



2023 Year-End Tax Planning & Wealth Preservation

For Individuals, Families, and Trusts

Poll Question 1

As tax season approaches, how do you feel about your level of preparedness?



MEET YOUR SPEAKERS



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What stayed the same?

- State Tax Limit - \$10,000
- Mortgage Interest Limit is still \$750K for all mortgages after December 15, 2017
- No tax benefit for Miscellaneous Itemized Deductions

2023 Standard Deduction

Single	\$13,850
Married Filing Jointly	\$27,700
Head of Household	\$20,800
Married Filing Separately	\$13,850
Qualifying Widow(er)	\$27,700

Charitable Contributions

- Given the substantial increase in standard deductions, people that may have itemized in the past may not do so anymore
- This could lead to those people receiving no benefit for charitable contributions
- One way around this would be to “stack” donations.
- Use of Donor Advised Funds

How a Higher Standard Deduction Affects the Deductibility of Charitable Donations

ASSUMES A FEDERAL 35% RATE

**\$350
SAVINGS**

27.7K STANDARD DEDUCTION	CHARTIABLE DONATION	13K
	MORTGAGE INTEREST	5.7K
	TAXES	\$10K
		1K OVER

How a Higher Standard Deduction Affects the Deductibility of Charitable Donations

ASSUMES A FEDERAL 35% RATE

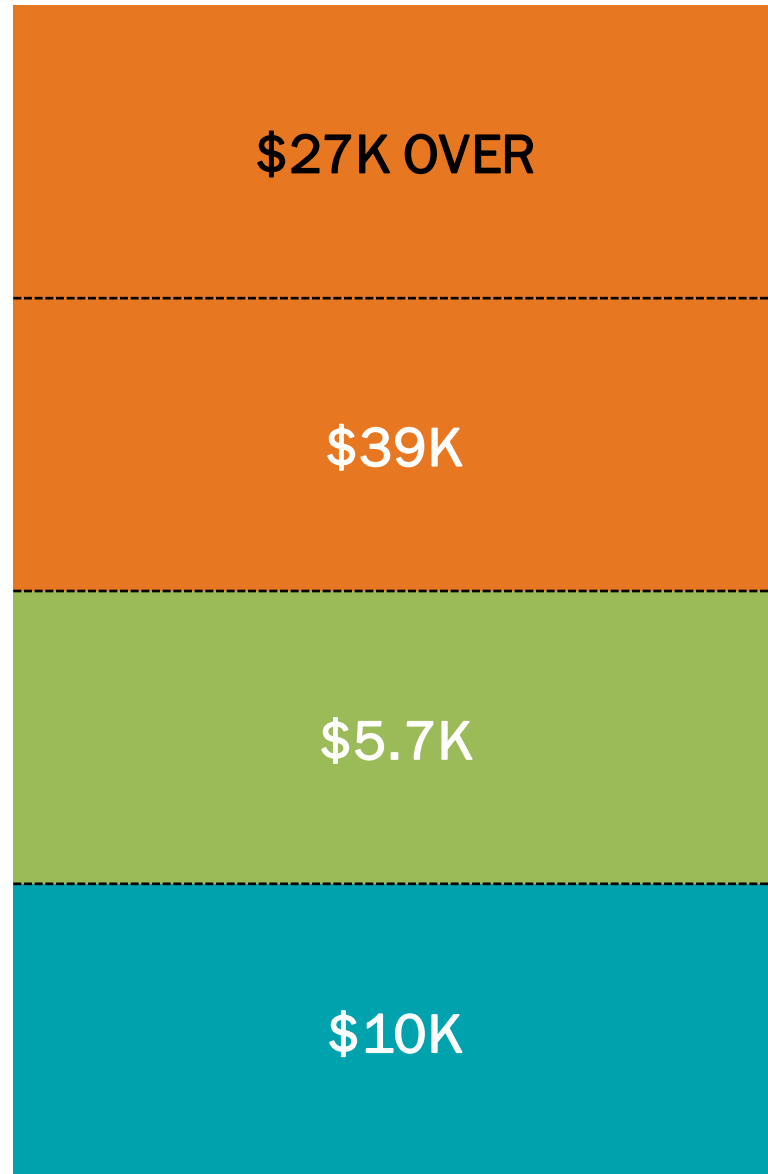
		2022	2023	2024
		1K OVER	1K OVER	1K OVER
27.7K STANDARD DEDUCTION	CHARITABLE DONATION	13K	13K	13K
	MORTGAGE	5.7K	5.7K	5.7K
	TAXES	\$10K	\$10K	\$10K

