Gerstein's
BROOKLYN TAX SERVICE

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Year-End Tips For High Income Or High Net-Worth

Year-end tax planning in 2023 can make a major financial difference in retirement funding and in how much you leave your heirs. However, identifying the opportunities is not so easy because it always comes down to your personal situation. To make things easy, here are tips about common situations for year-end tax planning maneuvers for high-income earners and elders of affluent families.

Basics. Year-end planning changed dramatically since 2018, when The Tax Cuts and Jobs Act ("TCJA") became effective. TCJA changed rules for individuals on itemizing deductions as well as rules affecting business-owner depreciation, expensing, and tax credits. For tax year 2023 the standard deduction increases to $13,850 for single filers and $27,700 for married couples filing jointly. The old rubric of year-end tax planning was to accelerate deductions. However, since TCJA became effective, the new guideline is to time deductions. It's the same with recognizing income. With itemizing deductions no longer appropriate for almost all taxpayers, timing deductions is now the central goal. This may allow itemizing once every few years to maximize tax savings. The point is, year end tax planning now requires a more strategic, long-term approach tailored to events in your financial life.

Roth IRAs Conversions. Whether you can generate tax-free income in retirement by contributing to a Roth IRA in 2023 hinges on your modified adjusted gross income. High-income earners cannot contribute to a Roth IRA account if they earn more than $228,000 in 2023 and file jointly ($153,000 for single filers). Roth eligibility rules are complicated but followed properly reward you with tax-free income in retirement. A Roth IRA also may provide heirs favorable tax treatment if you name them as beneficiaries.

The back-door route is a strategy designed to sidestep the income limitation on contributing directly to a

(Continued on page 4)

Planning To Achieve Whatever Floats Your Boat

Clients come to us not only for their annual tax filing but for year-round tax advice.

Tax advice and financial planning are intertwined: If you want to reduce your tax burden, the decisions you make will inevitably affect your total financial profile. Need rescue from high capital-gains or estate taxes? You have many options, most of them complex requiring the assistance of tax and financial professionals.

However, helping clients define their unique tax and financial goals always brings their non-financial objectives to the fore front as well. And those are the really important ones, because money is only a means to an end. It's achieving our life objectives that fulfills us.

Maybe you want to make art full time. Or home-school a grandchild. Or volunteer as a museum guide. Whatever floats your boat: It's the uses of your assets that count.

So wealth management, and tax management as a piece of it, are not just exercises in fattening your bankbook but enriching your life.

Running a tax business requires that we listen and understand what's important to each of our clients. It's never simply paying less in taxes, as satisfying as that is to them and to us. We're not putting tax management on a pedestal, but it's one step in reaching the life you've chosen. As always, we're here to help you out.

Warm regards,
The Gerstein's Brooklyn Tax Service Team

Reversal Of Tax Cuts And Jobs Act Deals A Financial Blow

When the Tax Cuts And Jobs Act (TCJA) was signed into law on December 22, 2017, it was the most sweeping rewrite of U.S. tax law since the Tax Reform Act of 1986. Now, it's about to be undone.

On December 31, 2025, most tax rules changed by TCJA affecting individuals will expire. Reversal of the seismic shift wrought by TCJA is widely expected because TCJA increased the U.S. Government debt and materially weakened the nation's balance sheet. Now, two years before expiration of TCJA, it is time to begin financial planning moves to minimize the impact of the coming reversion to pre-TCJA tax rules.

In the financial press and among tax nerds, the expiration at the end of 2025 is often referred to as a "sunset" of TCJA, misleadingly conjuring up a proverbial day at the beach. Far from it, the expiration will be jarring financially for many wealthy individuals.

To appreciate the depth and breadth of the changes just ahead, consider these key reforms ushered in by TCJA:

[1] Before TCJA, 68.7% of individual filers claimed the standard deduction, and about a third of all individual taxpayers' itemized deductions. After TCJA became effective in tax-year 2018, IRS data show nearly 90% of individuals claimed the standard deduction; only 11% of individual filers itemized deductions — vastly simplifying tax-filing.

