

TAX STRATEGIES FOR FINANCIAL ADVISORS

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1

1

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2

2

KEY TAKEAWAYS

- Income Tax Strategies
- Transfer Tax Strategies
- Retirement
 - SECURE Act 2.0
 - IRA / RMD
- 2022 – 23 Tax Updates
- Flow-through Entities' Reporting



Photo Courtesy -- <https://prestigewmg.com/articles-and-media/how-your-financial-advisor-can-help-you-prepare-for-tax-season>

3

3



"The hardest thing in the world to understand is income taxes."

-Albert Einstein

4

(Original Caption) 1/2/1921-New York, NY: Professor Albert Einstein, the famous german scientist whose ... [†]BETTMANN ARCHIVE



4

INCOME TAX STRATEGIES



Income Tax Strategies to MINIMIZE taxes and MAXIMIZE after-tax earnings

- ROTH IRA Conversions
- Tax-Gain Harvesting Vs Tax-loss Harvesting
- Manage Capital Gains
- Cryptocurrency Tax-loss Harvesting
- Qualified Charitable Deduction (QCD)
- Accelerated Retirement Savings
- 65-day Rule for Trust Distributions
- Private Foundation (contd.)

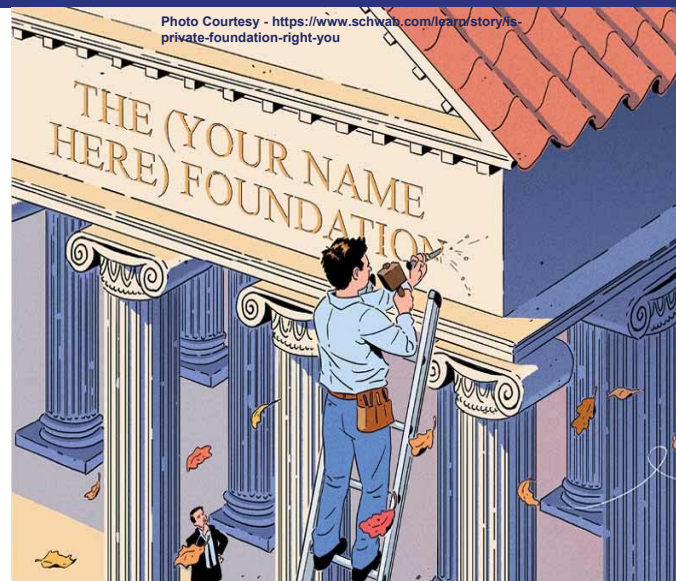


5

5

STRATEGY – PRIVATE FOUNDATION

- Philanthropic and Family Reasons
- Reduction of Tax Liability
- Tax-advantaged growth of contributed assets
- Avoidance of Capital Gains Tax for appreciated assets
- Reduction of Estate Taxes



6

6

TRANSFER TAX STRATEGIES



- Gift and Estate Tax - Updates
 - 2023 **Annual Gift Tax Exclusion** increases to \$17,000, up from \$16,000 in 2022
 - 2023 **Unified Lifetime Gift and Estate Tax Exemption** increases to \$12.92M, up from \$12.06M in 2022
- Generally, gift low-basis stock and keep high-basis stock
- Gifts for "tuition" &/or "medical expenses"
- Gift checks written before, but paid after death, are includible in decedent's gross estate
- IRS' proposed regulation to limit "anti-clawback" rules (April 26, 2022)



7

7

TRANSFER TAX STRATEGIES

Wealth Transfer Strategies :

- Spousal Lifetime Access Trust (SLAT)
- Charitable Split-Interest Trusts :
 - Charitable Remainder Trust
 - CRAT
 - CRUT
 - Charitable Lead Annuity Trust
 - CLAT
 - CLUT
- Irrevocable Life Insurance Trusts



Photo Courtesy <https://kiermanlaw.com/wealth-transfer-strategies-to-consider/>

8

8

SECURE ACT 2.0 - HIGHLIGHTS

➤ Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0 :

- Required Minimum Distributions (RMDs) changes -
 - Raise the age for RMD to 73 (in 2023) and to 75 (in 2033)
 - Decrease penalty to 25% from 50% for failure to comply with RMD requirements (10% during "Correction Window") (2023)
 - Roth accounts in employer retirement plans will be exempt from the RMD requirements starting in 2024.
- Increased "Catch-up Contribution" Increased
 - Ages 60 – 63 – Up to \$10,000 annually to an Employer Plan and Indexed to inflation in future (2025)
(Except – earning more than \$145,000 in prior calendar year- Catch-up contributions must be to Roth in after-tax dollars)
 - For IRAs, ages 50 & over, \$1,000 will be Indexed for inflation (2024)
- Qualified Charitable Distributions (QCDs) cap
 - \$100,000 Indexed to inflation (2024)
 - \$50,000, Indexed to inflation – one-time gift to CRAT, CRUT or CGA (2023)
- Ability of Employer to make matching contributions to ROTH 401(k) Plans (2023)
- Roth for SIMPLE & SEP retirement plans (2023)
- Rollovers of 529 Plan balances to Roth IRAs (2024)
- Penalty-free Early Withdrawals –
 - NEW circumstances for exception to the 10% penalty (2023 – 2026)



