SAMALIN WEALTH

FINANCE FOCUS

Q2 2023

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Key Retirement and Tax Numbers for 2023

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2023.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2023 is $17,000, up from $16,000 in 2022.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2023 is $12,920,000, up from $12,060,000 in 2022.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2023, the standard deduction is:

- $13,850 (up from $12,950 in 2022) for single filers or married individuals filing separate returns
- $27,700 (up from $25,900 in 2022) for married joint filers
- $20,800 (up from $19,400 in 2022) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2023 is:

- $1,850 (up from $1,750 in 2022) for single filers and heads of household
- $1,500 (up from $1,400 in 2022) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,500 in 2023 (up from $6,000 in 2022), with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see chart). For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see chart). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to Roth IRA

	2022	2023
Single/Head of Household	$129,000-$144,000	$138,000-$153,000
Married filing jointly	$204,000-$214,000	$218,000-$228,000
Married filing separately	$0-$10,000	$0-$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2022	2023
Single/Head of Household	$68,000-$78,000	$73,000-$83,000
Married filing jointly	$109,000-$129,000	$116,000-$136,000

Note: The 2023 phaseout range is $218,000-$228,000 (up from $204,000-$214,000 in 2022) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0-$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer-Sponsored Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $22,500 in compensation in 2023 (up from $20,500 in 2022); employees age 50 or older can defer up to an additional $7,500 in 2023 (up from $6,500 in 2022).
- Employees participating in a SIMPLE retirement plan can defer up to $15,500 in 2023 (up from $14,000 in 2022), and employees age 50 or older can defer up to an additional $3,500 in 2023 (up from $3,000 in 2022).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,500 in 2023 (up from $2,300 in 2022) is taxed using the parents' tax rates.

Business Owners Should Prepare for Stronger Tax Enforcement

The Inflation Reduction Act of 2022 is providing the IRS with an influx of about $80 billion to modernize outdated technology and rebuild a depleted workforce, which is expected to improve enforcement to the tune of about $200 billion over a decade. Treasury Secretary Janet Yellen directed the agency not to use additional resources to increase audit rates for taxpayers making under $400,000 a year, but the tax returns of high-earning business owners are likely to face more scrutiny than they have in years past.[1]

IRS audit rates for individual, partnership, and S corporation income tax returns have fallen since 2010, a trend that could reverse as the IRS ramps up enforcement. Higher audit rates won't appear overnight, but large investments to upgrade technology could eventually help the IRS develop more advanced enforcement methods.

With that in mind, here are some tips to help you avoid unwanted attention from the IRS.

Understand the process.

Tax returns are randomly selected, which means you might be audited even if you do everything by the book. However, when your tax return is processed, a computer program screens for anomalies and compares deductions to those of taxpayers with similar incomes. Your return is more likely to be chosen if there's a higher chance that it would result in the collection of additional taxes, but an audit can also be triggered by a red flag on your return or a simple mistake that leads to additional questions. If selected for a correspondence audit, you may be asked to mail specific information to the IRS. A comprehensive field audit would be conducted at your home, place of business, or accountant's office.

1) U.S. Treasury Department, 2022

Avoid common traps.

Filing an incomplete tax return (with missing forms or schedules) and not making tax payments on time are surefire ways to attract unwanted attention from the IRS. Taking business deductions that are not in line with industry norms, not categorizing transactions consistently from year to year, having a high number of independent contractors relative to full-time employees, and reporting continuous losses are all situations that can look suspicious, even if they are valid.

Step up your record-keeping.

Taxpayers are required to keep tax records for at least three years from the date the tax return was filed. Organizing and possibly digitizing your records could make it easier to respond to any requests for information that may come from the IRS — and not being able to provide a requested document could negatively impact your audit results. A heightened focus on compliance means it may be more important than ever to consult an experienced tax professional for personalized guidance, especially if you receive any type of communication from the IRS.

The Top Six Inflation Drivers of 2022

In June 2022, the 12-month rise in the Consumer Price Index (CPI) peaked at 9.1%, the fastest pace in 40 years, before dropping to 7.7% in October. This bout of inflation has been driven in large part by steep price hikes for essentials, hitting many U.S. households where it hurts the most. In fact, more than three-fourths of the annual increase in the CPI can be attributed to these six categories.

Contribution to the 12-month, 7.7% increase in consumer prices, October 2022

- **30%** Shelter
- **19%** Food
- **10%** Motor Vehicles and Insurance
- **9%** Gasoline
- **7%** Energy Services (Electricity/Piped Gas)
- **5%** Medical Care

Source: U.S. Bureau of Labor Statistics, 2022

$45.97

Average monthly price of the most popular broadband internet packages, with download speeds of about 98 Megabits per second. It's estimated that nearly 40% of U.S. households (48 million) may qualify for a new federal program that provides a subsidy of $30 per month to help cover high-speed internet. For more information, visit GetInternet.gov.