\$1,050
SAVINGS

Bunching Strategies Using a Donor Advised Fund

ASSUMES A FEDERAL 35% RATE

\$9,450 SAVINGS




Charitable Donation

Mortgage

SALT



Qualified Charitable Distribution (QCD)

- Allows the donor to distribute up to \$100,000 directly from IRA
 - Must be 70 ½ years old
 - Counts toward your Required Minimum Distribution
 - Distribution does not count as taxable income to the donor
- 

Qualified Charitable Distribution (QCD)

- Funds must go directly to charity
- Keep track of these donations and give them to your tax advisor
- For Married Couples, each spouse can make \$100,000 Contribution



“Back Door” Roth IRA Contributions

If you are subject to the income limitations and not able to contribute directly to a Roth, consider doing a “back door” Roth

- Set up a traditional IRA
- Make a Non-deductible Contribution
- Convert the amount to a Roth IRA
- Only works well if you don't have other IRAs



Sunset Reminder

All of the tax cuts from the Tax Cuts and Jobs act are set to sunset at the end of 2025. What does this mean.

- Tax Brackets will increase (highest rate will go back to 39% Federal)
- Estate Tax Exemption will be nearly cut in half
- Miscellaneous Itemized Deductions will be back
- Tax Cap on Itemized deductions will be removed
- Standard deduction will decrease, and exemptions will return





Massachusetts Tax Reform

- Increased estate tax exemption (More to come on that later)
- Short Term Gain rate lowered from 12% to 8.5%
- Tax Credit for Children/Disabled adults increased from \$180 to \$310 in 2023 and increased to \$440 in 2024
- Rental Deduction increased to \$4,000 (Previously \$3,000)
- Earned income tax credit from 30% to 40% of the Federal Credit

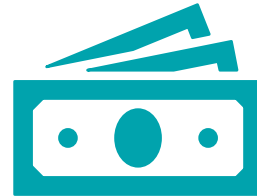
Massachusetts Charitable Contributions

- Beginning in 2023, you can now deduct Charitable Contributions in Massachusetts
- Must be used on Part B income and can not be used against Part A or Part C income
- Part A income – interest, dividends
- Part C income – Capital Gains

Massachusetts Millionaires Tax



Voters passed this amendment to the State Constitution on November 8, 2022



Establishes an additional income tax on taxable income over \$1 million dollars



Effective for tax years beginning January 1, 2023



Massachusetts Millionaires Tax

- Only taxable income that exceeds 1 million is subject to the additional tax. For example, if your Massachusetts Taxable income is 1.5 million then \$500,000 is subject to 9% tax while the first million will be subject to 5%
- The 1 million limit will be adjusted for inflation using the same method as the IRS

Massachusetts Millionaires Tax

- Married Filing Separate – In new Tax reform, beginning in 2024 Married couples can only file separate if they do the same for Federal purposes. However, this option is still available for 2023
- Still look at other means to spread income
 - Installment Sales
 - State apportionment
 - Relocation
 - Use of Trusts

Poll Question 2

When thinking about your charitable giving strategy, have you explored the benefits of a Donor Advised Fund?



