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# THE KATZ GROUP

*comprehensive financial services for individuals, families and businesses*

Prudential

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## The Katz Group Newsletter — Edition: Q1 2023

### "Hello!" 2023

We'd like to begin this edition of our quarterly newsletter by wishing all of our clients and readers a very happy and healthy new year. We hope you were able to enjoy the holidays and spend some quality time with your friends and families, even if it meant having to endure the madness of that one crazy uncle that all families seem to have (you know who you are). After a historically challenging year for the broad financial markets, many of us are eager to wave goodbye to 2022 and say "Hello!" to 2023 with the excitement and enthusiasm of Uncle Leo, perhaps the most iconic crazy uncle in television history. As the calendar turns, we thought it would be worthwhile to check in with Uncle Sam, the popular caricature that personifies the federal government and symbolizes American patriotism, but also serves as the collector of our hard-earned tax dollars. Here, we seek to highlight a few relevant changes that may impact your planning for the upcoming tax year using Prudential's 2022 and 2023 Easy Reference Tax Guides as our source. Please note: As Financial Advisors, we are not accountants and do not render specific tax advice. Please consult with your own tax advisors regarding your particular tax situation.

Statutory tax brackets remain unchanged in 2023. The marginal tax rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37% remain intact, although the income levels associated with each bracket have increased slightly relative to last year. For example, the 24% marginal bracket for married taxpayers who file jointly has increased to $190,750 - $364,200 (from $178,150 - $340,100 in 2022). For unmarried taxpayers, taxable income between $95,375 and $182,100 falls into the 24% marginal tax bracket (up from $89,075 - $170,050 in 2022). In other words, statutory tax brackets haven't changed but taxpayers can now earn more taxable income to fill up their current tax bracket before getting bumped into the next one and being subject to a higher marginal tax rate on each dollar of additional taxable income. Keep this in mind, particularly if you seek to fill up your current bracket with strategies such as Roth conversions or IRA distributions.

For many investors, employer-sponsored qualified plans serve as the primary vehicles through which they accumulate retirement assets for future income replacement. In 2023, the maximum annual contribution limits have been raised as follows for some of the more common plan structures. Participants in defined contribution plans, such as 401Ks, 403Bs, and 457 plans, may now contribute elective salary deferrals up to $22,500 (from $20,500 in 2022), plus additional catch-up contributions of up to $7,500 (from $6,500 in 2022) for those who are age 50 and older. Employees of small businesses who participate in a SIMPLE IRA plan may now contribute elective salary deferrals up to $15,500 (from $14,000 in 2021), plus additional catch-up contributions up to $3,500 (from $3,000 in 2022) for those who are age 50 and older. Small business owners and self-employed individuals leveraging SEP IRA plans may now make annual contributions up to $66,000 (from $61,000 in 2022). Those of you who intend to maximize your annual contributions might want to review your contribution rates and adjust them accordingly.

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For those individuals who utilize IRAs and/or Roth IRAs instead of, or in conjunction with, employer-sponsored qualified plans, the maximum contribution limits to these vehicles have also been increased compared to last year. The maximum annual contribution amount to Traditional and Roth IRAs (combined) is now $6,500 (previously $6,000 in 2022), plus catch-up contributions up to an additional $1,000 (unchanged from 2022) for those who have attained age 50 and older. Furthermore, there have also been some modifications to the eligibility and deductibility rules. Eligibility to contribute to a Roth IRA in 2023 is still subject to phaseouts based on modified adjusted gross income (MAGI), but these thresholds have been lifted slightly compared to last year. Now, a single taxpayer's eligibility to make Roth IRA contributions is phased out between $138,000 and $153,000 of MAGI (up from $129,000 - $144,000 in 2022) and a married taxpayer filing jointly is phased out between $218,000 and $228,000 of MAGI (up from $204,000 - $214,000 in 2022). In other words, an unmarried individual with $153,000 or more of MAGI, and a married couple with $228,000 or more of MAGI, will be fully ineligible to make Roth IRA contributions in 2023. It is important to note that these eligibility rules apply only to contributions to Roth IRAs, and not to Roth contributions within employer-sponsored qualified plans (if available) or Roth conversions.

Traditional IRA contributions, on the other hand, are not subject to the same income-based eligibility rules as their Roth counterparts. As long as one has earned income, he/she may make Traditional IRA contributions, but the deductibility of those contributions is subject to both MAGI phase outs *and* whether or not he/she (and his/her spouse) is covered by an employer-sponsored plan. These deductibility rules have also undergone a minor facelift in 2023. Unchanged is the fact that IRA contributions are fully deductible if the taxpayer is not covered by an employer plan, regardless of his/her income (for married filing joint, this requires that neither spouse is covered by an employer plan). For single taxpayers who are covered by an employer plan, the deductibility of IRA contributions phases out between $73,000 and $83,000 of MAGI (up from $68,000 - $78,000 in 2022), with no deduction available for those whose earnings exceed the upper end of the range. For a married taxpayer who files jointly and both spouses are covered by an employer plan, the deductibility of IRA contributions phases out between $116,000 and $136,000 of MAGI (up from $109,000 - $129,000 in 2022), with no deduction available for those whose earnings exceed the upper end of the range. And for those married taxpayers who file jointly and one spouse is covered by an employer plan, the income-based deductibility rules continue to depend on which spouse is covered. If the covered spouse is the one seeking to make the IRA contribution, the deductibility is governed by the same limits that are used when both spouses are covered (see above). If the IRA contribution is being made for the non-covered spouse, the deductibility is phased out between $218,000 and $228,000 of MAGI (up from $204,000 - $214,000 in 2022), with no deduction available for those whose earnings exceed the upper end of this range.

Finally, for more legacy-minded individuals, it is worth mentioning that the annual gift tax exclusion was raised to $17,000 (from $16,000 in 2022), while the lifetime gift and estate tax exemption was increased to $12,920,000 (up from $12,060,000 in 2022).

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As sure as it is for Uncle Leo to greet his favorite nephew with an overly enthusiastic and hilarious "Hello!", it is equally certain for Uncle Sam to implement a highly complex and ever evolving tax code. Although we are not tax advisors and encourage our clients to work with their accountants for specific tax related advice, we strive to help them understand changing tax rules and adapt their investment and retirement strategies as necessary. As always, we'd like to thank our clients for their continued trust and confidence. We are excited to work with all of you in the year ahead and beyond. "Hello!" 2023.

Please feel free to reach out to us with any specific questions, comments or concerns. We look forward to hearing from you.

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