

# It's Your Money

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## Overview and Tax Changes

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# Today's topics

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- Regulation of investment industry
- The financial planning process
- Taxes: what's new for 2023



# Financial planners & advisors

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- Overview

- Independent vs. associated with a brokerage firm (or “broker-dealer”)

- Registered representatives

- Compensation method

- Commission
    - Fee plus commission
    - Fee-offset
    - Fee-based
    - Fee-only

# Financial planners & advisors

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- Credentials
  - Registered investment advisors (RIAs)
    - Or “Investment Advisor Representatives” of an RIA firm
  - Certified financial planner (CFP)
  - Chartered Financial Consultant (ChFC)
  - Chartered Financial Analyst (CFA)
- Experience
- Rapport/trust

# Regulators

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- Financial Industry Regulatory Authority (FINRA)
  - Self-regulatory organization for all U.S. securities firms
  - Any individual who sells securities must register with FINRA under the sponsorship of a broker-dealer.
- Securities & Exchange Commission (SEC)
  - Regulates securities industry and RIAs with more than \$100 million in assets under management
- California Department of Financial Protection and Innovation (DFPI)
  - Regulates securities markets and RIAs with less than \$100 million AUM.

# Ask First! form

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- Education
- Credentials/licenses
- What services do they provide
- ARE THEY A FIDUCIARY??? Will they put your interests first?
- How do they get paid?



# The financial planning process

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- Understand the Client's personal and financial circumstances
- Identify and select goals (and prioritize them)
- Analyze current course of action and potential alternatives
- Develop the financial planning recommendations
- Present the financial plan
- Implement the planning recommendations
- Monitor and update/adjust the plan

# Net Worth Statement

John & Marie Sample

March 31, 2022

## ASSETS

### Savings And Investments

Checking Accounts	\$2,500	
Bank & Credit Union Savings	35,000	
Certificate of Deposit	30,000	
		\$67,500

### Retirement Accounts

Qualified Plans-John	\$100,000	
Qualified Plans-Marie	200,000	
		\$300,000

### Other Assets

Residence	\$925,000	
Autos	15,000	
		\$940,000

<b>TOTAL ASSETS</b>	<b>\$1,307,500</b>
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## LIABILITIES

Residence Mortgage	\$138,000	
Credit Card Debt	3,000	
		\$141,000

<b>TOTAL LIABILITIES</b>	<b>\$141,000</b>
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<b>Net Worth (Assets less Liabilities)</b>	<b>\$1,166,500</b>
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# Tax planning

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Financial strategies are based on your tax profile

- Deductions

- Standard deduction or itemize?

- What's your tax bracket?

- Taxable income

# Tax formula

<b>Income Broadly Defined</b>	<b>\$XX,XXX</b>
Less: Exclusions	(X,XXX)
<b>Gross Income</b>	<b>\$XX,XXX</b>
Less: Deductions for Adjusted Gross Income ( <i>above-the-line deductions</i> )	(X,XXX)
<b>Adjusted Gross Income</b>	<b>\$XX,XXX</b>
Less: Deductions from Adjusted Gross Income: Greater of Standard or Itemized Deductions ( <i>below-the-line deductions</i> )	(XX,XXX)
Less: Personal and Dependency Exemptions	(XX,XXX)
<b>Taxable Income</b>	<b>\$XX,XXX</b>
Tax on Taxable Income	\$X,XXX
Less: Credit for Taxes Withheld	(X,XXX)
Less: Credit for Estimated Tax Payments	(X,XXX)
Less: Other Tax Credits	(X,XXX)
<b>Tax Due or (Refund Due)</b>	<b>\$XXX</b>

# 2022-2023 Standard Deductions

Standard Deductions	2022	2023
Married Filing Jointly & Surviving Spouses	\$25,900	\$27,700
Head of Household	\$19,400	\$20,800
Single or Married Filing Separately	\$12,950	\$13,850
<b>Additional Deduction for Blind or aged (over age 65)</b>		
Single or Head of Household	\$1,700	\$1,750
Married Filing Jointly or Separately	\$1,350	\$1,400

Sources: IRS Rev. Proc. 2021-45

# 2023 (ordinary income) tax rates

## Federal Income Taxes

Taxable Income Over	Taxable Income Not over	Tax +	% on excess	of the amount over
Single Filers				
\$0	\$11,000	\$0	10%	\$0
\$11,000	\$44,725	\$1,100	12%	\$11,000
\$44,725	\$95,375	\$5,147	22%	\$44,725
\$95,375	\$182,100	\$16,290	24%	\$95,375
\$182,100	\$231,250	\$37,104	32%	\$182,100
\$231,250	\$578,125	\$52,832	35%	\$231,250
\$578,125	∞	\$174,238	37%	\$578,125
Married Filing Jointly and Surviving Spouses				
\$0	\$22,000	\$0	10%	\$0
\$22,000	\$89,450	\$2,200	12%	\$22,000
\$89,450	\$190,750	\$10,204	22%	\$89,450
\$190,750	\$364,200	\$32,580	24%	\$190,750
\$364,200	\$462,500	\$74,208	32%	\$364,200
\$462,500	\$693,750	\$105,664	35%	\$462,500
\$693,750	∞	\$186,601.50	37%	\$693,750