• TCJA permanently slashed the maximum corporate income tax rate by 40%, from 35% to 21%, but tax cuts for individuals would be temporary, lasting from 2018 through 2025.

• Most income-tax brackets for individuals were reduced, but only from 2018 through 2025.

• For high-income earners, TCJA reduced the top marginal tax bracket from 39.6% to 37%.

• The amount exempt from estate tax doubled to $11.2 million, and after annual adjustments for inflation, is now $12.9 million. That exemption is scheduled to be slashed to 2017 levels.

• Owners of sole proprietorships, partnerships, S corporations, and some trusts and estates have been eligible to deduct up to 20% of income from a qualified trade or business, but reversion to pre-TCJA rules ends that tax break after 2025.

The nonpartisan Congressional Budget Office (CBO), the research arm of Congress, has projected TCJA will increase U.S. budget deficits by about $1.5 trillion between 2018 and 2027, raising the federal debt from 91.2% of annual gross domestic product (GDP) in June 2017 to 97.5% of annual GDP in 2027.

CBO estimates TCJA reduced federal revenue by $0.47 trillion over 10 years, before accounting for the modest GDP growth it spawned.

TCJA's negative impact on the long-term federal debt makes it more likely that reversion to pre-TCJA laws will spur Congress to enact new legislation reducing the impact on some taxpayers while hiking taxes for others. Examining the impact of the expiration of TCJA will better prepare high-income-earning and high-net-worth individuals for any new tax rules.

The rewards of the planning for expiration of the TCJA's sweeping changes will be significant for many taxpayers, as are the consequences of failing to plan. ●

A Framework for Investing for Life

Modern Poftfolio Theory, or MPT, is a framework for investing that is the intellectual underpinning for a lot of individuals and financial firms. So, it is important to explain it periodically.

Just as constructing the framework for a home is strategically designed by connecting one piece of wood with another, MPT provides a system for constructing a portfolio based on measurable dimensions of investments – history and quantitative characteristics.

Owning different kinds of investments is less risky than owning only one type of asset, and MPT is a system for diversifying across a wide range of assets based on their statistical characteristics. And of course, what you invest in has a large effect on your taxes.

Classifying investments based on their distinct characteristics – such as the aggregate value of a company's shares outstanding, profit growth, and share-price variance – imposes a quantitative discipline for selecting combinations of investments based on historical data. Investments revolve around a world that is always changing, however, all predictions about future returns and risks are uncertain. MPT is a way of managing that uncertainty.

Just as every stud and joist in a home has its own mathematical dimensions, investments have their own unique shape and characteristics. MPT measures the characteristics of different kinds of investments used to construct a portfolio. It's a way of building a portfolio so that the return you expect over the long run is maximized for a given level of risk.

Just as a home can be built to your personal needs and preferences, so, too, can a portfolio be custom-built to suit your personal risk tolerance specifications. To be clear, cookie cutter portfolios are not what we do. Each portfolio can be tailored to a client's

New Retirement Rules Impact All Ages & Incomes

New rules of retirement just went into effect. They usher in changes in tax rules affecting Americans of all age and income levels.

With nearly 40% of today's workers financially unprepared for retirement according to the Center for Retirement Research at Boston College, the changes represent steps by the government to prevent the nation's retirement funding crisis from growing worse.

The new retirement rules are known as SECURE 2.0, but Congress formally entitled the law "Securing a Strong Retirement Act 2.0".

How We Got Here. SECURE 2.0 expands on retirement rules signed into law by President Donald Trump in December 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act. SECURE 2.0 is one part in the 4,155-page, $1.7 trillion Consolidated Appropriations Act of 2023 (CAA). The bill funded the U.S. government through September 30, 2023, enabling a long list of national priorities, such as aid to Ukraine and domestic disaster relief as well as retirement provisions in SECURE 2.0.

Effective Dates. Some of the new rules on retirement became effective January 1, 2023, while others won't kick in for many years. The new rules benefit retirees and pre-retirees in 2023 and will boost retirement funding for Americans for generations. Here's a summary of key provisions affecting retirement planning for individuals.

