NOVEMBER 7, 2023 | ANNUAL YEAR-END TAX UPDATE CALL TRANSCRIPT

Pete Braden: Thanks everyone for joining us for our Annual Year-End Tax Update call. My name is Pete Braden, and I'm a Wealth Management Advisor with Godsey & Gibb. Marc Verdi is also joining me. Before I introduce Marc, I do want to mention that there is a chat feature that can be found at the bottom of your screen. Any questions sent through this feature will only be seen by Godsey & Gibb team members, not by any of the other participants on this call. We are unfortunately not going to have time to address questions during this call, but will address them in a Q&A document that will be available after the call. If your question is specific to your situation, Marc and his team will reach out directly and answer your question via phone or email. We will be sure to get any questions addressed that result from this call.

With that said, my job on this call is to introduce Marc Verdi. Marc is someone who really does not need an introduction, which I think is why everyone felt comfortable allowing me to do this. Marc has done this call for the last several years and I believe clients have found it very helpful. It is amazing that we are addressing year-end issues already – it is incredible that this time has come, but here we are.

Marc is our Director of Tax & Financial Planning as well as our CFO. He has been with the firm for over 10 years and has over 25 years of tax and accounting experience. Marc earned his Master's degree and his Bachelor's degree in Accounting from the University of Virginia. In other words, he is a proud Wahoo and is happy to be segueing from college football season into college basketball season - things are looking up for Marc. In addition, Marc is a Richmond native. He has two teenage sons who keep him busy and keep him humble. This likely doesn't leave a whole lot of time for other activities, but Marc does like to go for rides on his motorcycle. He can be found tooling around Richmond and the back roads outside of Richmond when he is not here at the office. With that, I am going to turn it over to Marc.

Marc Verdi: Thanks, Pete. I really appreciate that, and I have been instructed by the powers that be here at the firm to not ride my motorcycle during tax season. Thank you everyone for joining us today. As Pete mentioned, we have done this call the last couple of years and I am thankful that clients find it helpful. Hopefully, you are able to get some good information from this call today. We will spend about 45 minutes together this morning. If you had a chance to peruse the slides prior to the call, you know that there is a lot of information here. I apologize in advance if I go through it relatively quickly. I wanted to provide as much information as possible as it relates to the tax laws that could impact the largest majority of our clients. As Pete mentioned, if you have any questions, certainly include them in the chat, and we will touch base on those after the call. They will be available online along with the replay link to this call and the transcript in the coming weeks. If your question is more personal in nature, and you would like for us to address the question directly with you, either I or someone on our team will reach out to you to address your individual question as well as any other tax questions that you may want to discuss at that time.

Now that we have covered that, we will go ahead and get started. We have already talked a bit about me, but I want to touch base on our Tax and Financial Planning Team. We have a group of CPAs and CFP® professionals at Godsey & Gibb that provide comprehensive financial planning services, tax return preparation, tax planning, and consulting. Whether it is an annual tax return, a full comprehensive financial plan, or just an ad hoc question that you may have for us – we are always here to help our clients with your tax situation or any financial planning questions that you have. Our team pretty much works exclusively with Godsey & Gibb Wealth Management clients, so it is helpful for us as CPAs to have that captive audience and rapport with our clients along with the Wealth Management Advisor. We work closely with your G&G advisors, like Pete Braden, to provide the best solutions for you related to your taxes and financial planning. While I'll be sharing these slides with you through Zoom, I will also try to keep in mind that there are some folks who may have just joined by phone and may be following along with a PDF of our slides.

To move on to the agenda, I will be touching on the various provisions of individual income tax acts that have been enacted over the last 6+ years. This includes the Tax Cuts and Jobs Act that went into effect back in 2018 and is set to expire at the end of 2025. That Act contains most of the provisions that will affect pretty much all of us. I will also cover the Secure Act, the Secure 2.0 Act, the Inflation Reduction Act, and more. There have been a lot of tax laws enacted over the last few years, so we will touch on some of them as well as discuss some tax planning strategies that will pull the various tax act provisions together to help you both minimize your 2023 tax liability and look ahead to 2024. We typically encourage clients to take a multi-year approach when it comes to trying to plan for and understand what your tax liability will be.