# 2023 (ordinary income) tax rates

Married Filing Separately				
\$0	\$11,000	\$0	10%	\$0
\$11,000	\$44,725	\$1,100	12%	\$11,000
\$44,725	\$95,375	\$5,147	22%	\$44,725
\$95,375	\$182,100	\$16,290	24%	\$95,375
\$182,100	\$231,250	\$37,104	32%	\$182,100
\$231,250	\$346,875	\$52,832	35%	\$231,250
\$346,875	∞	\$93,300.75	37%	\$346,875
Head of Household				
\$0	\$15,700	\$0	10%	\$0
\$15,700	\$59,850	\$1,570	12%	\$15,700
\$59,850	\$95,350	\$6,868	22%	\$59,850
\$95,350	\$182,100	\$14,678	24%	\$95,350
\$182,100	\$231,250	\$35,498	32%	\$182,100
\$231,250	\$578,100	\$51,226	35%	\$231,250
\$578,100	∞	\$172,623.50	37%	\$578,100

# More favorable tax rates

## Capital Gains/Qualified Dividends

Taxable Income Over	But Not over	Tax rate
<b>Single Filers</b>		
\$0	\$44,625	0%
\$44,625	\$492,300	15%
\$492,300	$\infty$	20%
<b>Married Filing Jointly &amp; Surviving Spouses</b>		
\$0	\$89,250	0%
\$89,250	\$553,850	15%
\$553,850	$\infty$	20%

# 2022-2023 Estate and gift tax rates

## Gift and Estate Tax

	2022	2023
Annual Gift exclusion	\$16,000	\$17,000
Unified credit amount	\$12,060,000	\$12,920,000
Gift to non-citizen spouse	\$164,000	\$175,000
Highest estate tax bracket	37%	40%

Sources: IRS Rev. Proc. 2021-45

# Investment planning – income tax consequences

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- Always look at *total return*
- Not everyone should own muni bonds
- Beware of mutual fund distributions
- Investment location
- Beware of annuities: they may be the most tax *inefficient* investment

# Key changes due to SECURE ACT 2.0

The following table summarizes the ages at which RMDs are generally required to begin under SECURE Act 2.0:

SECURE Act 2.0 Phased-In Timeline For RMD Beginning Ages	
Birth Year	Age at Which RMDs Begin
1950 or earlier	72 (70½ for those who turned 70½ prior to 2020)
1951 - 1959	73
1960 or later	75

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# 529 plans open 15 years+ may be converted to Roth IRAs for the account beneficiary

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- Lifetime maximum of \$35,000
- Annual amount limited to that year's contribution limit, less any regular contributions (no "doubling up")
- Beneficiary must be eligible to contribute to Roth
- Big advantage: no earned income required of beneficiary, and no maximum income limits applied.
- Can "prime the retirement pump" for the beneficiary.
- Waiting for further IRS clarification

# Qualified Charitable Distributions (QCDs)

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- \$100,000 limit to be indexed for inflation (beginning in 2024)
- One-time opportunity use max of \$50,000 QCD to fund a split-interest entity.
  - Charitable Remainder Trust (CRT), Charitable Annuity Trust (CRAT) or Charitable Gift Annuity (CGA)
  - Can't use existing CRT or CRAT
  - Only income beneficiaries allowed are the IRA owner and spouse.
  - Distributions are ordinary income
  - Probably only best for CGA. Probably too costly to form CRT or CRAT.
  - Income required to begin no less than 1 year after funding, fixed rate 5% or greater.

# “Active” and “Passive” Investing

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- Active – ongoing buying and selling of investments
  - May involve higher costs (trading costs, management fees, capital gains)
  - May not perform better than an index of the same category of investments
- Passive – buy and hold, typically using index funds
  - “If you can’t beat the market, buy the market”
  - Usually lower-cost alternative, more tax-efficient

# Retirement planning – taxation of retirement benefits

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- Pre-tax retirement contributions decrease taxable income now
- Earnings grow tax-deferred
- You pay taxes when you receive the benefit
- CA does not tax Social Security
- In taxable accounts, CA muni bonds (usually) tax-free both Federal and CA income tax

# Financial planners

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# For more information

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- Financial Planning Association (FPA)
  - [www.fpaocc.org](http://www.fpaocc.org)
- National Association of Personal Financial Advisors (NAPFA). Fee-only planners
  - [www.napfa.org](http://www.napfa.org)
  - 888-Fee-Only or 1-888-333-6659