ClientLine®

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2023 TAX BRACKETS AND OTHER ADJUSTMENTS

The IRS made sizable adjustments to several tax limits in response to the high inflation levels from 2022. Taxpayers will see increases in tax brackets, the standard deduction, and the gift tax exclusion for 2023.

STANDARD DEDUCTION

For 2023, single taxpayers who don't itemize will have a $13,850 standard deduction, and married couples filing jointly will have a $27,700 deduction. And heads of households get a $1,400 bump from 2022 to $20,800.

2023 INCOME TAX RATES AND BRACKETS

The top marginal individual income tax rate remains 37% for 2023. And the tax brackets are:

%	INCOME (SINGLE)	INCOME (MARRIED COUPLES FILING JOINTLY)
37%	Over $578,125	Over $693,750
35%	Over $231,250	Over $462,500
32%	Over $182,100	Over $364,200
24%	Over $95,375	Over $190,750
22%	Over $44,725	Over $89,450
12%	Over $11,000	Over $22,000
10%	Under $11,000	Under $22,000

LARGER GIFTS

Each individual can give someone a gift of up to $17,000 tax-free in 2023. This is a $1,000 increase from 2022.

FLEX SPENDING ACCOUNTS

The new IRS limit for Flexible Spending Account (FSA) contributions for 2023 is $3,050, an increase of about 7% from the previous tax year's threshold of $2,850. Calculate contributions carefully, as you'll lose unused funds.

401(K) AND IRA LIMITS

The contribution limit for employees who participate in employer-sponsored retirement plans is increased to $22,500, up from $20,500. And catch-up contributions for workers aged 50 and over increase to $7,500, up from $6,500.

The limit on annual contributions to an IRA increased to $6,500, up from $6,000. The IRA catch-up contribution limit remains $1,000.

401(K) LOANS

Although your plan may allow you to borrow from your account, you should be aware of what it means to take out a loan from your 401(k) account.

You'll generally have to repay the loan amount plus interest. If you don't repay the loan, including interest, according to the loan's terms, any unpaid amounts become a plan distribution to you. Your plan may even require you to repay the loan in full if you leave your job.

Also, you'll generally have to include any previously untaxed amount of the distribution in your gross income in the year in which the distribution occurs. You may also have to pay an additional 10% tax on the amount of the taxable distribution unless you are at least age 59 ½ or qualify for another exception.

Any unpaid loan amount also means you'll have less money saved for your retirement.

MAKING ESTIMATED PAYMENTS EACH QUARTER

Since the U.S. uses a pay-as-you-go tax system, you must pay income taxes as you earn money. Making estimated payments throughout the year helps you avoid paying penalties.

CLIENT PROFILE

Chris was 39 years old when he inherited a traditional IRA from his grandfather. Chris is not planning to retire anytime soon, so he's unsure what to do with the account. What are his options?

With the passage of the SECURE Act in 2019, Chris will generally need to deplete the balance of the IRA within ten years of his inheritance. And depending on his grandfather's age at the time of his death, Chris may be required to take a required minimum distribution by December 31 of the year his grandfather passed.

Also, Chris won't be able to make additional contributions to the IRA account or roll over the account balance to an IRA he already owns. That's because non-spousal beneficiaries are not allowed to treat the inherited IRA as their own. He'll need to set up a new inherited IRA unless he wants to take a lump sum distribution. At which time, he'll receive a Form 1099-R, and the entire distribution amount will be taxed at his ordinary income rates.

Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

WHAT ARE ESTIMATED PAYMENTS

Estimated tax payments are taxes paid to the IRS throughout the year on earnings that are not subject to federal tax withholding. This can include self-employment or freelancer earnings, or income you've earned on the side, such as dividends, realized capital gains, prizes and other non-wage earnings.

You may also be liable for making estimated tax payments if you are an employee, if the withholding on your earnings doesn't fully cover your tax liability. The amount of money withheld on your paycheck depends on the information you provided to your employer on your Form W-4.

CALCULATION MATTERS

Generally, calculating estimated payments involves estimating your annual tax liability based on what you expect to earn. You'll annualize your tax at the end of each quarter based on a reasonable estimate of your income and deductions so far this year. Your tax pro can assist you or the IRS has a worksheet to help you do the math.

TIMING OF PAYMENTS

Estimated taxes are due as income is earned, and the IRS sets quarterly deadlines for their collection. You can opt to send four payments per year following the IRS schedule, pay in smaller increments more frequently, or cover your estimated yearly liability in your first quarterly payment — just make sure you're covering your tax liability for each quarter to avoid penalties.