I will also touch briefly on the estate and trust income tax as well as gift taxes, since a lot of our clients have trusts and may have taxable estates or do some gifting to beneficiaries. We will touch on some of those provisions, some of which will overlap with the strategies and provisions on the individual income tax side. Lastly, there will be a brief summary at the end, and again, we will follow up on questions after this call.

Over the next couple of slides, we will cover the individual income tax. The Tax Cuts and Jobs Act (TCJA) is effective through 2025. This act lowered individual tax rates, mostly across the board. The preferential qualified dividends and long-term capital gains tax rates remained at 0%, 15%, and 20%. There was also the 20% Qualified Business Income (QBI) deduction for certain self-employed individuals who have passthrough entities. For example, to help take advantage of the TCJAs reduction in the corporate tax rate and then being able to benefit from that as a self-employed individual. The next couple of slides will cover the ordinary income tax rates and the taxable income rates for single individuals based on your filing status. These are taxable income numbers. For example, if you are married filing jointly and your combined income is $100,000, you fall within the 22% marginal tax bracket, meaning the 22% is your highest bracket within these progressive tax rates. With the standard deduction being close to $30,000 (rounding that, of course), you would actually find yourself in the 12% bracket, because your taxable income would be $70,000. To move on to the long-term capital gains tax rates. Again, the amounts on the slide are the taxable income ranges that are applicable to the 0%, 15%, 20% brackets.

On the next slide, we get into the standard deductions. These were doubled with the TCJA. More often than not, folks are taking the standard deduction these days. It is still can be worthwhile to add up your itemized deductions to see if your total itemized deductions (we will explain a little bit more about what's eligible and allowable in the next couple of slides) exceeds the standard deduction. The next slide covers the allowable itemized deductions. One of the biggest ones here is the second bullet point, the state and local tax deduction was limited to $10,000. That was a big deal because prior to the act, a lot of the higher taxed states had provided a larger benefit. Many of our clients incur more than. $10,000 of state and local taxes, but you're now limited to $10,000 as a deduction on your return. Another important bullet is the last bullet point, that there that no miscellaneous itemized deductions allowed. This means your tax prep fees, investment management fees, and unreimbursed employee expenses are no longer deductible. This is something we revisit each year and was a valuable deduction, even though most of it was subject to 2% of Adjusted Gross Income (AGI, essentially your total income before your deductions). Now, it is not available at all. Medical expenses are deductible, and subject to the 7.5% of AGI.

On the next couple of slides, we have the Net Investment Income Tax (NIIT). This is essentially a surtax on your Net Investment Income (NII), which includes looking at your taxable interest, your dividends, capital gains, real estate, rents, royalties, or other business entities/passive activities that you are receiving income for. This is all included in your NII. If your Modified AGI (MAGI) exceeds a certain amount, then you may be subject to this surtax. This is actually not part of the TCJA. This has actually been in effect since January 2013. So, 2023 is actually the 11th year that this has been around. The next slide shows a calculation. Again, the NIIT is limited to the lesser of your NII or the amount by which your MAGI exceeds a threshold. For example, on the left, you see the single filing status and a MAGI of $250,000. This is $50,000 over the $200,000 threshold for an individual filing as single. This same individual has a NII of $75,000, so using the lesser of the two, they would be taxed at 3.8% of $50,000. This is something that we consider as a tax trigger, something that encourages additional taxes or additional costs unexpectedly because you're in a certain level of income. This is why this is something you want to keep in mind if you're pushing up against these income levels due to your other income sources, such as your Required Minimum Distributions (RMDs), Social Security, realized capital gains, etc. It is important to revisit what your projected taxable income will be for the year. If you're planning on realizing additional capital gains or harvesting any capital losses, then keeping this in mind is important because you may think you're being taxed at 15% (for example) on your capital gains, but if you are subject to this tax, then you're looking at an 18.8% tax on some of that income.

On the next slide, the Secure Act, this was passed along with a slew of acts that were became effective just before COVID. Of course, as COVID came upon us in 2020, there have been additional acts since then that we will cover. This act was passed in 2019 and really became effective in 2020. We will go over a couple of the big items in this act. One, is that there is no age limit on contributing to your IRA as long as you're still working. It used to be that at age 70 ½ you had a cut off on contributing to your IRA. With Required Minimum Distributions (RMDs), the age which they must start by is now age 72. This has since been raised to age 73 with Secure Act 2.0, which we'll get into in a moment. Lastly, we have Stretch IRA Distributions. This was another important limitation that was enacted with the Secure Act. Before the Secure Act, you were able to stretch out an inherited IRA distribution if you are a beneficiary of an IRA. Let's say you were a 50-year-old child and your mom or dad passed away and you inherited the IRA. You may be able to take distributions over your life expectancy according to the IRS tables. That could be 35 years and now that is restricted to a 10-year period. This is significant for some folks and is what we call the 10-year rule.