Source: US Telecom Broadband Pricing Index, 2022

Honey, They Shrunk the Groceries

Have you noticed that packages are smaller at the grocery store? If so, you're not alone. A majority of U.S. adults have noticed shrinkflation — products shrinking in size while prices stay the same or increase. And about two out of three are very or somewhat concerned about the trend.

Consumers were most likely to say they noticed shrinkflation with snack items, followed by pantry items and frozen food. Shoppers also noticed it with meat, bread, beverages, dairy, produce, and other items. Here's what consumers did when they noticed shrinkflation.

- **49%** Purchased a different brand
- **48%** Chose to buy a generic product
- **33%** Chose to buy a product in bulk
- **30%** Stopped purchasing specific brands
- **18%** Researched alternatives
- **8%** Returned a product

Source: Morning Consult, August 29, 2022 (multiple responses allowed)

12.0%

Percentage increase in prices for food at home (primarily groceries) for the 12-month period ending November 2022. By comparison, prices for food away from home increased 8.5% and general inflation ran at 7.1%.

Source: U.S. Bureau of Labor Statistics, 2022

Should You Consider Tax-Loss Harvesting?

Stock market losses can be rough on your portfolio's bottom line, but they may also offer the potential to reduce your tax liability and possibly buy shares at a discount. Whether this strategy — called tax-loss harvesting — is appropriate for you depends on a variety of factors, including your current portfolio performance, your long-term goals, and your current and future taxable income.

Gains and Losses

When an investment loses money, it's often best to look beyond current performance and hold it for the long term. Sometimes, though, you may want to sell a losing investment, which could help balance gains from selling an investment that has appreciated or reduce your taxable income even if you do not have gains.

Capital gains and losses are classified as long term if the investment was held for more than one year, and short term if it was held for one year or less. Long-term gains are taxed at a rate of 0%, 15%, or 20% depending on your income. Short-term gains are taxed at your ordinary income tax rate, which may be much higher than your capital gains rate.

For tax purposes, capital losses are applied first to like capital gains and then to the other type of gains; for example, long-term losses are applied first to long-term gains and then to short-term gains. Up to $3,000 of any remaining losses can then be applied to your ordinary income for the current year ($1,500 if you are married filing separately). Finally, any remaining losses can be carried over to be applied to capital gains or ordinary income in future years. For most taxpayers, the biggest benefit comes when applying losses to short-term gains or ordinary income.

Selling, Buying, and Washing

Some investors sell losing investments with the idea of harvesting the tax loss and then buying the same investment while its price remains low. In order to discourage this, the IRS has a wash-sale rule, which prohibits buying "substantially identical stock or securities" within 30 days prior to or after a sale. This also applies to securities purchased by your spouse or a company you own.

2023 Income and Capital Gains Tax Rates

Taxable Income		
Income Tax Rate	**Single Filers**	**Joint Filers**
10%	Up to $11,000	Up to $22,000
12%	$11,001 to $44,725	$22,001 to $89,450
22%	$44,726 to $95,375	$89,451 to $190,750
24%	$95,376 to $182,100	$190,751 to $364,200
32%	$182,101 to $231,250	$364,201 to $462,500
35%	$231,251 to $578,125	$462,501 to $693,750
37%	Over $578,125	Over $693,750

Taxable Income		
Long-term Capital Gains Tax Rate	**Single Filers**	**Joint Filers**
0%	Up to $44,625	Up to $89,250
15%	$44,626 to $492,300	$89,251 to $553,850
20%	Over $492,300	Over $553,850

It is impossible to time the market, but under the right circumstances, harvesting a tax loss and then buying the same security at least 30 days later (i.e., after the wash-sale period) could potentially result in a lower tax liability when you sell that security later at a gain.

This is most likely if you repurchase the security at a similar or lower price, and you are in a higher tax bracket at the time you take the loss than at the time you take the gain — for example, if you take the loss while working and sell when you are retired.

Any year in which your taxable income falls within the 0% capital gains rate is an opportune time to take gains, and any losses in that year would be applied to short-term gains or ordinary income. Keep in mind that capital gains and losses apply only when investments are sold in a taxable account.

Tax-loss harvesting is a complex strategy, and it would be wise to consult your financial professional before taking action. Although there is no guarantee that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.

2023 Orion Ascent Conference: Working for You

At Samalin Wealth, it is our mission to provide extraordinary service to help our clients reach their goals. And as the wealth management industry evolves, so do we. Earlier this year, members of our team attended the 2023 Orion Ascent Conference, a premiere event that brings together financial professionals to share inspiration and insights. Over the course of three days, we attended keynotes, sessions, and workshops to hear the latest in various industry innovations so we can enhance your client experience with us.

Could Your Living Situation Change as You Grow Older?