RMDs. In 2023, the age at which you are required to start taking annual distributions from an IRA or qualified retirement plan sponsored by your employer rose from 72 to 73. The age at which you must start taking distributions rises to 74 in 2030, and 75 in 2033. Delaying distributions enables money to compound without being taxed for longer, bolstering retirement assets and reducing taxes on assets earmarked for children, grandchildren, and other beneficiaries.

Automatic Enrollment. Funding retirement security is highly correlated with participation in a qualified federal plan, such as an IRA, 401(k), or 403(b). So, automatic enrollment of employees will be required in newly-created federally qualified plans starting in 2025. Employees can opt out, but no longer will be required to proactively opt in.

50-Plus Catch Up. A "catch-up" provision has long enabled those age 50 or older to boost contributions to IRA, 401(k) and other federally qualified retirement plans. For those ages 60 through 63, the $7,500 catch-up amount permitted in 2023 rises to $10,000 on January 1, 2025, and the catch-up amounts will be indexed to inflation annually. The enlarged catch-up contributions are a potent new last-minute tactic to make up for a shortfall in funding retirement.

Get With A Plan. Under SECURE 2.0, companies can give employees gift cards and incentives worth up to $100 to encourage participation in the company retirement plan in 2023. Until now, in an effort to protect workers from conflicts of interest, employers were prohibited from using incentives.

Part-Time Help. As of 2023, part-time employees can participate in a retirement plan, under SECURE 2.0 after three consecutive years of service. In 2024, the waiting period drops to two years of consecutive service.

Small Business Credit. In 2022, small businesses with up to 50 employees were eligible for a credit on 50% of the cost of starting a qualified plan. In 2023, the credit rises to 100%. The increase does not apply to defined benefit plans.

Military Families. Military spouses often fail to be able to participate in qualified plans because they relocate so often. Under SECURE 2.0, in 2023, small employers are eligible for a tax credit for allowing military spouses to participate in a plan with no waiting period.

Student Loan Debtors. For individuals hobbled by student loan payments, your employer can make contributions to retirement plan that match your student loan payments —even if you contribute nothing to your plan. That's big!

Lower Wage-Earners. A tax credit for lower income wage earners doubles from $1,000 to $2,000 in 2027. For example, joint-filers with $41,000 to $71,000 of income (single filers with $20,500 to $34,000) qualify.

Some critics say SECURE 2.0 did not go far enough in helping lower-income earners and "gig" workers. The Congressional Budget Office says the Act will boost tax revenue by $158 million in the 10 years ending in 2031, and make participating in a plan more important in financial planning. This list is only a sampling of how the new rules in SECURE 2.0 will affect individuals. ●

preferences.

Economist Harry Ma rkowitz introduced MPT in a 1952 essay. He was awarded a Nobel Memorial Prize in Economic Sciences in 1990. Thus, it took from 1952 to 1990 – 38 years – for Markowitz to be recognized by the Nobel committee. This provides insight into the how long it can take for knowledge to be accepted.

Over the last 70 years, the power of Modern Portfolio Theory has grown to be widely accepted. The framework for investing embraced by most institutional investors worldwide and it is now a foundational element in teaching finance at the world's best colleges and universities.

MPT is a starting point for constructing a quantitatively driven portfolio based on fundamental economics. Just as the laws of physics are relied upon for building a home, fundamental factors of economics are relied upon in constructing a portfolio using MPT. ●

Answering Some Difficult Questions About Long-Term Care

At age 65, only about 20% of American retirees have family and financial resources to cover high-intensity care for at least three years. About 30% cannot afford any help at all. The remaining half of older adults lie somewhere in between not being able to afford any care and having a long-term safety net should they be stricken by a prolonged health crisis.

These are the grim conclusions of The Center for Retirement Research (CRR) at Boston College. Part of a consortium of research groups funded by the U.S. Social Security Administration since 2018, CRR's research paints a gloomy picture of the retirement struggle most Americans are facing.

In a September 2021 research brief, CRR examined the resources available 65-year-olds to meet their needs for different long-term services and support (LTSS). CRR's analysis considered "informal" care from family members, as well as care paid for out of a retiree's pocket, and it categorized older adults by their ability to afford minimal, moderate, and severe care needs.