On the next slide, we have some proposed regulations around this rule because there was a lot of confusion or different interpretations of the Secure Act provisions related to this 10-year rule. Some CPA's and tax preparers felt that the taxpayers were required to take these distributions annually over the 10-year period so that it was liquidated fully at the end of 10-year period and then other CPAs interpreted it to say that annual distributions were not required as long as the beneficiary of that inherited IRA fully liquidated it by the end of 10-year period. In an attempt to clarify this law, in February 2022, they issued proposed regulations stating that if you are a non-spouse beneficiary, you had to take distributions annually over the 10-year period. Now, this amount was not spelled out in the regulations, but one common strategy would be to take distributions ratably over the 10-year period. So, 1/10 of the value of the account the first year, 1/9 the next year, 1/8 and so on. The IRS also issued additional guidance in November 2022 and in July 2023 to state that if the inherited IRA beneficiaries had not adhered to this 10-year rule and taken the distributions annually, there will not be a penalty. As of the date of this call, the proposed regulations have not been finalized or signed into law, so there is still flexibility in not taking the distributions annually and not being penalized. Now, it may make sense to go ahead and take those distributions each year. Having the taxable income from those distributions moved over a 10-year period versus deferring until year 10 and having to take a lump sum. That would be something to discuss with your CPA as well as your Wealth Management Advisor to see what makes sense in any given year.

On this next slide, at the end of December 2022, the Secure 2.0 Act was enacted. This was a law that was passed after our 2022 Tax Call last year in November, so this is some new tax call information although you have probably heard or read about some of this elsewhere. Many of these provisions were enacted to improve retirement saving opportunities and to help employers set up lower cost retirement plans. This Act also included automatic 401K plan enrollment and increased the RMD age. Many of these provisions are effective January 1, 2023, although some of them are applicable in future years.

On the next slide, we have the new RMD rules under the Secure 2.0 Act. The RMD age was age 72 as I had mentioned before, but now it has been increased to age 73 beginning on January 1, 2023. It will increase further to age 75 on January 1, 2033. The Secure 2.0 Act also reduced the excise tax penalty for failing to take these RMDs. It used to be that if you did not take the RMD, you were penalized 50% of what the RMD amount was supposed to be, and you would pay that as part of your tax return liability. That excise tax has been reduced to 25% of the RMD, but if this failure is corrected in a timely manner (as defined in the act), the excise tax is reduced to 10%.

On the next slide, the Secure 2.0 Act also effectively increased retirement plan catch-up contributions for those who are age 50 and older. It tied these to inflation each year versus having the catch-up contributions be static if you will until the IRS approved an increase in those catch-up contribution. The annual catch-up contribution limit for most retirement plans is $7,500. Again, that is going to be subject to inflation increases. Also, because the IRS likes to add some complexity to things, in 2025, the Secure 2.0 Act provides for an increased catch-up contribution limit for folks that are between the ages of 60 and 63. This is the greater of $10,000 or 150% of the catch-up contribution limit for 2024.

Let’s move on to the next slide which also covers part of the Secure 2.0 Act. The IRS initially enacted a rule which stated that starting in 2024, these increased catch-up contributions must be treated as Roth contributions (in other words, treated as after-tax and not pre-tax dollars) if your income was over $145,000. That income amount would be indexed annually for inflation. However, in August of 2023, the IRS issued guidance that delays this Roth contribution mandate to 2026. This is because plan sponsors, custodians, and CPA's lobbied that more time is needed to amend plan documents, to update systems to track these requirements, and so on. I think the two-year delay is good and that it is interesting that it will also coincide with when the TCJA expires. We will see what happens and will keep you up to date on whether any of these changes are enacted as projected as we get closer to those expiration dates.