Maximize Wealth with Efficiency

Jonathan Bloom, CFP®, AIF®



Review Year End Benefit Enrollments





Health Savings Accounts (HSAs)

- Must be covered by a qualified high-deductible health plan
- Generally, only available before age 65
- HSAs allow pretax or deductible contributions
 - \$3,850 for Self coverage and \$7,750 for Family coverage in 2023 (\$4,150 and \$8,300 in 2024)
 - Additional \$1,000 for those age 55 or older
- Can be invested
- Grows Tax Free similar to an IRA
- Withdrawals for qualified medical expenses are tax-free
- You are able to carry over remaining balances from year to year
- When should it be spent?

Flex Savings Accounts (FSAs)

- Plans are available through employers
- FSAs allow pretax contributions
 - \$3,050
- Withdrawals for qualified medical expenses
- You can carry over \$610 of remaining balances from year to year
- When should it be spent?



Dependent Care Flex Savings Accounts (DCFSA's)

- Plans are available through employers
- DCFSA's allow pretax contributions
 - \$5,000 per household
- Used for Eligible dependent care services (preschool, summer day camp, after school care)
- You can NOT carry over remaining balances from year to year
- When should it be spent?

Interest Rates and the Fed



Control Inflation



Manage Employment
Numbers



Higher Interest Rates

Rising Interest Rates – Challenges and Opportunities

Volatility in Bond and Equity Markets

Higher Yields on Bonds

Increased interest on Cash

Quarterly Estimates & RMDs

Paying down debt – new approach

Turbulent Market Ideas



Roth Conversions



Tax Loss Harvesting



Increased Contributions



Revisit Asset Allocation

Portfolio Drift / Financial Plan



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Poll Question 3

When chatting with your Wealth Advisor, how often does the topic of tax strategies and their impact on your financial plan come up?



Massachusetts Estate Tax Update

- Massachusetts estate tax exemption
 - 2023 is \$2,000,000
 - 2024 is \$2,000,000
- No inflation adjustment
- Still third lowest exemption out of 13 states that impose an estate tax
 - We now beat Oregon and Rhode Island



Massachusetts Estate Tax

- Old method of calculating tax
 - \$999,000 estate had zero estate tax
 - \$1,100,000 estate had a \$38,800 estate tax
 - \$2,000,000 estate had a \$99,600 estate tax
- Today eliminates the filing threshold
 - \$2,100,000 estate has a \$7,200 Mass. estate tax
 - Rate between 7.2% and 16%

Massachusetts Estate Tax

- No portability for Massachusetts
 - Exemption of the first spouse to die may go unused without proper planning
 - Marital/Family Trust or A/B Trust for each spouse still necessary to ensure use of both \$2,000,000 exemptions

Massachusetts Estate Tax

- If you are a nonresident who owns real property in Massachusetts and your total assets exceed \$2,000,000 you are still subject to the Massachusetts estate tax
 - Assume total estate is \$10,000,000 and the Massachusetts real property is \$2,500,000 or 25% of the estate
 - As a Mass. resident your estate tax would be \$968,000
 - As a Non-resident the estate tax would be \$242,000
 - With proper planning this can be eliminated

Federal Estate Tax

- Federal Estate Tax Exemption
 - 2023 is \$12,920,000
 - 2024 is \$13,610,000
 - December 31, 2025 is approximately \$7,000,000
- Use as much of the \$13,610,000 exemption as possible before it disappears