9

9

IRA WITHDRAWALS

- Early Withdrawal
- 10% Penalty
- Exception to 10% early withdrawal penalty:
 - Medical Expenses
 - Health Insurance during Unemployment
 - 1st Time Home Purchase
 - Qualified Higher Education Expenses
 - Substantially Equal Periodic Payments (SEPPs)
 - After Death
 - After Disability
 - IRS Levies



Photo Courtesy :
"https://2020taxresolution.com/calculate-your-liability"

10

10



REQUIRED MIN DISTRI (RMD) RULES

- **SECURE Act -- Required Beginning Date** for 1st RMD :
 - **IRAs** – latest by April 1 of year following the calendar year an individual reaches age 72
 - **401(k), Profit-sharing, 403(b), Other Defined Contribution Plan** – April 1 following the later of the calendar year in which an individual:
 - Reaches age 72, or
 - Retire (if the Retirement Plan allows this & you own 5% or less of the company)
- Date for receiving subsequent RMDs – withdraw RMD by December 31
- Ensure taking appropriate Required Minimum Distribution (RMD) to avoid 50% Penalty

Birth Year	Age at Which RMDs Begin
1950 or earlier	72 (70½ for those who turned 70½ prior to 2020)
1951 - 1959	73
1960 or later	75

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11

ROTH IRAs do not require RMDs until after the death of the account owner



11

REDUCE / AVOID RMDs

- Work Waiver – Current Employer's 401(k)
- Rollover to a ROTH IRA – from ROTH 401(k)
- Convert Traditional IRA to ROTH IRA
- Younger Spouse Rule
- Pro Rata Payout for RMDs
- In-kind transfer of RMD
- Qualified Charitable Distribution (QCD)
- RMD to pay Taxes



12

RMD - PROPOSED REGULATION

Designated Beneficiary (DB)	Eligible Designated Beneficiary (EDB)	Non-Designated Beneficiary
Named on beneficiary designation form or determined to be beneficiary under the Plan	(1) Surviving spouse of participant (2) Minor child of participant (< 21 Yrs) (3) Beneficiary < 10 Yrs younger than participant (4) Disabled/Chronically ill beneficiary (5) Certain Trusts	Other than : (1) Designated (2) DB (3) EDB

	Participant Died Before Required Beginning Date	Participant Died On or After Required Beginning Date
Designated Beneficiary	10 Yr Rule -- with no RMDs	10 Yr Rule -- with RMDs (balance before end of Year 10)
Eligible Designated Beneficiary	Beneficiary's Life Expectancy Or 10 Yr Rule -- with no RMDs	Beneficiary's Life Expectancy then 10 Yr Rule at beneficiary's death or when ceases to be EDB
Non-Designated Beneficiary	5 Yr Rule -- with no RMDs	Participant's (decedent's) Life Expectancy from year of death

13

'Year of Death' RMD must be taken by the beneficiary



13

2021/2022 MISSED RMD - RELIEF

IRS Notice 2022-53 issued October 7, 2022

- > Penalty Relief
- > Designated Beneficiaries who did not take RMDs in 2021 & 2022
- > Refund of 50% Penalty
- > Final Regulations - 2023



Guidance for Certain Required Minimum Distributions (RMDs) for the 2021 and 2022 tax years

Penalty Relief for Beneficiaries of Inherited IRAs- Guidance for Certain Required Minimum Distributions for the 2021 and 2022 tax years.

The Department of the Treasury and the Internal Revenue Service (IRS) intend to issue final regulations related to required minimum distributions (RMDs) under section 401(a)(9) of the Internal Revenue Code that will apply no earlier than the 2023 distribution calendar year. The IRS provided the following guidance related to certain provisions of section 401(a)(9) that apply for 2021 and 2022:

Guidance for defined contribution plans that did not make a specified RMD

A defined contribution plan that failed to make a specified RMD (as defined in Section IV.C of Notice 2022-53) will not be treated as having failed to satisfy section 401(a)(9) merely because it did not make that distribution.

