

# It's Your Money

Week 1 – Overview & Tax Law Changes

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# What We Will Cover

- Week 1 – Overview & Tax Law Changes
- Week 2 – Financial Planning I
- Week 3 – Medical Care Planning
- Week 4 – Investment World
- Week 5 – Equity and Fixed Income Investing
- Week 6 – Financial Planning II

# Today's Topics

- Regulation of the investment industry
- The financial planning process
- Taxes: new for 2023 and tried-and-true basics

# Financial Planners, Advisors, and Salespersons

- Regulators
  - Securities and Exchange Commission
    - Registered Investment Advisor (“RIA”)
    - Investment Advisor Representative (“IAR”)
  - Financial Industry Regulatory Authority (“FINRA”)
    - Self-regulatory body (i.e., self-police)
    - Primary Purpose: to regulate **sales** activities, not planning or advice
    - Series 6 and 7 licenses are licenses **to sell you** financial products

# Financial Planners, Advisors, and Salespersons

- Compensation models
  - Commission
  - Fee and commission
  - Fee-offset
  - Fee-based
  - *Fee-only (pure fiduciary model)*

# Financial Planners, Advisors, and Salespersons

- Credentials
  - Registered investment advisor (RIA) or
    - Investment advisory representative (IAR)
  - Registered representative (for sales, under FINRA)
  - Certified Financial Planner™ (CFP®)
  - Chartered Financial Analyst (CFA charterholder)
  - Too many others; some good, most bad
    - FINRA lists over 240 designations ([www.FINRA.org/investors/professional-designations](http://www.FINRA.org/investors/professional-designations))

# Ask First!

- 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

- 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

# Taxes Matter!!!

- Tax brackets matter
- Timing of taxable income matters
- Ordinary income vs. capital gain tax matters
- Adjusted gross income (“AGI”) matters
- Maximize *charitable gifting* strategies
- Power of “step-up in basis”

# 2023 Tax Update – Income Tax Tables

## 2023 Tax Rate Schedule

TAXABLE INCOME (\$)		BASE AMOUNT OF TAX (\$)	PLUS	MARGINAL TAX RATE	OF THE AMOUNT OVER (\$)
OVER	NOT OVER				
<b>Married Filing Jointly and Surviving Spouses</b>					
\$0	\$22,000	\$0	+	10.0	\$0
<b>\$22,000</b>	\$89,450	<b>\$2,200.00</b>	+	<b>12.0</b>	\$22,000
\$89,450	\$190,750	\$10,294.00	+	22.0	\$89,450
\$190,750	\$364,200	\$32,580.00	+	24.0	\$190,750
\$364,200	\$462,500	\$74,208.00	+	32.0	\$364,200
\$462,500	\$693,750	\$105,664.00	+	35.0	\$462,500
\$693,750		\$186,601.50	+	37.0	\$693,750

Source: Internal Revenue Service, 2023

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# 2023 Tax Update – Long-Term Capital Gains

## Tax Rates on Long-Term Capital Gains and Qualified Dividends

LTCG TAX	TAXABLE INCOME				
	SINGLE FILERS	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD	MARRIED FILING SEPARATELY	ESTATES & TRUSTS <sup>(1)</sup>
0%	\$44,625 or less	\$89,250 or less	\$59,750 or less	\$44,625 or less	\$3,000 or less
15%	More than \$44,625 and less than \$492,300	More than \$89,250 and less than \$553,850	More than \$59,750 and less than \$523,050	More than \$44,625 and less than \$276,900	More than \$3,000 and less than \$14,650
20%	\$492,300 or more	\$553,850 or more	\$523,050 or more	\$276,900 or more	\$14,650 or more

Source: Internal Revenue Service, 2023

# 2023 Tax Update – Long-Term Capital Gains

- Long-Term Capital Gains are assets held for 12 months and a day
  - Short-Term Gains and are taxed as ordinary income
- The rate used depends on your total income, not just the gain
  - Long-Term Gain plus your ordinary income determines the tax rates
  - The Long-Term Capital Gain portion is taxed at the same or lower rate than ordinary income

# 2023 Tax Update – Income Tax Considerations

- Distributions from a standard IRA, 401k, 403(b), 457 account is fully taxed as ordinary income
  - Include required minimum distributions (“RMD”)
  - A Qualified Charitable Distribution (QCD) will avoid taxes on some or all of your RMD.
- Distributions from a Roth IRA or similar accounts are not taxable
  - Because you contributed “after-tax” dollars
- Social Security benefits can be taxable to some extent (from 0% to 85% taxable).

# 2023 Tax Update – Income Tax - California

- Because of winter 2022-2023 storms/flooding in California, the due dates for tax filing and payments are extended to Oct. 16
  - Federal and California state income tax returns
  - Federal and California 2022 taxes owed
  - Federal and California 2023 estimated tax payments
  - No need to file for an extension, it is automatically given
  - Effects all California counties, EXCEPT *Imperial, Kern, Lassen, Modoc, Plumas, Shasta, and Sierra*. They still use the normal dates.



# 2023 Tax Update – Estate & Gift Tax

## Gift and Estate Tax Exclusions and Credits

Gift tax annual exclusion	\$17,000
Estate, gift & generation skipping transfer tax exclusion amount (per taxpayer)	\$12,920,000
Exclusion on gifts to non-citizen spouse	\$175,000
Maximum estate, gift & generation skipping transfer tax rate	40%

Source: Internal Revenue Service, 2023

# Step Up in Value/Basis

- At death, assets receive “step-up” in basis to current value.
  - Reduces or eliminates Capital Gains for heirs
    - Marketable securities, real estate, business holdings
  - Does not apply to retirement assets (IRA), annuities, installment notes, and some other specific assets
- Step-up depends on how the asset is titled
  - Community Property rules
  - Separate property rules
  - Title/registration matters

# California Real Property Assessed Values – Prop 19

General Rule – real property reassessed at death (“good-bye” Prop 13)

- Exception 1: transfer to a spouse
- Exception 2: transfer of personal residence to a child and the child uses it as his/her personal residence.
- Consult a professional when trying to navigate the rules to avoid reassessment during your lifetime (e.g., gifting)
  - Adding a child to title while alive (e.g., JTWRORS) will likely result in 50% reassessment

# Overview – Next Week

- We will begin with how to select a financial planner
  - Why a fiduciary planner is important
- Download and print the workbook for this series
  - Website reference <http://iym.iyme.org>

# Roth Conversions-1

- Take part or all of a Traditional IRA
  - Transfer to a Roth IRA
  - Pay tax this year on the value transferred
  - Future growth income tax-free
  - Future distributions income tax-free
    - For yourself and/or spouse
    - For your heirs

# Roth Conversions-2

- Not appropriate if IRA going to a charity
- Good for:
  - Higher tax bracket later
  - Married couple: when one dies, Survivor likely in higher tax bracket
    - Compressed tax rate schedule
    - Smaller standard deduction
  - Heirs/kids likely in a higher tax bracket (avoid 10-year payout)
    - Benefit of Roth 10-year deferral period

Thank You

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