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Year-End News Brief

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Proposed Changes to Required Minimum Distributions

By Michelle Flinn, CPA

The "Setting Every Community Up for Retirement Enhancement" Act, or SECURE Act, was enacted on December 20, 2019. Over two years after the law was enacted on February 23, 2022, the IRS issued proposed regulations on the SECURE Act, which include changes to inherited retirement accounts and required minimum distributions (RMDs). The proposed regulations have not been finalized at the time of publication. This article discusses the proposed regulation changes as they currently stand, although there could be some changes when the final regulations are issued.

The SECURE Act changed the date a participant must start taking RMDs, known as the required beginning date (RBD), from 70 ½ to 72 for participants reaching age 70 ½ after December 31, 2019. The SECURE Act also changed the availability of particular "stretch" provisions for specific categories of beneficiaries, those not considered "eligible designated beneficiaries." Instead, it introduced a 10-year rule for these "designated beneficiaries."

Before the SECURE Act, beneficiaries who inherited retirement accounts before payments to the participant had begun could stretch their payments out over a period not to exceed the designated beneficiary's life expectancy. Under the SECURE Act, stretch payment availability has been restricted to "eligible designated beneficiaries" (EDBs). An eligible designated beneficiary is an individual who, on the participant's date of death, is either a surviving spouse, minor child, disabled person, chronically ill person, or a person not more than ten years younger than the participant. If the eligible designated beneficiary is a minor child, they are allowed the stretch benefits until they reach the age of majority of 21. They are then required to withdraw the remainder of the account in 10 years.

A designated beneficiary is an individual named as a beneficiary on the retirement account and is not an eligible designated beneficiary. The SECURE Act's language led most practitioners to believe that the sole requirement of a designated beneficiary was the need to withdraw all funds from the account by the end of the tenth calendar year after the calendar year of the participant's death. For example, if the participant dies on February 1, 2023, the designated beneficiary must completely distribute the account by December 31, 2033.

Under the proposed regulations, there would be changes as to when RMDs would need to be taken by a beneficiary, even when the 10- and 5-year rules apply. ***(Continued on Page 2)***

Proposed Changes to Required Minimum Distributions

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If the participant dies before their required beginning date, no *RMDs* are required to be taken by the beneficiary. In this scenario, an eligible designated beneficiary can choose whether to receive stretch payments or utilize the 10-year rule payout. A spouse who is an eligible designated beneficiary can delay the commencement of their benefit until the year the participant would have reached their required beginning date triggering age. Roth IRA owners are deemed to have died before their required beginning date, which allows designated and non-designated beneficiaries to avoid RMDs.

When a participant dies after they have already reached the required beginning date, the beneficiaries must not only distribute all retirement funds by their allotted time but also take RMDs. Once RMDs start the "at least as rapidly rule" needs to be followed, which means once RMDs start they can't be stopped even after the participant has died. For a designated beneficiary who falls into the 10-year rule, this means they will have to take RMDs in years one through nine and the entire account must be emptied out by the end of year ten. This can cause increased income and may require some tax planning to avoid large, unexpected tax bills.

The proposed regulations and the SECURE Act changes relating to RMDs apply to individuals who died after December 31, 2019. Since the IRS only recently released the proposed regulations has yet to issue final regulations, there has been some concern over the effective date of the regulations and how it would affect missed RMDs. The IRS issued Notice 2022-53 which states that the IRS intends to issue final regulations related to required minimum distributions and that those changes for RMDs will apply no earlier than the 2023 distribution calendar year.

We will continue to share information as it becomes available on our social media channels. If you have any questions, please reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com.

Year-End Giving to Charity or Loved Ones

Courtesy of Thomson Reuters

The holiday season is here and many people plan to donate to their favorite charities or give money or assets to their loved ones before the end of the year. Here are the basic tax rules involved in these transactions.

