early in the year to take advantage of the power of compounded growth.

A special rule allows for "front-loading" 529 plans with up to 5 years of the $17,000 annual exclusion gifts at once ($85,000 for an individual or $170,000 per married couple).

4. Consider creating or adding to a 529 college savings plan. These plans remain a key component of saving for college and can be utilized by parents, grandparents, and other relatives. A special rule allows for "front-loading" 529 plans with up to 5 years of the $17,000 annual exclusion gifts at once ($85,000 for an individual or $170,000 per married couple) which can help to jumpstart a college savings account. Qualified withdrawals from a 529 plan are tax-free and cover a wide range of educational-related expenses.
   a. Planning Idea: Tuition paid directly to the educational institution does not count against the annual exclusion gift amount, so consider direct payments where warranted.

A Donor Advised Fund provides an efficient way to bunch gifts to maximize a charitable deduction in one year while distributing gifts to charities over several years.

5. Charitable Contributions. Those contemplating larger charitable gifts may want to consider opening or adding to an existing Donor Advised Fund (DAF). A DAF provides an efficient way to bunch gifts to maximize a charitable deduction in one year while distributing gifts to charities over several years. Ease of administration and recordkeeping are other reasons why DAFs have become very popular over the last several years.

6. Consider Qualified Charitable Distributions (QCDs) from your IRA and perhaps naming a charity as the beneficiary of your IRA. The SECURE ACT did not change the minimum age (70 ½) for distributing funds to one or more qualified charities from your IRA as a way of satisfying your Required Minimum Distribution ($100,000 annual maximum). The amount of the QCD will not be treated as income, having benefits such as potentially lowering your Part B Medicare premiums. Those who plan to support both loved ones and charitable organizations in their estate plans may consider naming the charities as IRA beneficiaries while leaving more tax-efficient assets to individuals. If you have set up a donor-advised fund, you may also consider naming that as a beneficiary of your IRA.

7. Estate Tax Considerations. Unless Congress changes the law between now and December 31st of 2025, the estate tax exemption will drop from $12.92 million in 2023 to roughly half that amount in 2026. Those who anticipate having a taxable estate, consider meeting with your estate planning attorney sooner than later to discuss your situation. There may be strategies to help you meet your legacy goals in the most tax-efficient way possible.

Please contact your tax advisor and estate planning attorney in collaboration with your TFC advisor with questions or to determine if any of these items may be relevant to your personal situation.

Best regards,

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