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Tax Bulletin:
New Tax Laws and Revisions in 2023 and Beyond

After Congress stalled on possible significant tax law changes in 2021, 2022 appeared to remain just as quiet…until late December. Signed into law before year's end, The SECURE 2.0 Act[1] ushered in notable changes to retirement savings and tax laws that will take effect over the next decade. While SECURE 2.0 focuses primarily on expanding or improving access to retirement accounts for many Americans, a number of the provisions may also affect our clients.

Secure 2.0 – New Opportunities, New Restrictions

1. SECURE 2.0 raises the age at which "required minimum distributions" (RMDs) must be taken from a traditional (non-Roth) IRA. Beginning January 1, 2023, RMDs apply to taxpayers aged 73, and beginning January 1, 2033, the RMDs begin at age 75.
2. Penalties for missed RMDs in a given tax year were reduced by SECURE 2.0. The longstanding 50% excise tax on the amount not withdrawn has been reduced to 25%, and if the error is corrected within a reasonable timeframe, the penalty falls to 10%.
3. For workers who save in employer-sponsored retirement plans, "catch-up contributions" have long been available for savers beginning the year in which they turn 50 (see below for 2023 amounts). SECURE 2.0 makes two key changes to these catch-up provisions:
    - Beginning in 2025, for workers aged 60-63 who participate in an employee-sponsored retirement plan, catch-up amounts will be $10,000. Furthermore, catch-up amounts will be indexed for inflation going forward.
    - Beginning in 2024, for high-earners aged 50 and above, the catch-up portion of each year's contribution must be made on an after-tax basis to a Roth 401(k), or an equivalent Roth employer-sponsored plan. The annual wage threshold for this restriction is $145,000 and is not ideal for high earners who previously enjoyed pre-tax contributions that lowered taxable income.
4. Finally, SECURE 2.0 also introduces the potential for a beneficiary of a 529 College Savings Plan to roll unused savings into a Roth IRA without tax or penalty. This may potentially benefit families who "over saved" for college education and want to assist newly working young adults in jumpstarting their retirement savings. The provision, however, has some limitations: the 529 Plan account must have been open for at least 15 years, and the total amount rolled over cannot exceed (a) $35,000 or (b) the total contributions to the account since creation (i.e. capital appreciation cannot be rolled into the Roth). Also note that such transfers do count toward a given tax year's Roth IRA contribution limit.

Inflation Adjusted Inclusions, Exemptions, Contributions, and Deductions [2]

- If 2022 was notable for anything, it was for dramatic levels of inflation. While inflation does erode purchasing power, it is also a double-edged sword that positively adjusts numerous allowances which may benefit our clients.

Gift and Estate Taxes

- The annual gift tax exclusion increased to $17,000 in 2023. With gift splitting, this means a married couple can gift $34,000 this year to any single recipient without needing to file a gift tax return and triggering a taxable gift.

- The federal estate tax exemption increased to $12,920,000 per person in 2023 ($25,840,000 per married couple). In late 2020, many clients used their full exemption amount in anticipation of estate tax law changes that never materialized; for those who have not made subsequent gifts, there is now an additional $1,340,000 in unified credit available for single filers and $2,680,000 for married couples over and above the 2020 amounts. The added exemption amount can be gifted outright or via planning vehicles such as trusts.

- Of note, the increased tax exemption is set to expire at the end of 2025 and return to 2017 levels, adjusted for inflation. While we cannot yet pinpoint exactly what the number will be as of January 1, 2026, we expect the exemption to be approximately $6,800,000 per person, or $13,600,000 per married couple. With that in mind, we suggest having conversations sooner rather than later about using the exemption to consider all potential planning avenues and what decisions are best for your family.

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Retirement Plans & Accounts

- Participants can make regular contributions of $22,500 to a 401(k) or 403(b) plan this year, up from $20,500 last year, plus another $7,500 if over age 50.
- Combined employee and employer contributions to a 401(k) or 403(b) plan this year can total $66,000 ($73,500 including catch-up contributions) up from $61,000 ($67,500 with catch-up contribution) last year.
- The limit on annual contributions to IRAs increased to $6,500 this year, up from $6,000 last year, the catch-up amount for IRA savers over age 50 is still $1,000.

Income Taxes

- The standard deduction increases to $13,850 for single filers ($27,700 for a married couple filing jointly), an increase of $900 ($1,800 if filing jointly).
- The top income tax rate of 37% will now kick in at $578,125 of taxable income for single taxpayers ($693,750 if filing jointly).
- The top long-term capital gains tax rate of 20% will now apply to high earners whose income is over $492,300 (single filer) or $553,850 (joint filers).

If you would like to know more about these, and other, changes to tax and retirement laws for 2023 and beyond, please contact your Chilton Trust advisor at your convenience.

[1] The Secure 2.0 Act of 2022 is included in the Consolidated Appropriations Act, 2023.

[2] Internal Revenue Service updated annually (irs.gov)

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