Donating to charity

In 2022, in order to receive a charitable donation write-off, you must itemize deductions on your tax return. What if you want to give gifts of investments to your favorite charities? There are a couple of points to keep in mind.

First, don't give away investments in taxable brokerage accounts that are currently worth less than what you paid for them. Instead, sell the shares and claim the resulting capital loss on your tax return. Then, give the cash proceeds from the sale to charity. In addition, if you itemize, you can claim a full tax-saving charitable deduction.

The second point applies to securities that have appreciated in value. These should be donated directly to charity. The reason: If you itemize, donations of publicly traded shares that you've owned for over a year result in charitable deductions equal to the full current market value of the shares at the time the gift is made. In addition, if you donate appreciated stock, you escape any capital gains tax on those shares. Meanwhile, the tax-exempt charity can sell the donated shares without owing any federal income tax.

Charitable donations from your IRA

IRA owners and beneficiaries who've reached age 70½ are permitted to make cash donations totaling up to $100,000 annually to IRS-approved public charities directly out of their IRAs. You don't owe income tax on these qualified charitable distributions (QCDs), but you also don't receive an itemized charitable contribution deduction.

The upside is that the tax-free treatment of QCDs equates to an immediate 100% federal income tax deduction without having to worry about restrictions that can potentially delay itemized charitable write-offs. Contact your tax advisor if you want to hear about the full benefits of QCDs. If you're interested in taking advantage of this strategy for 2022, you'll need to arrange with your IRA trustee or custodian for money to be paid out to one or more qualifying charities before year end.

Giving to loved ones

The principles for tax-smart gifts to charities also apply to gifts to family members and loved ones.

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Strategies for Investors to Cut Taxes as Year-End Approaches

Courtesy of Thomson Reuters

The overall stock market has been down during 2022 but there have been some bright spots. As year-end approaches, consider making some moves to make the best tax use of paper losses and actual losses from your stock market investments.

Tax rates on sales

Individuals are subject to tax at a rate as high as 37% on short-term capital gains and ordinary income. But long-term capital gains on most investment assets receive favorable treatment. They're taxed at rates ranging from 0% to 20% depending on your taxable income (inclusive of the gains). High-income taxpayers may pay an additional 3.8% net investment income tax.

Sell at a loss to offset earlier gains

Have you realized gains earlier in the year from sales of stock held for more than one year (long-term capital gains) or from sales of stock held for one year or less (short-term capital gains)? Take a close look at your portfolio and consider selling some of the losers — those shares that now show a paper loss. The best tax strategy is to sell enough losers to generate losses to offset your earlier gains plus an additional $3,000 loss. Selling to produce this loss amount is a tax-smart idea because a $3,000 capital loss (but no more) can offset the same amount of ordinary income each year.

For example, let's say you have $10,000 of capital gain from the sale of stocks earlier in 2022. You also have several losing positions, including shares in a tech stock. The tech shares currently show a loss of $15,000. From a tax standpoint, you should consider selling enough of your tech stock shares to recognize a $13,000 loss. Your capital gains will be offset entirely, and you'll have a $3,000 loss to offset against the same amount of ordinary income.

What if you believe that the shares showing a paper loss may turn around and eventually generate a profit? In order to sell and then repurchase the shares without forfeiting the loss deduction, you must avoid the wash-sale rules. This means that you must buy the new shares outside of the period that begins 30 days before and ends 30 days after the sale of the loss stock. However, if you expect the price of the shares showing a loss to rise quickly, your tax savings from taking the loss may not be worth the potential investment gain you may lose by waiting more than 30 days to repurchase the shares.

Use losses earlier in the year to offset gains

If you have capital losses on sales earlier in 2022, consider whether you should take capital gains on some stocks that you still hold. For example, if you have appreciated stocks that you'd like to sell, but don't want to sell if it causes you to have taxable gain this year, consider selling just enough shares to offset your earlier-in-the-year capital losses (except for $3,000 that can be used to offset ordinary income). Consider selling appreciated stocks now if you believe they've reached (or are close to) the peak price and you also feel you can invest the proceeds from the sale in other property that'll give you a better return in the future.