Federal Estate Tax

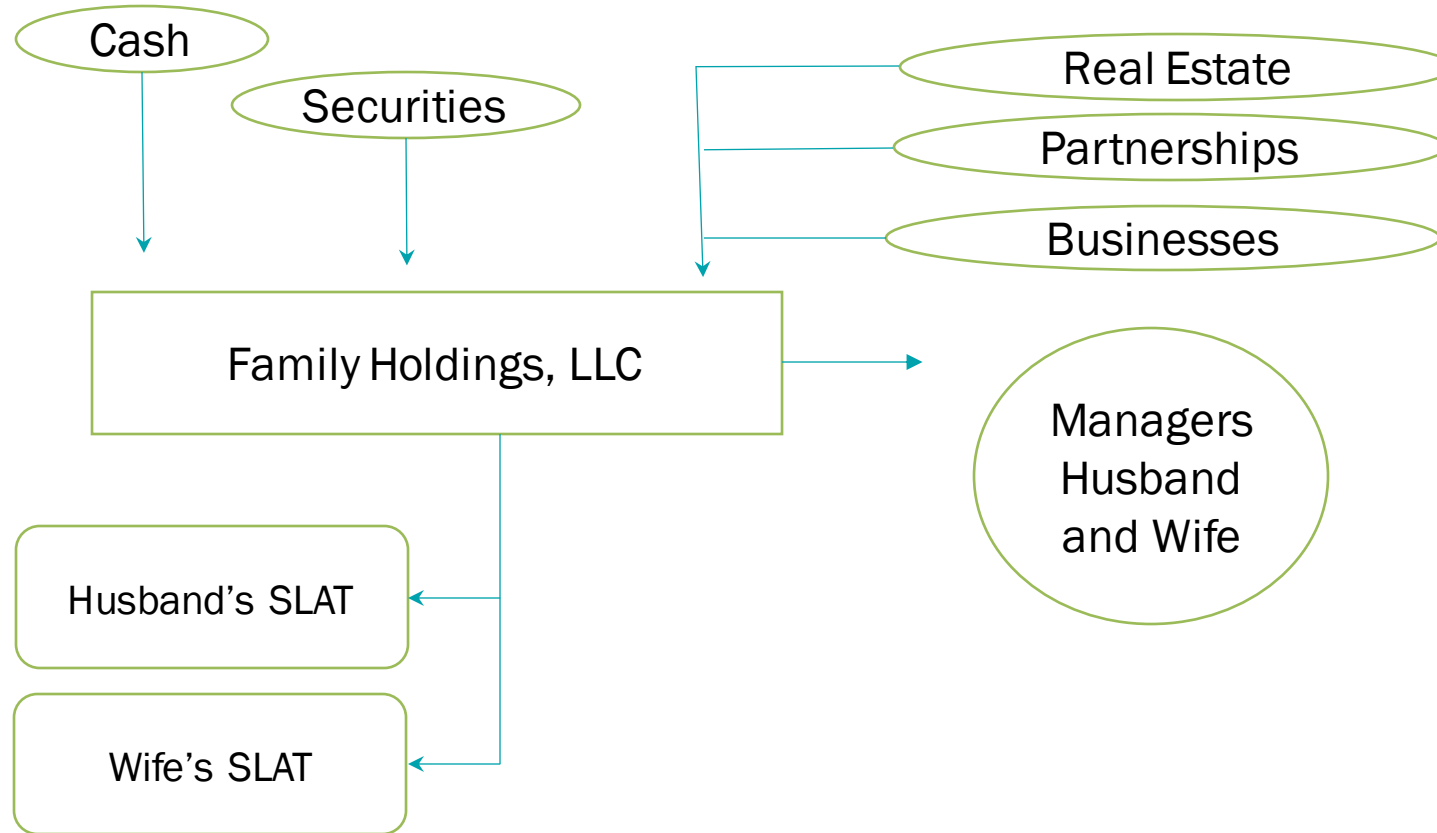
- If you are worth \$13.5 million today, at 5% compounded growth your estate will be worth over \$34 million
 - Federal estate tax today would be \$1.4 million
 - Massachusetts estate tax today would be \$4.7 million
- Make completed gifts today of the \$13.5 million eliminates the estate tax on the assets and all future growth

What Can You Do?

- If your married, you can gift the assets to a trust for the benefit of your spouse and thus continue to enjoy control and access through your spouse
- Known as a Spousal Lifetime Access Trust (SLAT)



Spousal Lifetime Access Trust (SLAT)





Federal Estate Tax

Step-up in basis

- If I die owning an asset, my heirs receive a basis equal to the fair market value at my date of death
- If I gift an asset during my life, my heirs receive a carryover of my basis



Trust Tax Planning

Up-Stream Trust

- Force an asset into the estate of an elderly relative with unused estate tax exemption to get a step-up in basis at that relative's death.
 - Maintain control of the assets
 - No risk of the asset being diverted

Trust Tax Planning

Delaware Incomplete Non-Grantor Trust (DING)

- Can be used to reduce the Mass. Millionaires Tax by spreading income over multiple entities
- Can be used to eliminate state income tax on the sale of your Massachusetts business
- Can be used to multiply the \$10M Qualified Small Business Exemption

Poll Question 4

Do you have property in multiple states?