On the next slide, we have the Inflation Reduction Act of 2022. This was signed into law in August 2022, so we touched on it during last year's call. The main objectives were to lower prescription drug costs, address climate change, and to increase taxes paid by corporations and the "ultra-wealthy." There was a lot of criticism about this act because of its misnomer if you will. Not to get too political about it, there were a lot of items in this that were not related to reducing inflation, but there were a lot of income tax provisions that were enacted that are in effect for 2023 and beyond. We want to touch on those clean energy credits.

On the next slide, we have the Energy Efficient Home Improvement Credit. This credit was extended through 2032. Each one of these credits received new names and new extension periods. Starting in 2023, this credit is equal to 30% of the cost of installing certain energy efficient home improvements and that includes the equipment, materials, and labor included in the cost for an annual maximum of $1,200. You can see other limits on this slide for exterior doors, windows, and skylights. This is also an annual maximum, not a lifetime credit. The previous credits related to these types of expenditures had a maximum of – let's say for example, the exterior windows and skylights, of $600.00 and that was a lifetime credit. Once you reached that maximum credit of $600.00 on your tax return, then you were no longer eligible for it. This is an annual maximum, so there may be multiple years that you incur these costs and make these installations and are able to take that $1,200 credit.

On the next slide, there is also up to annual maximum of $2,000 of available credit for natural gas, heat pumps, water heaters, and other biomass equipment. Again, that is an annual maximum.

On the next slide, the Residential Clean Energy Property Credit was extended through 2024. This provides a 30% credit to the cost of installation for qualifying solar powered property (solar panels, solar water heaters, etc.). There is no overall dollar amount limit to this credit, so this could be an extremely valuable credit because it is dollar for dollar against your tax liability.

On the next slide, we have the Clean Vehicle Credit. This is extended through 2032 and this also creates new credits for previously owned clean vehicles as well as commercial vehicles. In the past, it was really just for new personal vehicles. This is for vehicles purchased after December 31, 2022 (essentially 2023 and beyond) and credits are up to $7,500 for new vehicles, $40,000 for certain qualifying commercial vehicles, and then up to $4,000 for previously owned clean vehicles. There are several limitations that apply in terms of the type of vehicle, when it was built, your income, etc., so you want to check the fine print as it relates to whether your vehicle is eligible. I think there is also an opportunity for the dealer to provide supporting documentation whether a vehicle is eligible for these credits. I also believe there is going to be, if there isn't already, a database within the IRS to look up a vehicle identification number (VIN), to see if it applies for the credit.

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Now, we will get into several tax planning strategies for 2023 to help reduce your 2023 tax liability. The next slide covers current tax law strategy considerations you want to consider to maximize your retirement plan and IRA contributions if you're still working (including your SEP IRA if you are self-employed). We have the elective deferral information and contribution limits on the slide, and we have projected 2024 amounts adjusted for inflation (which the IRS should be officially releasing any day now). These are widely published projections, they are not official at this time, but I think they are reasonable to make some plans for 2024 at this point. If you're in your near-peak or in your peak earning years and you are in a higher tax bracket now than you expect to be in during retirement, then maximizing these pre-tax deferrals today will help save in taxes because you will make these taxable distributions when you are retired and presumably with lower taxable income and thus in a lower tax bracket. Also, keep in mind that if you are married, you can contribute to your spouse's IRA (even if your spouse is not working and does not have earned income) as long as your earnings are at least more than what the combined IRA contributions would be in a given year - you're able to contribute to both.

On the next slide, Roth IRA conversions and/or Traditional IRA distributions (pre-RMD or inherited) may be tax efficient under the current tax rates. Again, they are set to expire at the end of 2025. You may be able to take advantage of those lower tax rates now, but you also want to keep in mind some of the other considerations that are listed on the slide. For example, your cash flow, how much you're going to need for living expenses, other income, other deductions, other available assets and income sources, etc. I would recommend discussing your individual situation with your CPA/tax professional to help determine what would be the most beneficial course of action for you.

On the next slide, we have long-term capital gains. Realizing those long-term capital gains at the 0% and 15% rate depending on your overall income amount could be beneficial. Again, we are not sure what those rates are going to change to after 2025 (in tax year 2026). For those that work with our Tax and Financial Planning Group, we work closely with your Wealth Management Advisor to determine whether it makes sense to take more long-term gains or perhaps harvest some losses where appropriate. This is as long as they fit within your overall portfolio management objective, as we do not want tax implications to be the sole reason for investment management decisions, but we do take taxes into account as part of the decision-making process.

