2022

Financial Planning Update

FEATURE

Year-End Planning Tips

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WEALTH MANAGEMENT

Inside the Issue

At Withum Wealth, we believe that a large part of long-term financial success is planning ahead. With that in mind, we share with you some valuable year-end planning tips to ensure that you end the current year and start the next year feeling well informed and prepared for what's ahead.

In this 2022 Edition of our Financial Planning newsletter, you will find our year-end planning tips, hear about the proposed IRS clarification on inherited IRAs and learn which planning strategies can help during a bear market. As always, please remember to consult with your tax and financial advisors before taking action and discuss the options that might be appropriate for you.

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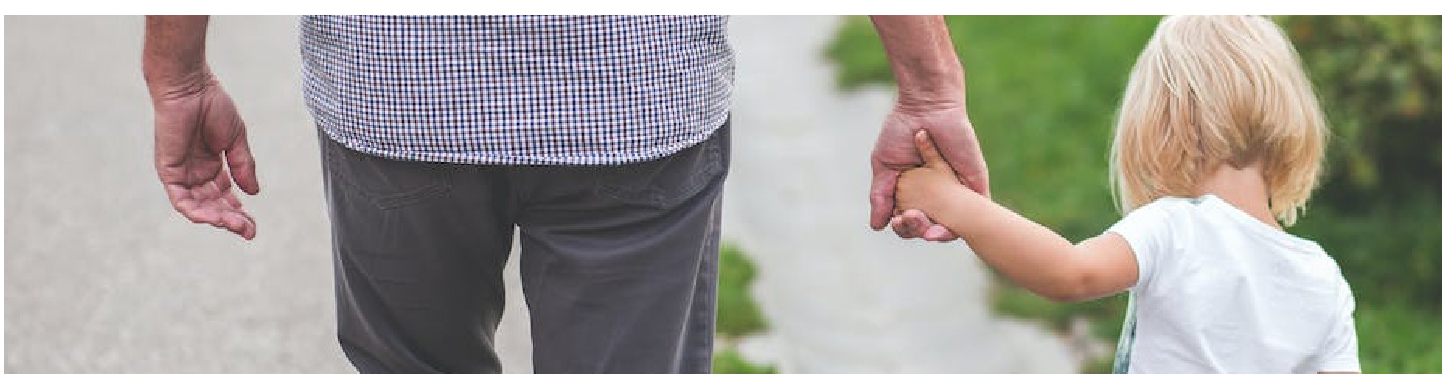
SOME CLARIFICATION ON INHERITED IRA DISTRIBUTIONS

The IRS recently issued Notice 2022-53 providing guidance that they intend to issue final regulations relating to required minimum distribution rules for certain inherited IRAs. The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) made changes to distribution rules for IRA beneficiaries. The Act maintained the ability to stretch annual distributions over the remaining life expectancy for eligible designated beneficiaries (spouses, individuals not more than ten years younger than the IRA owner, chronically ill or disabled persons and minor children) but implemented a new 10-year distribution rule for most other beneficiary types (adult children, siblings, certain trusts, etc.). This new set of rules applied to beneficiaries inheriting IRAs in 2020 and thereafter. For example, an IRA owner passed away in 2020 designating her adult daughter as beneficiary. As such, under the new rules, the daughter would have to empty the inherited IRA within 10 years of the anniversary of the original IRA owner's year of death. In this case, by December 31, 2030. At the time, the IRS indicated that annual distributions would not be mandatory as long as the account was fully emptied by the end of the tenth year. Consequently, many IRA beneficiaries subject to the 10-year rule did not take RMDs in 2021 and may not have taken any distribution so far in 2022 (RMDs were waived for everyone in 2020 due to the pandemic as per the CARES Act).

Earlier this year, the IRS issued some proposed regulations on inherited IRAs that hinted at mandating annual RMDs in years 1 through 9 with the balance being distributed in year 10 if the IRA owner died on or after his/her required beginning date. The required beginning date is April 1st of the year following the year the IRA owner turns 72 (or age 70.5 if the IRA owner turned 70.5 prior to 2020) and marks the deadline for taking the first RMD. IRS Notice 2022-53 states that required minimum distributions for certain inherited IRAs will not begin prior to 2023. Essentially, IRA beneficiaries do not need to take an RMD in 2021 or 2022 and will not be subject to any penalties for failure to make a distribution. Taxpayers can request a refund for any penalties already paid related to what was thought to be a missed distribution. The IRS will issue final regulations on this matter which will further clarify the rules regarding inherited IRAs. Please consult your tax adviser with any questions relating to this subject.



