BNY MELLON
WEALTH MANAGEMENT

2023 Tax Planning Checklist

As we reach the end of 2023, consider evaluating your wealth plan to ensure it reflects any changes in your circumstances or goals, the economic landscape and the current tax environment.

Review the checklist below for potential strategies to consider, and work with your wealth management team to take action prior to the December 31 deadline.

Income Tax

- [ ] Accelerate income into 2023 to avoid any potential tax rate increases in 2024.
- [ ] Defer net investment income or reduce modified adjusted gross income (MAGI) to minimize or avoid the 3.8% surtax on net investment income, which applies to MAGI over $200,000 (single taxpayers), $250,000 (married filing jointly) and $125,000 (married filing separately).
- [ ] Review the breaks in the tax brackets for capital gains to determine if you or family members may benefit from a 0% or 15% tax rate on long-term capital gains.
- [ ] Review plans to sell assets, other than publicly traded securities, on the installment basis. Installment sales could result in deferring gains into higher income tax brackets under potential tax legislation.
- [ ] Consider accelerating itemized deductions into 2023 in the 32%, 35% and 37% tax brackets, if your total itemized deductions will exceed the standard deduction, as itemized deductions may be capped at a 28% tax benefit in the future. Similarly, consider deferring deductions if there is an expectation they will provide a greater benefit under the potential of higher tax rates.
- [ ] Review income tax withholding and estimated tax payments. If potentially subject to a penalty for underestimated payments, consider increasing withholding from wages and bonuses in the fourth quarter. Amounts withheld are deemed to be paid equally over each quarter, which can minimize or eliminate an underestimation penalty in the previous three quarters.

Annual Gifting Opportunities

- [ ] Take advantage of the 2023 annual gift exclusion to transfer wealth to future generations or to make tax-free transfers on behalf of another individual by paying education or medical expenses directly to the provider. The 2023 annual gift exclusion allows for tax-free gifts up to $17,000 per donee without it counting toward your lifetime gifting exemption.

Charitable Giving Considerations

- [ ] Make sure that any charitable contributions meet the strict substantiation rules. Recent cases have denied many large charitable deductions for failure to adhere to these rules.
- [ ] A gift to a donor-advised fund can be used to secure a charitable deduction in 2023 while deferring a distribution to a public charity to a later year.
- [ ] "Give away the gain." Give appreciated assets held longer than one year to a public charity to get a fair market value income tax charitable deduction while avoiding income tax on the appreciation. The 3.8% surtax on net investment income, if applicable, will also be avoided.
- [ ] Combine multiple years of charitable contributions into a single year in order to exceed the standard deduction threshold required to fully deduct contributions.
- [ ] Remember that charitable gifts of appreciated property like real estate, or closely held stock to a private non-operating foundation, only qualify for a deduction equal to the cost basis of the asset. An exception exists for "qualified appreciated stock," which is eligible for a deduction equal to the fair market value. "Qualified appreciated stock" is defined, in general, as publicly traded stock.
- [ ] If over 70 1/2 years old, consider making a direct transfer from an IRA to a public charity. The distribution is excludable from gross income if certain requirements are met and satisfy the required minimum distribution requirements (if applicable). Distributions to a donor-advised fund or supporting organization do not qualify for this "IRA Charitable Rollover."

Key Dates

- December 1, 2023: Recommended date to initiate gifts of qualified, appreciated stock or wire transfers.
- December 1, 2023: Recommended date to initiate an IRA Charitable Rollover.
- December 31, 2023: The last day charitable contributions can be made and be tax deductible for 2023.

Retirement Plans

- [ ] Maximize contributions to retirement accounts, such as 401(k), traditional IRA, Roth IRA, SEP and Simple. Keep in mind that legislation may limit the size of these accounts in future years. If age 50 or older, make "catch-up" (up to a total of $7,500 regular and "catch-up") contributions to eligible retirement accounts.
- [ ] Consider converting a traditional IRA to a Roth IRA. While this will result in taxable income in 2023, assets will accumulate tax-free in the Roth IRA and allow for tax-free distributions in the future when income tax rates may be higher. Note, however, that a Roth IRA conversion will increase AGI and possibly reduce tax breaks tied to AGI or MAGI. Also, consider the effect a Roth conversion will have on your state income tax. For example, a Roth conversion may subject a Massachusetts taxpayer to the new millionaire's tax.
- [ ] Review retirement account beneficiary designations given the drastic changes in the mandatory distribution period made by the two SECURE Acts and the proposed regulations under the SECURE ACT.

Interest Rates

- [ ] Review outstanding debt or existing contracts given current interest rates and consider whether refinancing or swapping out of an adjustable-rate loan for a fixed-rate would be beneficial.

Estate Plan Updates

- [ ] Review wills, trusts and other estate planning documents to ensure they reflect any changes in your personal or financial situations that occurred in 2023 and are likely to occur in 2024.
- [ ] Leverage the current $12.92 million ($25.84 million for married couples) federal estate, gift and generation-skipping transfer tax (GSTT) exemption before it sunsets in 2026, or is reduced by legislation, to transfer wealth and potentially mitigate some of the estate and/or gift tax burden. For married couples, consider using one spouse's full exemption instead of using a portion of each spouse's exemption, because if the exemption is reduced to the projected $6-7 million range, one spouse will still have their exemption.
- [ ] Take advantage of the increased lifetime Federal Estate Tax exemption to deploy techniques such as a Spousal Lifetime Access Trust (SLAT), Dynasty Trust or Irrevocable Life Insurance Trust (ILIT).
- [ ] Consider wealth transfer strategies that become more attractive in a higher interest rate environment such as a Qualified Personal Residence Trust (QPRT) or Charitable Remainder Trust (CRT).
- [ ] Evaluate allocating increased generation-skipping tax exemption to trusts that are not fully exempt from the generation-skipping tax. Action is advisable before the generation-skipping tax exemption sunsets in 2026 or is reduced by future legislation.

Investment Considerations

- [ ] Rebalance to keep your portfolio on track to meet its intended goals, whether by selling assets that are overweighted in the portfolio, purchasing securities in asset classes that are underweight or simply adjusting future investments to compensate.
- [ ] Offset the tax impact of any realized gains taken this year by harvesting losses in the portfolio or, in some cases, realizing gains to offset losses (for example, to reduce concentrated stock positions). Any harvested tax losses not offset by gains in 2023 can offset up to $3,000 of other income with the balance carried forward to future tax years throughout investor's lifetime.
- [ ] Take advantage of the inverted yield curve via short duration fixed income.
- [ ] Consider investing in an opportunity zone fund to defer the capital gain tax on 2023 gains. When selling securities, choose the tax lot that will yield the most favorable tax benefit.
- [ ] If considering investing in a start-up, determine if the company's stock qualifies as "Qualified Small Business Stock" (QSBS). If so, up to $10 million of gain on the sale of the stock could be excludable from taxable income.
- [ ] Confirm that your investment policy statement is up to date and accurately reflects your investment objectives.

Talk to your wealth, tax and legal advisors about any 2023 changes to your net worth.

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