Recent research from the U.S. Department of Health and Human Services suggests that most Americans turning age 65 will need long-term care support during their lifetimes.[1]

If the need arises, how will you handle potential long-term care for yourself or a loved one? Planning for the consequences of aging in general, and long-term care in particular, will depend on your preferences and circumstances. A long-term care plan should account for the different types of care you may need and the different settings in which you might receive that care. These are the most common options.

Your Home

Given a choice, you might prefer to receive long-term care support in your own home. Family caregivers, friends, or trained homemakers could provide assistance with everyday tasks, and professionals such as nurses and home health aides could provide home health care. In addition, a variety of community support services may be available, including adult day-care centers and transportation services. In any case, receiving care at home offers a measure of independence in a familiar environment.

Community Care Retirement Communities (CCRCs)

Also known as life plan communities, CCRCs provide a range of services — from independent living to full-time skilled nursing care — all in the same location, allowing you to age in place. Most CCRCs combine housing options at one location and may include townhouses or cottages for independent living, assisted living apartments, and nursing home accommodations.

Assisted Living Facilities

If you want to remain independent but need some assistance with activities of daily living, you might choose to live in an assisted living facility. These home-like facilities offer housing, meals, and personal care services, but generally not medical or nursing services.

Nursing Homes

People who enter a nursing home usually have a disabling condition or cognitive disorder and can no longer take care of themselves. State-licensed nursing facilities offer more specialized skilled care, intermediate care, and custodial care. This is the most expensive way to receive long-term care.

Take some time to think about what the future might hold. Planning ahead can help ensure that you receive the type of care you need, in the setting that you prefer, as you grow older.

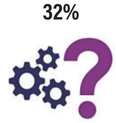
1) U.S. Department of Health and Human Services, 2021

Reasons for Care

A 65-year-old has a nearly 70% chance of needing long-term care support and services at some point. The average length of long-term care in 2021 was 3.5 years, up from 3 years in 2018. People need care for a variety of reasons, but the most common is simply the physical limitations of aging.

47%

Age-related physical limitation

32%

Cognitive Impairment

24%

Chronic Illness

23%

Rehabilitation from an accident

10%

Acute Illness

Where Does Your Income Fit?

The IRS processed more than 164 million individual income tax returns for tax year 2020 (most recent full-year data). Almost three out of five returns showed an adjusted gross income (AGI) under $50,000, while a little over 1% showed an AGI of $500,000 or more.

58.1%

Under $50,000

22.5%

$50,000 to $100,000

13.6%

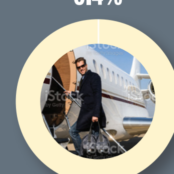
$100,000 to $200,000

4.6%

$200,000 to $500,000

0.8%

$500,000 to $1 million

0.4%

$1 million or more

Source: Internal Revenue Service, 2022

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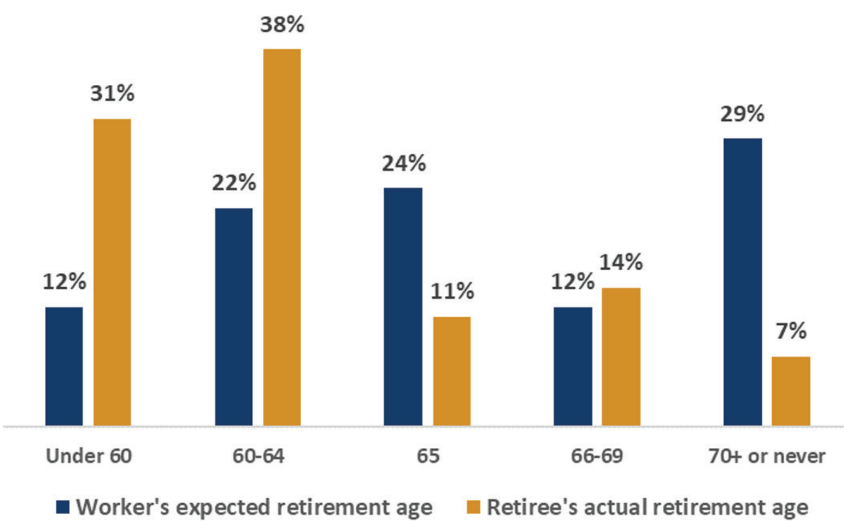
Retirement Age Expectations vs. Reality

Workers typically plan to retire much later than the actual age reported by retirees. In the 2022 Retirement Confidence Survey, 65% of workers said they expect to retire at age 65 or older (or never retire), whereas 69% of retirees left the workforce before reaching age 65. When choosing a retirement age, it might be wise to consider a contingency plan.



47%: the percentage of retirees who retired earlier than planned, with nearly one-third citing an unexpected hardship, such as a health problem or disability

Source: Employee Benefit Research Institute, 2022