Business Owner Reminders

Tyler Champagne, CPA, MST

Business Planning Reminders

- Reduction of bonus depreciation from 100% to 80%
- Meals deduction reverting to 50%

Entertainment Expenses



1 IRC §274(e)(4)

2 IRC §§ 274(l)(1)(B) and 274(n)(1)(B), as stricken by the 2017 Tax Cuts Act

3 IRC §274(n)(1)

4 IRC §274(n)(2)(B), prior to amendment by the 2017 Tax Cuts Act IRC §274(o)

Business Planning Reminders, Continued

Deduction for self-employed health insurance includes long-term care, medical, dental insurance premiums

Consider analyzing the components of qualified business income (QBI)

Consider creating Bona Fide loans for money you lend/lent to your S-Corp.

Be wary of new IRC 174 changes that went into effect for tax years beginning 1/1/2022

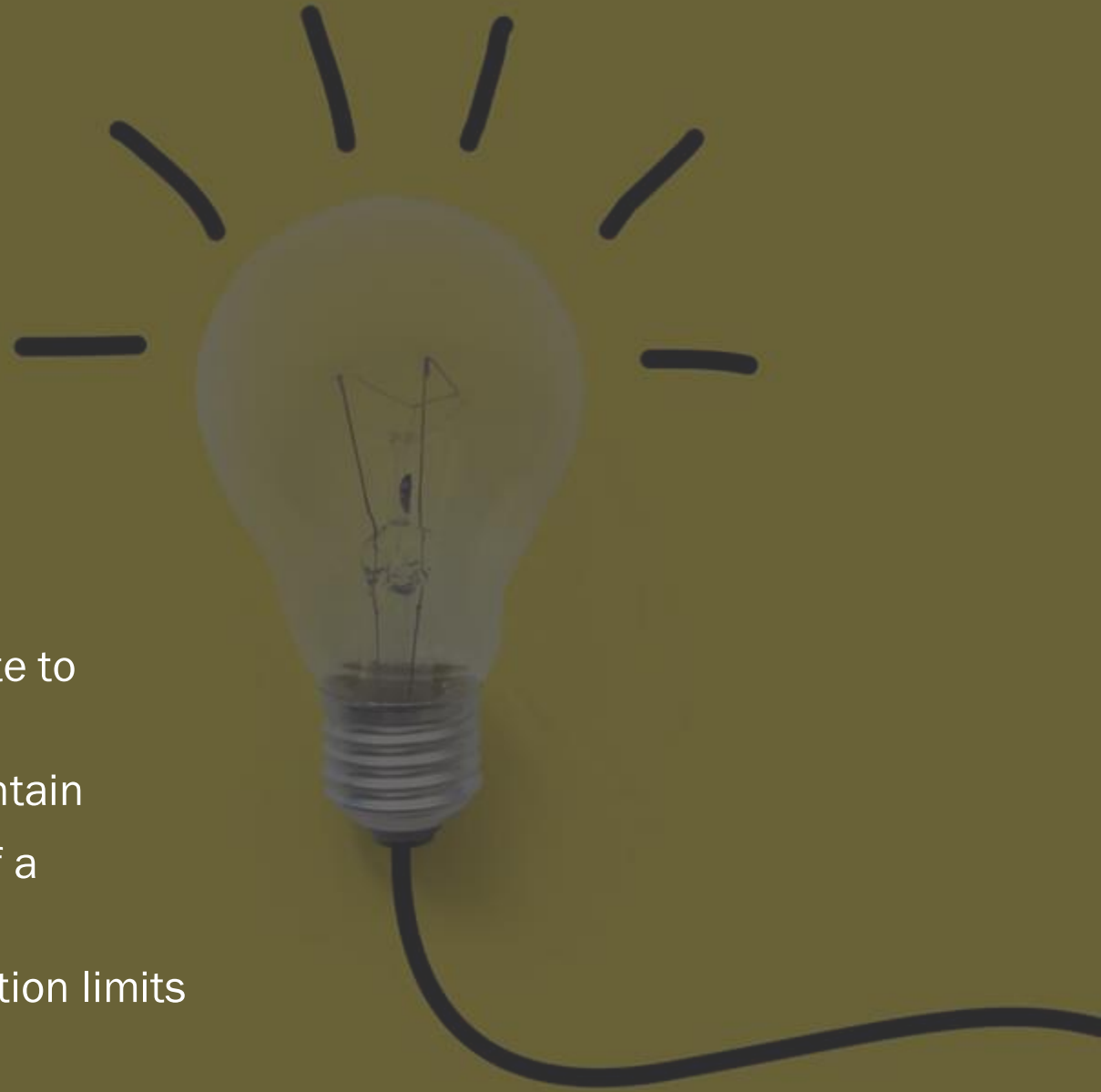
Passthrough Entity Tax

PassThrough Entity Tax

- Single member LLCs, sole proprietorships, trusts, non-profits, and corporations are not eligible.
- Generally available for partnerships and s-corporations through 2025.
- Works in the favor of individuals who receive passthrough income.
- Consult with a tax advisor on whether this is a valuable exercise and/or election to make.

Savings Incentive Match Plan for Employees (SIMPLE IRA)

- Provides “simple” method for employers to contribute to employees’ retirement
- Relatively speaking, less complex to set up and maintain
- Participation is permitted even if employee is part of a different employer’s sponsored plan.
- Does not count toward traditional/Roth IRA contribution limits
- Bonus: eligible for SECURE Act qualified plan credit



SIMPLE IRA - Summary

Pros:

- Setup is easy and inexpensive
- No discrimination testing is required

Cons:

- Contributions are inflexible
- Lower contribution limits compared to 401(k) or other profit-sharing vehicles

Defined Contribution Plan

- Does not promise a specific benefit at retirement
- Employer or employee (or both) contribute to an individual account

Sound familiar?

- Examples of plans include 401(k), 403(b), ESOP and Profit-Sharing