Also on this slide, we start, we touch on deductions and itemized deductions versus standard deductions. As I mentioned earlier, the standard deduction is more prevalent because of the amount of the deduction that is available now. In some cases, it may make sense to consider itemizing your deductions, particularly if you're able to accelerate and “bunch” some deductions into alternating years. For example, one strategy we mentioned is bunching your charitable contributions. For example, maybe you give a significant amount of money to your church, synagogue, university, or other favorite charity, in 2023 (versus splitting that amount into 2023 and 2024) and then itemize your deduction in 2023 and take the standard deduction in 2024. Then, you contribute a significant amount again in 2025 (combining both your donation for 2025 and 2026). It could be this, or something along these lines that allows you to meet your philanthropic goals, but also receive the benefit of the higher charitable contributions in excess of the standard deduction (taking the standard deduction in alternate years). Also, donating appreciated stock either directly to the charity, or through a Donor Advised Fund (DAF), is another effective way to provide significant charitable contributions in a given year. Receiving contribution deductions for the fair market value of the stock on the date of the of the contribution (especially if you have low basis stock). Instead of realizing the capital gain by selling the stock to raise cash and donating the cash to charity, donate the stock directly to the charity obtaining a tax deduction for that fair market value of the stock on the date of the contribution (avoiding the capital gains tax).

On the next slide, we talk about medical expenses. Again, there is an opportunity to bunch medical expenses into alternate years when possible. Earlier, we talked about the 7.5% of AGI hurdle that must be cleared before deducting any medical expenses. So, for example, if your AGI is $100,000, and you have $7,501.00 of medical expenses, only $1.00 is deductible. To the extent that you can bunch more of your medical expenses into alternating years, you may receive a greater benefit. Obviously, that is not always easy to do/forecast. If you happen to have an upcoming elective surgery or you are considering moving into an assisted living or independent living facility that may have significant entrance fees (a portion of which could be deductible as medical expenses), you may want to time those expenses within a given year to hopefully take advantage of the deduction and then take the standard deduction in other years. Also, you could use your Health Savings Account or HSA to indirectly deduct medical expenses by contributing to your HSA, getting a deduction for that, and then making withdrawals from your HSA (which would be tax free if you are using those for qualified medical expenses). The HSA contribution limits are on the screen as well as the projected amounts for 2024. Again, the projections are not official yet, but I think they are reasonably close to what they will actually end up being.

You also may want to evaluate the timing of transactions eligible for the tax credits. For example, for any of the clean energy credits that are available in 2023, they may provide the most benefit based on your income this year, but they are available over multiple years. For example, if you feel that your income is going to be higher in 2024, deferring that expense to the next year and getting that credit against your 2024 income could be beneficial to you.

On the next slide, we have Qualified Charitable Distributions (QCDs). Taking these from your IRA is also a great way to meet your charitable goals without incurring any taxes. You must be 70 1/2 or older on the date the QCD is made, and the funds must go directly to the charity for this to apply. Now, if the custodian writes a check made out to your favorite charity and you would like to deliver it to them yourself, that will also work. You just want to avoid having a check made out to you or funds transferred to you directly from your IRA (and then making a contribution) because that would become a taxable distribution to you and then a deductible contribution on your taxes. You want to ensure the funds go directly to the charity. You can direct up to $100,000 per year to your favorite charity and this would also be counted towards your RMD, so you would be able to reduce your RMD by this amount. This is also helpful as it relates to AGI. As I mentioned several times, the lower your AGI, the better for this purpose in terms of hurdles like medical expenses, the NIIT, and other tax triggers that you would want to avoid. Even Medicare premiums could be increased because of your AGI. Making QCDs not only achieves the charitable goals, but allows you to reduce your AGI as well. I will mention that the onus is on you, the taxpayer, to let your tax preparer know that you have made these QCDs because the 1099 you receive at the end of the year will have the total amount of your distributions. You have to your tax preparer know that you made a gift or QCD of $10,000, for example, to your favorite charity in order to reduce your income by that amount. Many of our monthly newsletter Q&A articles address some of these topics, so you may have read about these recently. We have talked about QCDs, bunching, donor advised funds, etc. and all of these are available on our website at www.godseyandgibb.com under our education tab. I encourage you to review those if you have not seen them already.