Guidance for certain taxpayers who did not take a specified RMD

To the extent a taxpayer did not take a specified RMD (as defined in Section IV.C of Notice 2022-53), the IRS will not assert that an excise tax is due under section 4974. If a taxpayer has already paid an excise tax for a missed RMD in 2021 that constitutes a specified RMD, that taxpayer may request a refund of that excise tax.

For more information on this guidance, see Notice 2022-53 [\(pdf\)](#).

14

14

2022 – 23 TAX UPDATES

The Inflation Reduction Act of 2022 (affecting Individuals):

- Limitation on ordinary business losses through 2028
- Effective 2023, an annual rather than a lifetime limitation on the Residential Energy Credit with a yearly cap of \$1,200
- Effective 2023, \$7,500 tax credit for new Electric Vehicles and credit up to \$4,000 for 1st purchase of a used Electric Vehicle (subject to limitations – taxable income, purchase amount etc.)

Revenue Procedure 2022-32:

- Electing Portability by Estates, not otherwise required to file Estate Tax Return – Extension to the 5th Anniversary of Spouse's death

15



15

2022 – 23 TAX UPDATES

Tax Cut Jobs Act of 2017 (TCJA):

- Amortization of Research & Development expenses, for tax years beginning after December 31, 2021

American Rescue Plan of 2021

- Delay for implementation of \$600 reporting threshold for third-party payment platforms' Forms 1099-K

Infrastructure Investment and Jobs Act of 2021

- Delay in broker reporting requirements for dispositions of digital assets

Consolidated Appropriations Act, 2023:

- SECURE Act 2.0 (discussed before)

16



16

2022 – 23 TAX UPDATES

2023 Federal Income Tax Brackets

Tax Rate	Joint/Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
10%	\$0 – \$22,000	\$0 – \$11,000	\$0 – \$15,700	\$0 – \$11,000	\$0 – \$2,900
12%	\$22,001 – \$89,450	\$11,001 – \$44,725	\$15,701 – \$59,850	\$11,001 – \$44,725	-
22%	\$89,451 – \$190,750	\$44,726 – \$95,375	\$59,851 – \$95,350	\$44,726 – \$95,375	-
24%	\$190,751 – \$364,200	\$95,376 – \$182,100	\$95,351 – \$182,100	\$95,376 – \$182,100	\$2,901 – \$10,550
32%	\$364,201 – \$462,500	\$182,101 – \$231,250	\$182,101 – \$231,250	\$182,101 – \$231,250	-
35%	\$462,501 – \$693,750	\$231,251 – \$578,125	\$231,251 – \$578,100	\$231,251 – \$346,875	\$10,551 – \$14,450
37%	Over \$693,750	Over \$578,125	Over \$578,100	Over \$346,875	Over \$14,450

17



17

2022 – 23 TAX UPDATES

2022-23 Other Important Tax Figures

	2023	2022
Social Security/ Medicare		
Social Security Tax Wage Base	\$160,200	\$147,000
Medicare Tax Wage Base	No limit	No limit
Employee portion of Social Security	6.2%	6.2%
Employee portion of Medicare	1.45%	1.45%
Individual Retirement Accounts		
Roth IRA Individual, up to 100% of earned income	\$6,500	\$6,000
Traditional IRA Individual, up to 100% of earned income	\$6,500	\$6,000
Roth and traditional IRA additional annual "catch-up" contributions for account owners age 50 and older	\$1,000	\$1,000
Qualified Plan Limits		
Defined Contribution Plan limit on additions (Sections 415(c)(1)(A))	\$66,000	\$61,000
Defined Benefit Plan limit on benefits (Section 415(b)(1)(A))	\$265,000	\$245,000
Maximum compensation used to determine contributions	\$330,000	\$305,000
401(k), SARSEP, 403(b) Deferrals (Section 402(g)), & 457 deferrals (Section 457(b)(2))	\$22,500	\$20,500
401(k), 403(b), 457 & SARSEP additional "catch-up" contributions for employees age 50 and older	\$7,500	\$6,500
SIMPLE deferrals (Section 408(p)(2)(A))	\$15,500	\$14,000
SIMPLE additional "catch-up" contributions for employees age 50 and older	\$3,500	\$3,000

18



18

FLOW-THROUGH ENTITIES' REPORTING

19

SCHEDULE K-1

- Pass-through Entities :
 - Partnership
 - S-Corporation
 - Trust
 - Estate

- Taxed at "Partner" / Shareholder / Beneficiary" level
 - K-1 Income
 - K-1 Distribution – Dividend Vs Non-dividend

- K-1 Form – share of earnings, losses, deductions, credits, other distributions, basis etc.