YEAR-END PLANNING TIPS

INVESTMENT AND TAX PLANNING

REVIEW YOUR ASSET ALLOCATION

Risk in a portfolio is determined by the mix of stocks, bonds and cash. Remember that the important thing is to have a properly diversified portfolio and focus on your long-term goals.

Compare your asset allocation to your target and rebalance your portfolio as appropriate. Most portfolios maintain a mix of fixed income for short-term needs and equities for long-term growth. It is easier to make it through market ups and downs if the allocation matches your risk profile and you understand how it is calculated to achieve your goals.

MANAGE YOUR MARGINAL TAX RATE

If you are at a tax bracket threshold, you might be able to manage your bracket by deferring or accelerating income. Strategies include:

- Reducing your taxable income if you want to stay within a given tax bracket:
    - Deferring your income if you are self-employed
    - Accelerating business expenses if you are self-employed
    - Bunching charitable donations or donating to a donor advised fund if you itemize (see charitable giving below)
    - Using qualified charitable distributions if you must take required minimum distributions
    - Contribute to a traditional IRA or 401(k) if you are eligible

- Filling in a tax bracket now if you expect to face higher tax bracket in the future:
    - Accelerating your income if you are self-employed
    - Roth conversions

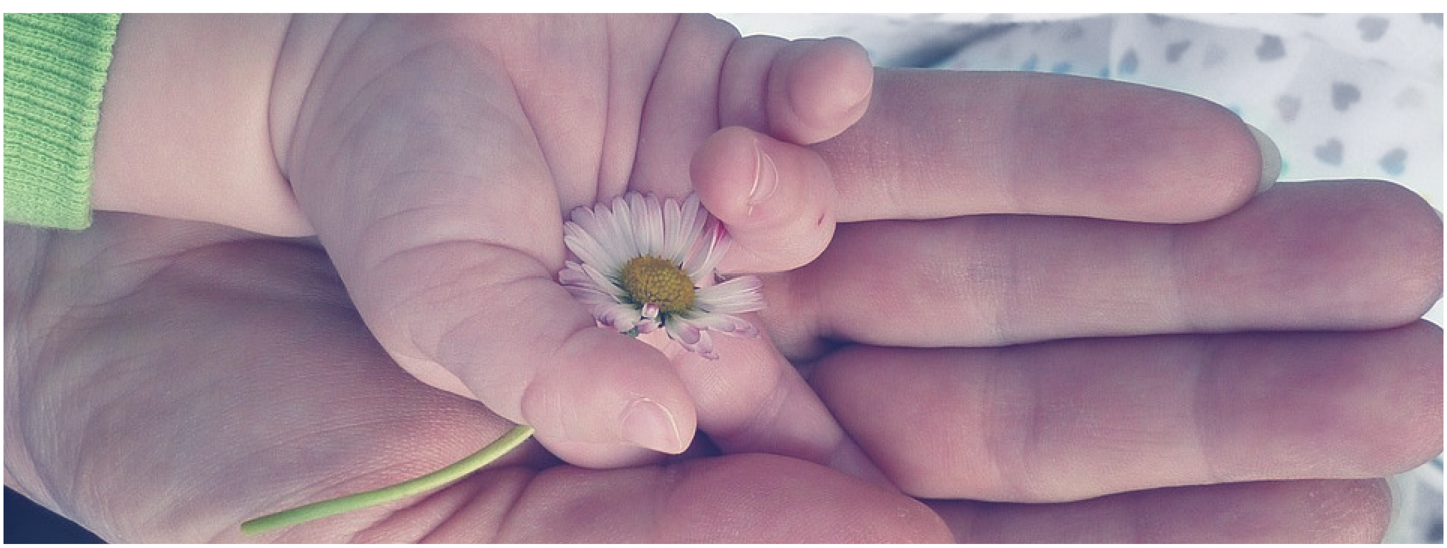
REVIEW YOUR CAPITAL TAX GAIN SITUATION FOR THE YEAR

- If you face a 15% or 20% long term capital gains tax rate: Consider selling unrealized losses to harvest a tax loss to offset any qualified gains that you have already realized. Remember to wait at least 31 days before buying back a holding sold for a loss to avoid the wash sale rule violation. If you have no realized gains, then up to $3,000 can offset ordinary income. Losses above this amount can be carried forward indefinitely.
- If you face a 0% long term capital gains tax rate: Consider realizing gains until you fill the 0% tax bracket. This will raise the basis for your investment without incurring a capital gains tax

GIFTING TO LOVED ONES

ANNUAL GIFT EXCLUSION

Make sure to take advantage of your annual gift exclusion. In 2022, you can gift up to $16,000 per individual in federal tax-free gifts. For example, a couple can gift $32,000 to each of their 2 children, for a total $64,000 gifted during the year.