Finally, moving on to investment management fees at the bottom of this slide. We recommend that you go ahead and pay your IRA management fees directly from your IRA. In the past, we would recommend getting your asset management fees paid from your taxable account, because you were then able to deduct those on your taxes as a miscellaneous itemized deduction. Since that is no longer an option, we recommend paying your IRA management fees directly from the IRA versus a taxable account. You cannot pay other account management fees from the IRA, just the fees that are related to the IRA.

On the next slide, we have the recommendation to check in with your CPA or tax preparer. You want to discuss your expected income and deductions with your tax preparer. This is primarily related to your withholdings and quarterly estimated tax payments to determine whether you should pay anything additional between now and the end of the year by either adjusting your withholding from your IRA distributions or making a quarterly estimated tax payment in the fourth quarter of this year. Conversely, if you front loaded your withholdings and your quarterly estimated payments during the first 3/4 of the year based on your projected income, and now your income is looking like it is going to be less than you had expected, you may be able to avoid making a fourth quarter payment. Again, you would want to meet with your tax preparer to discuss what the rest of this year looks like and make sure you are on track to have your estimated tax liability covered, so you are not receiving any surprises at tax time.

It is also a good time to adjust your payroll withholding if you are still working to make sure that you are sufficiently paid in for 2023 and have a good start to 2024. Job changes, salary changes, changes in marital status, having children, moving to different states - all of those have tax consequences and it would make sense to review your withholdings to make sure they are sufficient to cover your tax liability. I included a link to the IRS withholding estimator tool on this slide. I think it's a valuable tool to walk through to make sure that you are on track for your withholdings. You can also Google IRS withholding estimator, and a link will be provided in the search results.

Over the next couple of slides, we are going to shift to the estate, trust, and gift tax area. On the next slide, we have the Estate and Trust Tax Law Overview. You see the tax rates for estates and trusts are very similar to individuals with the top tax rate being 37%. Keep in mind that these brackets are much more compressed. Even though the tax rates are similar to individuals (even the qualified dividends and long-term capital gains rates), they are incurred at a much lower income level - just under $15,000. This is along with the NIIT (the 3.8% surtax) that estates and trust income taxes are subject to as well. One planning strategy could be to determine whether a trust beneficiary would need a distribution for living expenses from the trust in 2023 (or even in 2024, really any particular year), and to time those income distributions so that the tax liability shifts to the beneficiary at a potentially lower tax rate. This is obviously dependent on the beneficiary's tax situation, but most often we have seen that because the income brackets are much wider for an individual, there may be the opportunity to shift some of that income tax liability from the trust to the beneficiary (of course providing that those distributions are in accordance with the trust document).

On the next slide, the biggest estate and gift change that occurred with the TCJA was the doubling of the estate and gift lifetime exemption amount. This has been indexed for inflation each year and is just under $13 million for an individual taxpayer in 2023. If you are looking at a married couple, combining those exemption amounts, it is almost $26 million in 2023. I have the projections on the slide for 2024 as well. Also, to note, the estate tax rate is 40%. The annual gift tax exclusion annual amount per donor is $17,000 per recipient for 2023. We go further into this on the next slide, on how to take advantage of the annual gift exclusion. This amount becomes $34,000 per recipient if a gift is split between spouses to reduce your taxable estate, and those amounts are projected to be $18,000 ($36,000 for a married couple if you split the gifts) next year. Gifting is still really important, especially if the old exclusion amounts are reinstated in 2026. There are some projections that say it will be around $6 million or $7 million versus the $13 million we are at today. Gifting annually is still a strong estate planning tool.

One popular strategy that some of our clients have used is with 529 plans. You are able to gift up to $85,000 in a given year. This is because you are able to essentially elect a 5-year average, or say that it has been made over a 5-year period, while gifting it all in one year. When you file a gift tax return, you select this 5-year average election, and it will not count against your annual gift tax exclusion (and won't reduce your overall lifetime exclusion amount).

Another strategy is to consider setting up and funding irrevocable trusts, which will remove assets from your estate. You want to keep in mind that your heirs will receive a step-up in basis if they inherited the assets versus if you gifted them directly during your lifetime or gifted them to an irrevocable trust. This could be valuable for folks that have low-cost basis in stocks or other assets. If you hold on to those versus gifting them now, they could potentially save your heirs significant capital gains taxes because they wouldn't be able to utilize the stepped up basis to the fair market value on the date of your passing versus the low-cost basis.