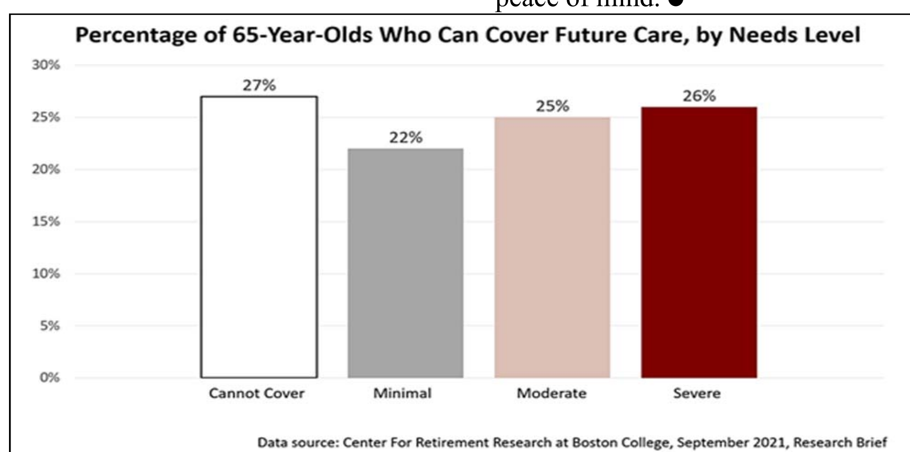
With about a third of America's retirees lacking resources for even minimal care, and only a fifth able to afford care for a severe personal health crisis, such as a stroke or chronic disease, this problem is expected to cause enormous social and political issues in the decades ahead as baby boomers age. However, even if you have family support and enough money to care for a severe health event requiring long-term care, proper planning requires answering some difficult personal financial questions:

Can you afford to self-insure in your old age?

Have you done the financial math to ensure you could pay for a severe-care event in your retirement years, figuring on living through age 85 or 90?

Have you paid for long-term care insurance that has grown more expensive or now provides lower benefits than it used to?

The earlier you get started on planning for income to take you through a health crisis in retirement, the easier it is to find solutions and gain peace of mind. ●



Year-End Tips

(Continued from page 1)

Roth IRA. Despite its somewhat sinister sounding name, the back-door Roth IRA route is a completely legal method under IRS rules.

Instead of contributing directly to a Roth IRA account, a three-step process is involved: (1) contribute to a traditional IRA account, (2) withdraw all or part of the traditional IRA account and pay income tax on the withdrawal, and (3) place the withdrawn funds in a Roth IRA account.

Paying income tax on the amount withdrawn from the traditional IRA may be a bitter pill to swallow right now, but it converts funds in IRAs to a tax-free account. Tax-free income will become more valuable in the next decade if tax rates rise, which is widely expected because the long-term debt of the U.S. is projected to soar around 2030. As a result, the three-step process of a back-door conversion is a sensible financial strategy for locking in tax-free income at today's tax rates.

College-Funding Overflow. Starting in the 2024 tax year, parents, grandparents, and account owners, who overfunded a 529 college savings plan account will be permitted to convert at least some of the leftover amount to a Roth IRA. And so if your child or grandchild received a scholarship or elected to attend a state school with lower tuition than expected, the assets left in the account are eligible to be transferred to a tax-free Roth IRA. To be precise, up to $35,000 of 529 assets left over after a child attends undergraduate and graduate studies will be transferable to a Roth IRA account, where it will never again be taxed, according to current federal tax law: so it may be useful to plan for this change.

Think Ahead. Reducing federal taxes in 2023 and 2024 is going to depend on what's going on in your life. Do you have a wedding to pay for coming up in 2024? Are you expecting a grandchild? Are you changing jobs? Will your income rise sharply? While these questions may sound random, these are typical situations that open tax-saving opportunities. The idiosyncratic and personal nature of year-end tax planning is a good reason to seek tax advice from a qualified financial professional advisor familiar with your personal situation. ●

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