These are just some of the year-end strategies that may save you taxes. Contact us to discuss these and other strategies that should be put in place before the end of December.

Year-End Giving to Charity or Loved Ones

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That is, you should sell investments that are currently worth less than what you paid for them and claim the resulting tax-saving capital losses. Then, give the cash proceeds from the sale to your children, grandchildren or other loved ones.

Likewise, you should give appreciated stock directly to those to whom you want to give gifts. When they sell the shares, they'll pay a lower tax rate than you would if they're in a lower tax bracket.

In 2022, the amount you can give to one person without gift tax implications is $16,000 per recipient (increasing to $17,000 in 2023). The annual gift exclusion is available to each taxpayer. So if you're married and make a joint gift with your spouse, the exclusion amount is doubled to $32,000 per recipient for 2022.

Tax-smart gifts

Whether you're giving to charity or loved ones (or both) this holiday season, it's important to understand the tax consequences of gifts. Please reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com if have questions about taxes or any gifts you want to make.

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Inflation's Impact on Your 2022 and 2023 Tax Bills

Courtesy of Thomson Reuters

The effects of inflation are all around. You're probably paying more for gas, food, health care and other expenses than you were last year. Are you wondering how high inflation will affect your federal income tax bill for 2023? The IRS recently announced next year's inflation-adjusted tax amounts for several provisions.

Standard deduction. What does an increased standard deduction mean for you? A larger standard deduction will shelter more income from federal income tax next year. For 2023, the standard deduction will increase to $13,850 for single taxpayers, $27,700 for married couples filing jointly and $20,800 for heads of household. This is up from the 2022 amounts of $12,950 for single taxpayers, $25,900 for married couples filing jointly and $19,400 for heads of household.

The highest tax rate. For 2023, the highest tax rate of 37% will affect single taxpayers and heads of households with income exceeding $578,125 ($693,750 for married taxpayers filing jointly). This is up from 2022 when the 37% rate affects single taxpayers and heads of households with income exceeding $539,900 ($647,850 for married couples filing jointly).

Retirement plans. Many retirement plan limits will increase for 2023. That means you'll have an opportunity to save more for retirement if you have one of these plans and you contribute the maximum amount allowed. For example, in 2023, individuals will be able to contribute up to $22,500 to their 401(k) plans, 403(b) plans and most 457 plans. This is up from $20,500 in 2022. The catch-up contribution limit for employees age 50 and over who participate in these plans will also rise in 2023 to $7,500. This is up from $6,500 in 2022.

For those with IRA accounts, the limit on annual contributions will rise for 2023 to $6,500 (from $6,000). The IRA catch-up contribution for those age 50 and up remains at $1,000 because it isn't adjusted for inflation.

Flexible spending accounts (FSAs). These accounts allow owners to pay for qualified medical costs with pre-tax dollars. If you participate in an employer-sponsored health Flexible Spending Account (FSA), you can contribute more in 2023. The annual contribution amount will rise to $3,050 (up from $2,850 in 2022). FSA funds must be used by year end unless an employer elects to allow a two-and-one-half-month carryover grace period. For 2023, the amount that can be carried over to the following year will rise to $610 (up from $570 for 2022).

Taxable gifts. Each year, you can make annual gifts up to the federal gift tax exclusion amount. Annual gifts help reduce the taxable value of your estate without reducing your unified federal estate and gift tax exemption. For 2023, the first $17,000 of gifts to as many recipients as you would like (other than gifts of future interests) aren't included in the total amount of taxable gifts. (This is up from $16,000 in 2022.)

Thinking ahead.
While it will be quite a while before you have to file your 2023 tax return, it won't be long until the IRS begins accepting tax returns for 2022. When it comes to taxes, it's nice to know what's ahead so you can take advantage of all the tax breaks to which you are entitled.