- One of two types of retirement plans covered by ERISA

Defined Benefit Plan (DBP)

- Pension, Cash Balance Plan
- Provides a fixed, pre-established benefit for employees at retirement
- Focuses on ultimate payout of benefits that are not tied to market performance
- DBPs can be used for single-member entities if the plan benefits that employee
- Businesses can contribute (and deduct) up to \$265,000 per employee per year for 2023



Defined Benefit Plan - Summary

Pros:

- Predictable retirement benefit
- Benefits are not tied to asset performance
- Greater contribution limits

Cons:

- Most costly and administratively complex retirement plan
 - Form 5500 must be filed
 - Certified Actuary calculations required
- Excise tax applies for under- and over-funding

Various Plan Limits

Retirement plans	2023	2022	2021
Elective deferrals (401k & 403b plans)	\$22,500	\$20,500	\$19,500
Annual benefit limit (defined benefit plan)	\$265,000	\$245,000	\$230,000
Annual contribution limit	\$66,000	\$61,000	\$58,000
Annual compensation limit	\$330,000	\$305,000	\$290,000
457 deferral limit	\$22,500	\$20,500	\$19,500
Highly compensated threshold	\$150,000	\$135,000	\$130,000
SIMPLE contribution limit	\$15,500	\$14,000	\$13,500
SEP compensation amount	\$750	\$650	\$650
SEP compensation limit	\$330,000	\$305,000	\$290,000
Income subject to Social Security	\$160,200	\$147,000	\$142,800
Catch-up contributions	\$7,500	\$6,500	\$6,500
SIMPLE catch-up contributions	\$3,500	\$3,000	\$3,000

Corporate Transparency Act



- Starting Jan. 1, 2024, the Corporate Transparency Act (CTA) will go into effect.
- All entities formed or registered to do business in the United States will need to either
 - i. Confirm they qualify for an exemption from the CTA's reporting requirements or
 - ii. Timely submit a beneficial ownership information (BOI) report to the U.S. Treasury's Financial Crimes and Enforcement Network (FinCEN).
- For more information see our blog or attend the business webinar.