LIFETIME EXEMPTION

Beyond the annual exemption amount, each person has an $12.06M exemption on gifts and estate. This amount is portable, allowing a $24,120,000 exemption for a married couple. This exemption is scheduled to be cut in half in 2026. Households with net worth in excess of the reduced exemption amount may want to consider taking advantage of the higher exemption while it lasts.

Current IRS guidance states that gifts made under the current exemption amount will not be clawed back when the exemption amount is reduced. Before making any irrevocable gift, be sure to confirm your own lifetime needs are covered with remaining assets. One strategy for households who wish to gift more than $6.03M but less than $24.12M is to attribute the gift to one spouse rather than use gift-splitting. This could increase the amount of future lifetime exemption available.

FUND A 529 PLAN FOR YOUR KIDS' EDUCATION

529 plans are flexible, tax-advantaged accounts that accumulate funds for higher education. These plans allow you to invest after-tax dollars in a selection of stock and bond mutual funds. The funds in the account grow tax-free and the withdrawals are tax-free for qualified expenses. Additionally, many states offer residents a full or partial tax credit or deduction for contributions to their state's plan. 529 plans can be used for higher education as well as kindergarten through 12th-grade tuition at private schools (at most $10,000 per year can be distributed from a 529 for primary education expenses). Any unused funds can also be used for graduate, trade or vocational education or reassigned to another beneficiary (sibling, niece/nephew, yourself, etc.).

CHARITABLE DONATIONS

Donating to qualified charitable organizations can generate income tax benefits to you as you support your community. Below are several gifting strategies and suggestions as to how they are best used.

- **Gifting Appreciated Stock**

  Charitable donations may be completed by transferring appreciated securities in lieu of cash. This strategy generates an income tax deduction for the full market value of donated stock that has been held for one year and allows you to avoid paying capital gains tax on those securities. Donating appreciated stock is more tax effective than donating cash and it can be used with Donor Advised Funds (see below). This strategy is most effective for taxpayers who itemize their deductions, are charitably inclined and hold securities with low basis (cost).

- **Qualified Charitable Distributions (QCDs)**

  Individuals who are over 70 ½ may donate to qualified charities directly from their IRAs. Qualified donations made straight from an IRA count toward your required minimum distribution but are not included in your income. (Note: Income reduction only happens for individuals who turn 72 before the end of the year and are required to take minimum distributions.) This strategy has two advantages over cash contributions. First, the QCD reduces your mod-

ified adjusted gross income (MAGI) on which Medicare premiums are based, providing a means of managing your premium. Secondly, this allows a reduction in taxable income for charitably inclined households that do not itemize their deductions. Overall, this strategy is most effective for taxpayers who will be 72 or older by the end of the year and either want to reduce their AGI to manage their Medicare premium or want a credit for charitable donations even though they take the standard deduction. The maximum annual amount that can qualify for a QCD is currently $100,000.

- **Donor Advised Funds (DAFs) and Charitable Donation bunching**

  Donor Advised Funds (DAFs) are qualified charitable investment accounts to which an individual can make a charitable gift to enjoy an immediate tax benefit and retain advisory privileges to disburse charitable gifts over time. This is an effective strategy for taxpayers who have a year with exceptionally high income or wish to bunch donations to take advantage of both standard and itemized deductions. The currently high standard deduction amounts, combined with the $10,000 limit on state and local tax deduction results in fewer people itemizing deductions. For taxpayers with significant charitable donations, a bunching strategy would combine multiple years' worth of donations into one year to reach an amount worth itemizing. In subsequent years, the standard deduction can be taken. If your donation exceeds the annual tax deduction limits allowed, you can carry forward the unused deduction over the next five years. Appreciated securities may be donated to a DAF but qualified charitable distributions cannot be made to a DAF. This is an effective strategy for taxpayers whose itemized deductions (excluding charitable donations) are less than the standard deduction.