- IRS & Partners
 - Include information from it in the Form 1040 filed
 - Unrelated Business Taxable Income (UBTI)

- Due Date – March 15th / April 15th

20

SCHEDULE K-1

- Part II – Partner Info
 - MUST be accurate
 - Basis
- Part III –
 - Several types of income/deductions
 - Form 1040
- Form 1040, Schedule E
 - Box 1 (ordinary buss income/loss)
 - Box 2 & 3 (rental income)
 - Box 4 (guaranteed payments)
 - Box 7 (royalties)
 - Box 11 (other income or loss),and
 - Box 13 (other deductions).

21



21

SCHEDULE K-1

- Form 1040, Schedule B
 - Box 5 (interest income)
 - Box 6a (ordinary dividends)
 - Box 6b (qualified dividends)
 - Box 6c (dividend equivalents)
- Form 1040, Schedule D
 - Box 8 (net short-term gain or loss),and
 - Box 9a (net long-term gain or loss)
- Form 1040, Schedule A or Form 1116
 - Box 21
- Generally, Sch K-1 – Unearned Income
 - Limited Partners / Passive Investors
 - Beneficiaries (Trust / Estate)
- Generally, Sch K-1 – Earned Income
 - General Partners / Active Owners

22



22

SCHEDULE K-1

➤ Box L - Capital Account Analysis

L Partner's Capital Account Analysis	
Beginning capital account	\$ _____
Capital contributed during the year	\$ _____
Current year net income (loss)	\$ _____
Other increase (decrease) (attach explanation)	\$ _____
Withdrawals and distributions	\$ (_____)
Ending capital account	\$ _____

➤ Inside Tax Basis Vs Outside Tax Basis

➤ Basis Limitation :

- Basis Limitation
- At-risk Limitation
- Passive Loss Limitation

➤ Final K-1

23



23

PARTNERSHIP BASIS

Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership

1. Your adjusted basis at the end of the prior year. Do not enter less than zero. Enter -0- if this is your first tax year	1. _____
Increases:	
2. Money and your adjusted basis in property contributed to the partnership less the associated liabilities (but not less than zero)	2. _____
3. Your increased share of or assumption of partnership liabilities. (Subtract your share of liabilities shown in item K of your 2021 Schedule K-1 from your share of liabilities shown in item K of your 2022 Schedule K-1 and add the amount of any partnership liabilities you assumed during the tax year (but not less than zero).)	3. _____
4a. Your share of the partnership's income or gain (including tax-exempt income) reduced by any amount included in interest income with respect to the credit to holders of clean renewable energy bonds	4a. _____
4b. Enter the amount of business interest expense included on 4a	4b. _____
4c. Add lines 4a and 4b. If the result is less than zero, include this amount on line 10	4c. _____
5. Any gain recognized this year on contributions of property. Do not include gain from transfer of liabilities	5. _____
6. Your share of the excess of the deductions for depletion (other than oil and gas depletion) over the basis of the property subject to depletion	6. _____
Decreases:	
7. Withdrawals and distributions of money and the adjusted basis of property distributed to you from the partnership. Do not include the amount of property distributions included in the partner's income (taxable income) Caution: A distribution may be taxable if the amount exceeds your adjusted basis of your partnership interest immediately before the distribution.	7. _____
8. Your decreased share of partnership liabilities and any decrease in your individual liabilities because they were assumed by the partnership. (Subtract your share of liabilities shown in item K of your 2022 Schedule K-1 from your share of liabilities shown in item K of your 2021 Schedule K-1 and add the amount of your individual liabilities that the partnership assumed during the tax year (but not less than zero).)	8. _____
9. Your share of the partnership's nondeductible expenses that are not capital expenditures (excluding business interest expense)	9. _____
10. Your share of the partnership's losses and deductions (including capital losses). However, include your share of the partnership's section 179 expense deduction for this year even if you cannot deduct all of it because of limitations. Include business interest expense as a separate loss class. See first Note below.	10. _____
11. The amount of your deduction for depletion of any partnership oil and gas property, not to exceed your allocable share of the adjusted basis of that property	11. _____
12. Your adjusted basis in the partnership at the end of this tax year. (Add lines 1 through 6 and subtract lines 7 through 11 from the total. If zero or less, enter -0-.) Caution: The deduction for your share of the partnership's losses and deductions is limited to your adjusted basis in your partnership interest. If you entered zero on line 12 and the amount figured for line 12 was less than zero, a portion of your share of the partnership losses and deductions may not be deductible.	12. _____

24



24

SUCCESSION PLANNING



CRITICAL



EXIT STRATEGY



PROACTIVE
PLAN



25

CONTACT INFORMATION/THANK YOU

If you have questions about the presentation, contact HM&M today –

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26

26