Poll Question 5

Business Owners: When thinking about the future, have you taken the step to sponsor a retirement plan?



Questions



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Upcoming Webinars

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Business Tax Webinar
November 2, 2023

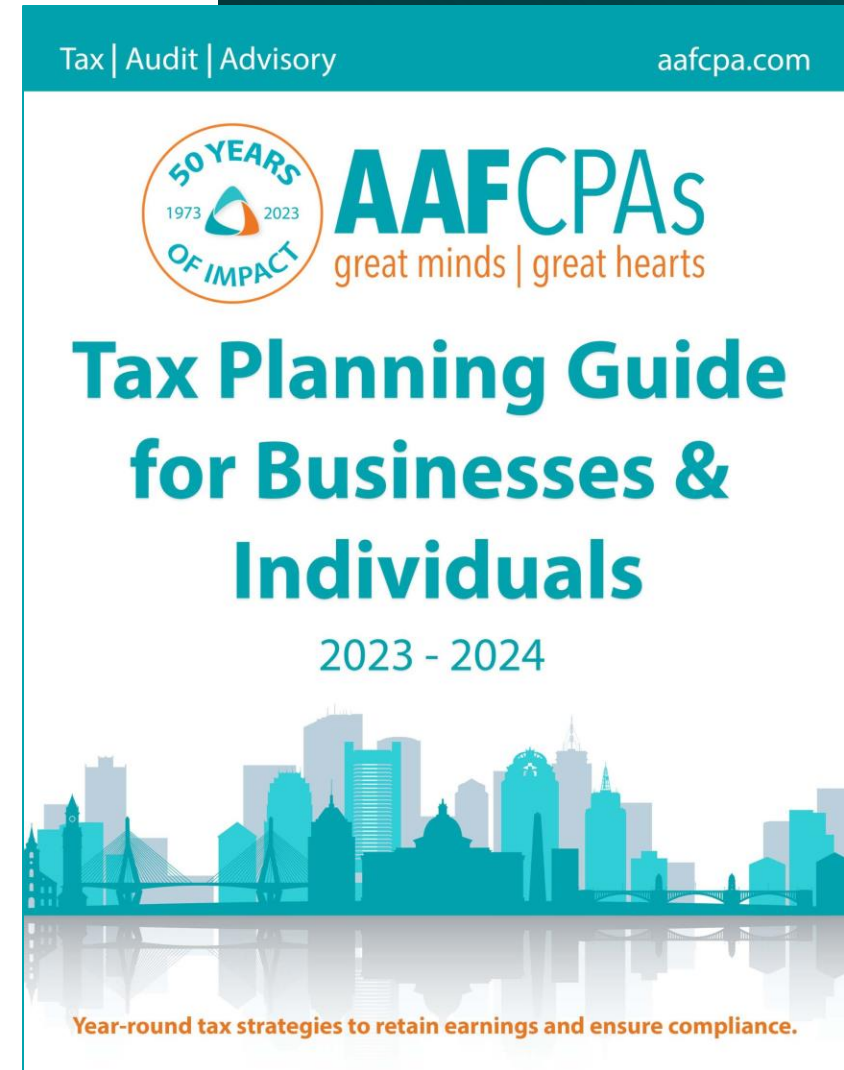



Cannabis Tax Webinar
November 7, 2023



2023 – 2024 Tax Planning Guide for Businesses & Individuals

We welcome the opportunity to help you map out a tax plan that takes full advantage of all strategies available to you.





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