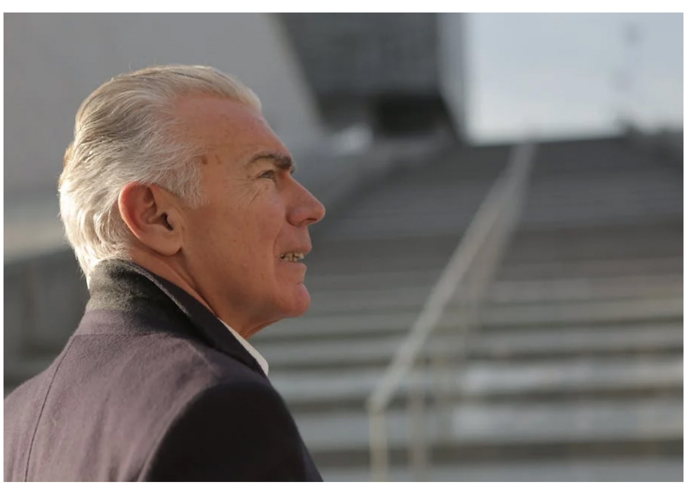
RETIREMENT PLANNING

COMPLETE YOUR 2022 RETIREMENT PLAN CONTRIBUTIONS

Make sure you take advantage of contributions to your retirement plans (IRA, 401K, 403B, etc.). Your employer may offer a matching 401(k) contribution as part of your employee benefits. This is free money and if possible, you should contribute at least the amount necessary to get the full match. In 2022, you can contribute a maximum of $20,500 to a 401(k) Plan and $6,000 to a Traditional IRA. Other retirement plan contribution limits are listed below. Consult with your advisor to determine whether to make a traditional or Roth contribution to your retirement account(s). The income limits for contributing to an IRA are listed below:

2022 MAGI* limits	Traditional IRA		Roth IRA	
	Range starts	Range ends	Range starts	Range ends
Single	$68,000	$78,000	$129,000	$144,000
Married filing jointly	$109,000	$129,000	$204,000	$214,000

*For IRA contributions, MAGI is AGI adjusted to include student loan interest, foreign earned income or housing exclusion, foreign housing deduction, excludable savings bond and employer provided adoption benefits.



CATCH-UP CONTRIBUTIONS FOR 50 AND OLDER

If you are 50 or older, take advantage of catch-up contributions to your retirement plans and accounts. In 2022, you are able to add another $6,500 to an employer sponsored plan and $1,000 to IRA account. Please see the table on the following page for more details.

REQUIRED MINIMUM DISTRIBUTIONS

Required Minimum Distributions are required for retirement account owners who turn 72 by December 31. The IRS updated its RMD tables as of 2022. The deadline for RMDs is December 31st, 2022 (although those who turn 72 in 2022 have until April 1, 2023 to take their first RMD.) Here are some of the 2022 and 2023 contribution limits:

RETIREMENT PLANS	2022	2023
401(k), 403(b)-402(g)(1) - Maximum employee elective deferral	$20,500	$22,500
Defined Contribution Plan Total Limit (Employee + Employer)	$61,000	$66,000
Solo 401k Maximum Contribution (Employee + Employer)*	$61,000	$66,000
Catch-up Contribution for the plans above (age 50 or older, above annual limit)	$6,500	$7,500
IRA Contribution Limit	$6,000	$6,500
IRA Catch-up Contribution (age 50 or older, above annual limit)	$1,000	$1,000
Roth IRA Contribution Limit	$6,000	$6,500
Roth IRA Catch-up Contribution (age 50 or older, above annual limit)	$1,000	$1,000
SEP IRA Maximum Contribution	$61,000	$66,000
Catch-up Contribution	NOT permitted	NOT permitted
SIMPLE Maximum Contributions	$14,000	$15,500
SIMPLE Catch-up Contribution (age 50 or older, above annual limit)	$3,000	$3,500

Maximizing the amount you contribute will allow you to take advantage of available tax deductions and employer matching.

CONSIDER A ROTH CONVERSION

There is a potential to decrease overall income tax on retirement assets over the long term with a Roth IRA conversion. A Roth IRA conversion allows investors to transfer all or some of their traditional IRA assets to a Roth IRA. Tax is paid on the funds transferred out of the IRA in the year of conversion. All future gains are shifted to the Roth IRA, a retirement account that grows tax-free and is not subject to any future distribution requirement (RMDs). This is particularly effective during the early years of retirement, after income has ceased and before RMDs begin, when you may be in a low tax bracket. If possible, pay the tax from a taxable account and not from the converted funds. Pay attention to your taxable income as you complete a Roth conversion. It is important to monitor your tax bracket, IRMAA, capital gains tax bracket and other items that will be impacted by the Roth conversion income.