AND IF YOU FORGET

The IRS will charge penalties if you don't pay enough tax throughout the year. And it can charge you a penalty for late or inadequate payments even if you're due a refund.

The calculations can get complicated quickly, so it's a good idea to consult with your tax professional if you have questions.

ESTIMATED TAX PAYMENTS DUE DATES

WAGES EARNED	ESTIMATED TAX PAYMENT DEADLINE
Jan. 1 – Mar. 31, 2023	Apr. 18, 2023
Apr. 1 – May 31, 2023	Jun. 15, 2023
Jun. 1 – Aug. 31, 2023	Sept. 15, 2023
Sept. 1 – Dec. 31, 2023	Jan. 15, 2024

FRACTIONAL EXECUTIVES FOR SMALL BUSINESSES

Outsourcing leadership roles can offer your company insights without the price tag of a full-time employee.

FRACTION OF TIME

Fractional executives give you a fraction of their time but all of their experience. You may be able to hire an individual for a specific project or retain their services on an hourly or ongoing basis.

WHO TO HIRE

While it makes sense to have the central leader of your business, the CEO, as an in-house full-time employee, you may need help with things like finances, marketing, information technology, or human resources. But you may not have enough work to keep them busy. This is when using a fractional consultant makes sense. You can use staffing companies that specialize in fractional relationships or find a retired professional who's doing consulting.

IS IT RIGHT

Many professionals who take on outsourced or fractional roles have served as executives before, sometimes for multiple companies. However, you also want to ask about their industry experience and why they think they can help your business.

While you won't be taking on a full-time salary and don't need to pay for their benefits, executives with several decades of experience don't come cheap. So, budget accordingly.

Q **How do I begin accepting credit card payments from my customers?**

A First, analyze how many credit card transactions you might receive each month and whether they will be online, in-person, or over the phone. Also, think about if you plan to accept all cards (Mastercard, Visa, Discover, American Express) because processing fees vary by card type.

Next, find a credit card processor that offers competitive fees for the volume and type of transactions you'll process. If you operate online, be sure the processor can easily integrate with your website.

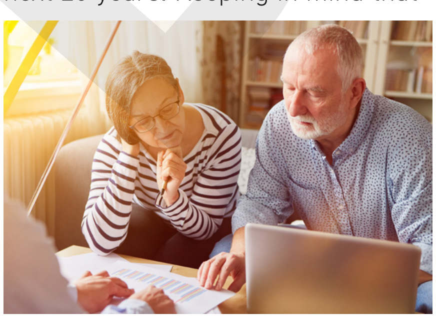
Finally, after you choose a processor, you'll open a merchant account.

RETIRING IN A SLOWING ECONOMY

A well-thought-out plan for a comfortable retirement is important, even more so in a tough economy.

EXAMINE THE PAST

Start by looking at your spending habits for the last three years and determine if it's sustainable for the next 20 years. Keeping in mind that most retirees take on a new hobby or activity that usually costs money. Travel, large home improvements, or restoring a classic car can cost thousands of dollars and stress your financial plan.



TIMING IS EVERYTHING

Plan to keep your portfolio diversified, and don't try to time the market. Selling investments because they are down means you could miss out on a recovery. Stripping emotions out of financial decisions is vital but not always easy. If you're not confident doing this on your own, work with your financial professional for guidance.

STAY FLEXIBLE

Spending in retirement requires flexibility. You may need to reduce your withdrawals when the market is slowing, but you can increase them when it recovers. Be sure to notice the warning signs of a slowing market, like rising interest rates and higher inflation.

A LOOK AT STOCK MARKET RETURNS OVER 30 YEARS

Based on the S&P, the average annual return of the stock market is approximately 10%. However, when adjusting that for inflation, it is closer to 6-7%. Looking at the chart below, you'll see how the market fluctuated over the past three decades. Most financial professionals recommend holding onto investments when the market takes a dip rather than selling at a loss because chances are, with time, you'll gain back losses.

Here's what the average stock market returns look like for the last three decades.

PERIOD	AVERAGE STOCK MARKET RETURN	AVERAGE STOCK MARKET RETURN ADJUSTED FOR INFLATION
5 years (2017 to 2021)	17.04%	13.64%
10 years (2012 to 2021)	14.83%	12.37%
20 years (2002 to 2021)	8.91%	6.40%
30 years (1992 to 2021)	9.89%	7.31%

Source MoneyChimp, 2022