On the next slide, we have the reminder to consider a deceased spouse's unused exemption amount. This is referring to the portability of that amount (the $12.92 million), meaning that it can be added to the surviving spouse's estate lifetime exemption. This can give the surviving spouse an exemption of almost $26 million in 2023, and again this will be adjusted for inflation in future years. I know it can be a difficult conversation to have, but addressing the potential estate tax impact of a deceased spouse's estate is very important and extremely valuable. We have consulted with clients on this who have had a family member pass away, and there may not be a taxable estate consideration given this $13 million unused exemption amount, but if the unused exemption amount reverts back to $6 million you could be subject to a taxable estate. Being able to port this unused exemption amount over to the surviving spouse could be a very valuable strategy. An important thing to keep in mind though, is that the executor must file a 706 estate tax return to elect this portability in order for that unused exemption amount to be transferred over to the surviving spouse.

Finally, on the next slide, I cannot emphasize enough to revisit your estate planning documents (your wills, trusts, powers of attorney, medical directives, etc.) with your estate attorney to ensure that they accurately reflect your intentions over the years. With the tax laws that have been enacted, you may have had some provisions that had certain distributions to certain individuals in certain amounts (maybe you had a marital trust and a family trust, for example), and now that these estate law provisions have been enacted, there may be changes in the amounts or the beneficiaries of set amounts that weren't your intentions. It makes sense to review these with your estate attorney to make sure that they are updated for the current tax laws, to ensure that they are distributing your assets as you intend upon your death. Also, if you've moved states, it's important to get your documents updated. If you've moved from Michigan to South Carolina, for example, you want to make sure that these estate documents are updated for your new state of domicile.

With that said, we will get into a brief summary as we are coming to the end of our time together. I'll just briefly walk through these.

- Roth IRA conversions and Traditional IRA distributions may be more tax-efficient under the current tax bracket structure, again set to expire at the end of 2025, so it may make sense to accelerate some of these distributions and be taxed at lower rates (but, of course, we can address your individual situation).

- While working and in your peak earning years, maximize your pre-tax retirement contributions and IRA contributions.
- Realized long-term capital gains and qualified dividends are taxed at lower rates, but also be aware of other income and the NIIT (being a tax trigger) that you could be subject to, as well as any impact on Medicare premiums. Again, if your AGI is over a certain amount (the Social Security Administration looks at your tax returns annually to see what that amount is), you may pay more in Medicare premiums.
- Itemizing your deductions may still be valuable, depending on amounts and timing, particularly if you are able to bunch some of the amounts together from medical expenses or charitable contributions for example.
- Consider the clean energy credits enacted and the timing of those purchases to get the most benefit out of the credits. It may be something you could benefit from in 2023 if you want to go buy that Tesla for Christmas, but you may want to wait until next year if your income is going to be high. If you are considering the purchase of clean energy home improvements or an electric vehicle, understand the credits available to you in 2023 (and beyond) and time your purchases accordingly.
- Consider various charitable gifting strategies (cash, appreciated stock, QCDs) to maximize the tax benefit while meeting your philanthropic objectives.
- Review your 2023 tax withholding and quarterly estimated tax payment amounts and adjust if necessary.
- Estate planning is critical. Consider:
  - Creating irrevocable trusts if they make sense for your situation and gifting to heirs each year.
  - Electing portability for a deceased spouse's unused exemption amount to tack that on to the surviving spouse's exemption amount to help minimize the possibility of a taxable estate.
  - Reviewing your existing estate and trust documents to reflect current tax laws and accurately achieve your intentions upon your passing.

I know that was a lot of information in a short amount of time. If you have any questions, you can certainly e-mail me directly at my e-mail address on the slide (mverdi@godseyandgibb.com). You can also certainly reach out to your Wealth Management Advisor or anyone on our Tax & Financial Planning team if you ever have any questions or would like to work with us on your tax return preparation or financial plan. Thank you for your time and attention today. Hope you gathered some good information and I hope some of it is helpful to you. Hope you have a great day. Thank you for taking the time to listen to our Tax Call this morning. I look forward to speaking to you again and hopefully seeing some of you in the near future. Take care.