SET YOUR 2023 RETIREMENT PLAN CONTRIBUTIONS

Review and update your retirement plan contributions for 2023. If you are contributing the maximum, you may need to change the amount to reach the higher 2023 limits. If you are contributing less than the maximum, considering increasing the percentage you contribute to your plan.

BACKDOOR ROTH CONTRIBUTIONS

For those whose income exceeds the limits for making contributions to their Roth IRA or have maxed out their retirement plan, consider a backdoor Roth contribution. This strategy involves making a non-deductible contribution to a traditional retirement account and then converting the funds to a Roth account. Since the contribution to the retirement account is non-deductible, the conversion may not create additional tax. There are two different types of backdoor Roth strategies:

- Backdoor Roth IRA: There are income limits for making contributions directly to a Roth IRA. However, higher income individuals are allowed to make non-deductible contributions to a traditional

IRA and then convert the funds to a Roth IRA. If the taxpayer owns no deductible IRA, then the conversion generates no additional tax. However, if the taxpayer does own an IRA with pre-tax funds, then a tax will be incurred on the conversion on a pro-rata basis. Thus, this strategy works best for those who do not have existing IRA accounts.

- Qualified employer plan: Some employer plans allow after-tax contributions to the plan followed by in-plan conversions. Combined, this creates a strategy to invest after-tax dollars in a tax-free investment account.

PERSONAL SUCCESS

CASH FLOW MANAGEMENT

As we near the end of the year, it may a good time to review your budget, compare it to actual expenses incurred during the year, and modify (if necessary) for the year ahead. If you have yet to create a budget, year-end is a great time to do so. Some helpful rules of thumb when it comes to spending include the following:

- Housing expenses (mortgage/rent, property taxes, homeowner's insurance) should reflect < 30% of gross income
- Savings should ideally be 10-15% of gross income
- Available cash should be in the amount of 3-6 months of expenses
    - 3 months if two sources of income (i.e. both spouses working)
    - 6 months if one source of income (i.e. single earner)

TRACK YOUR NET WORTH

Calculate your net worth on an annual basis. Track this over time and compare it to your financial plan.

PAY OFF HIGH-INTEREST DEBT AND INVEST EXCESS LIQUIDITY

Credit cards are a great tool enabling us to purchase now and pay later. However, when not paid in full and on time, credit cards incur an extraordinarily high interest rate. We highly recommend paying off any outstanding credit card debt as quickly as possible, given such high rates associated.

MEDICARE OPEN ENROLLMENT

The opportunity to make changes to Medicare coverage options began on October 15th and will run through December 7th. Rather than re-enrolling in the same coverage, the open enrollment period allows individuals eligible for Medicare to make changes to Part D prescription plans, Medicare Advantage plans and even switching from Parts A and B to a Medicare Advantage plan. Every situation is different, so it is important to review the "annual notice of change" regarding current coverage and determine the best solution for the upcoming year.

MAKE 2023 EMPLOYER BENEFIT ELECTIONS

Open enrollment is typically in November or December of the current year. Make sure you make any necessary changes during this time and consider taking advantage of all available options.

PERIODICALLY REVIEW YOUR INSURANCE AND ESTATE DOCUMENTS

Insurance and estate documents should be reviewed every five years as well as at important life events. Insurance and estate needs often change at marriage, birth of a child, divorce, retirement, etc.

FINANCIAL PLANNING DURING A BEAR MARKET

"BEING PATIENT" IS NOT THE SAME AS "DO NOTHING".

Many of our planning strategies are particularly effective during a down market. We explain below how these actions can be powerful in these conditions:

- Roth Conversions
  - Converting shares of stock to Roth IRAs when the market is down can allow for more shares to be transferred and grow for the future.
    - » **Example – converting 50 shares of AAPL at $140 is a $7,000 conversion. When AAPL was at $190, $7,000 conversion would have only allowed for 36 shares of AAPL to be moved into the Roth IRA account.**
- Tax Loss Harvesting (for taxpayers who are not in the 0% Long Term Capital Gains tax bracket)
  - Realize positions at a loss as frequently as possible. Losses can be carried forward indefinitely to offset gains.
    - » **Example – sell a position in an ETF to realize a $2,500 loss and reinvest in a similar ETF to keep market exposure the same.**
- Maximize & Reallocate 401k Contributions
  - Invest more while the market is down for long term growth
    - » **Example – increase contributions and consider allocating new dollars to stocks that have more growth potential for the long term.**

- Review Budget and Personal Balance Sheet
    - Reducing unnecessary spending can free up cash to save/invest while markets are discounted.
        - **Example – automate savings and investments into a brokerage account and reduce discretionary spending where possible.**
    - Ensuring financial stability if economic conditions worsen is prudent
- Review your Financial Plan
    - Reevaluating your financial plan when asset levels are depressed are a good "stress test" for the strength of your financial situation
        - **Example – contact your advisor to update asset values based on lower valuations and stress test your cash flow needs in retirement on a lower asset base.**

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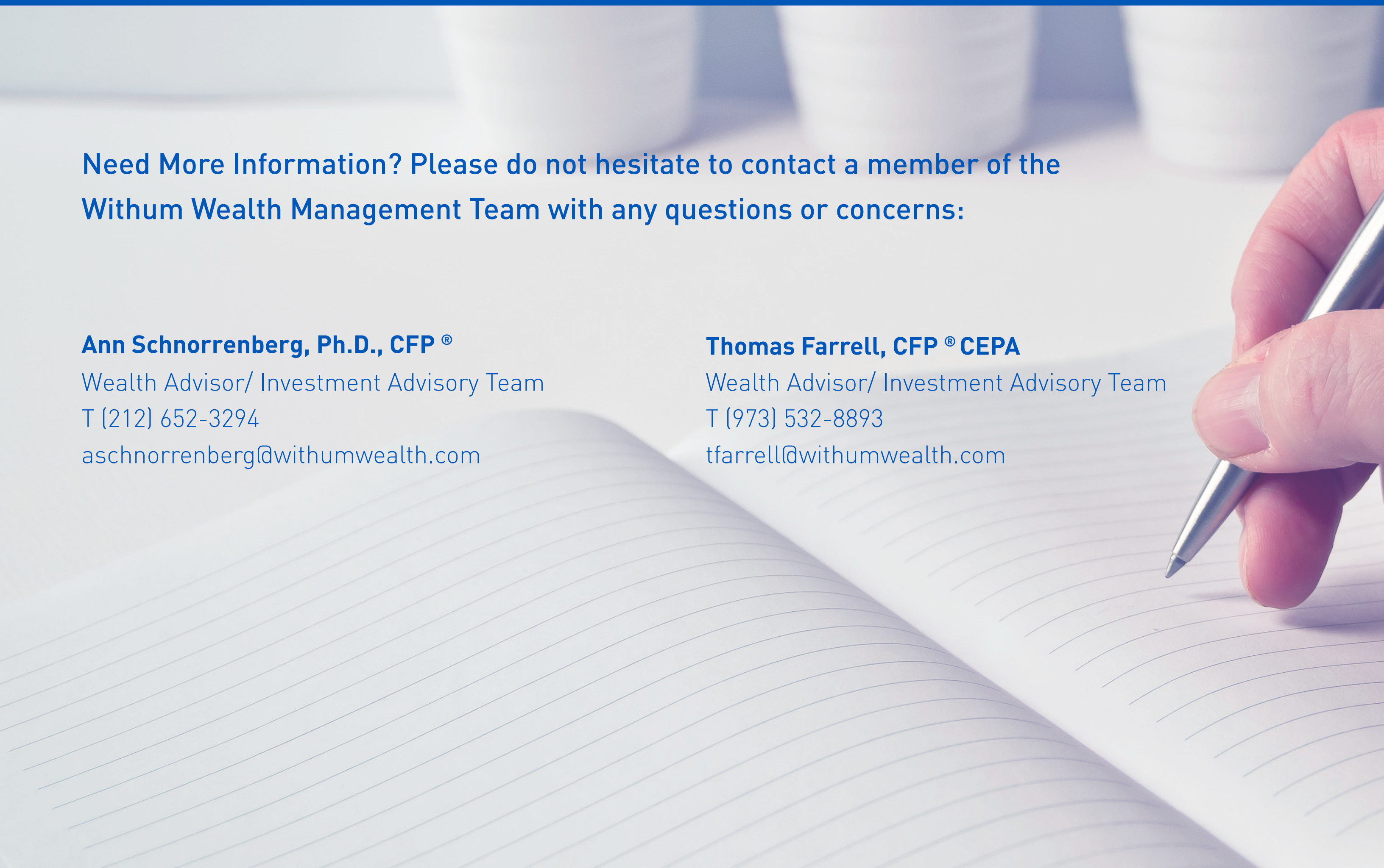

Need More Information? Please do not hesitate to contact a member of the Withum Wealth Management Team with any questions or concerns:

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