

Year-End Tax and Financial Planning Ideas 2023

With little legislative activity for 2023, most taxpayers can stick to their same year-end tax-planning strategies as previous years.

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Throughout the 2022 calendar year, there were endless discussions around potentially significant changes to many aspects of the tax code. Ultimately, only one bill came to fruition in the final days of 2022 – the SECURE Act 2.0 and its enhancements to our country's retirement system. And while there has been plenty of conversation surrounding the ambiguity of the bill, the 2023 year has been a relatively quiet one for tax legislation. Consequently, discussions around year-end tax planning are likely to look very similar to last year.

With 2024 being a Presidential election year, it's likely to be another quiet year for changes – but all of that is leading up to what could be a year of significant activity in 2025. When the Tax Cuts & Jobs Act (TCJA) was passed in late 2017, most of the provisions affecting individuals came with an expiration date – the end of 2025. If those items do expire as scheduled, it will result in a wide variety of changes for individuals - higher marginal tax rates, significant changes to the rules on deductions (both positive and negative), a resurgence in the Alternative Minimum Tax, the loss of the Qualified Business Income deduction and many others.

While these are all important changes, planning for them will mostly wait until 2025 heading into 2026. Of more immediate concern are the looming changes to the estate tax system – in particular, a potential 50% reduction in the lifetime exemption amount. The impact of this potential change will vary dramatically based on a taxpayer's overall net worth:

- Married couples with a net worth less than \$15 million (or singles at half that) are unlikely to be affected by this change. While having an effective estate plan is important for this group, planning for the federal estate tax is less of a concern.
- Conversely, couples over \$30 million (and singles over \$15 million) are likely always going to be estate tax candidates and should be planning to address these potential changes as soon as possible.
- Meanwhile, those between those two amounts need to think carefully about how much they do to plan for this potential change. Taking advantage of this larger exemption before it expires can mean transferring control of millions of dollars, and the implications should be carefully considered.

As always, tax planning is an individual process. The approach that is generally good for most may be the exact wrong thing for someone else. Taxpayers whose income will fluctuate significantly between 2023 and 2024 – due to a job change, retirement, sale of a business, etc. – might consider different year-end strategies than those with a consistent level of income. Also, remember that tax planning is not done in a one-year vacuum. The decision to accelerate or defer income or deductions should be done with an eye towards the tax impact over both this year and next. Lastly, be sure to look at any changes to state income tax laws in the context of year-end tax planning.

The following list of year-end tax and financial planning strategies should be a starting point for discussions with your Baird Financial Advisor along with your tax advisor. While investment decisions shouldn't be driven entirely by tax issues, there are instances where sound investment decisions can be made that will decrease an investor's overall tax liability.

PLANNING FOR CAPITAL GAINS & LOSSES

Deciding to hold or sell a position should primarily be an investment decision rather than a tax decision, but understanding the tax implications of that sale can often be a tipping point for a decision. Investors can take advantage of losses in their portfolio through a strategy known as "tax loss harvesting". Realizing those losses can provide several benefits, and investors should understand how they can help reduce their tax liability.

Capital gains and losses are classified as either long-term (held more than one year) or short-term (held one year or less). Losses are used to offset gains, but it's important to understand the ordering rules around these transactions.

- Short-term losses first offset short-term gains, and long-term losses first offset long-term gains. If both categories end with a net gain, those gains are then taxed at the applicable rates, with net long-term gains getting the benefit of lower marginal rates.
- If there are net losses in one category, those losses will first offset net gains in the other category with the remaining gain being taxed at its applicable rates.
- If total losses exceed total gains for the year, up to \$3,000 of the net loss can be used to offset ordinary income that year, such as wages, business income or retirement distributions.
- Losses in excess of \$3,000 are carried over to the next year to offset gains in that year, and these excess losses are carried forward indefinitely.

Even if investors haven't realized any gains through stock sales this year, there is one source of gain that may very well appear later this year. Mutual fund capital gain distributions can often surprise investors, and preliminary estimates have suggested those gains could be quite substantial this year. When investors redeem their shares in a fund, perhaps out of fear of a falling market, the manager must sell holdings to raise the cash to meet those demands, often triggering gains inside the fund which are then passed out to the remaining shareholders. Those investors who stay in the fund can sometimes get a tax surprise from these unexpected gain distributions. Having some net losses banked earlier in the year can help offset some of this surprise.

Funds typically announce their gain distributions by early December, and they are paid to any investor as of the fund's record date. This includes those who purchase the fund just prior to that record date. Investors in taxable accounts who are looking to avoid additional gain distributions may want to delay significant investments in a fund until after its record date has passed.

Investors with unrealized losses in their portfolio may be tempted to realize those losses this year as part of a tax loss harvesting strategy, which can provide several benefits:

- Beyond mutual fund distributions, perhaps other gains were recognized in the portfolio, so offsetting those gains can reduce the current year tax bill. That's especially true if there are short-term gains to offset. Short-term gains don't get the benefit of lower tax rates like long-term gains do, so offsetting those should be a priority.
- There is also the ability to use \$3,000 of that loss to offset ordinary income. As with offsetting short-term gains, using losses against ordinary income can provide a nice tax advantage.
- Net losses beyond \$3,000 must be carried over to 2024. While they can still provide value next year, this delay means investors might be more hesitant to realize net losses beyond \$3,000.

UNDERSTAND THE WASH SALE RULES

When selling a position and realizing a deductible loss, it can be tempting to repurchase it shortly afterwards, in the hopes of participating in any recovery in value. However, the wash sale rules prevent that from happening. These rules prevent investors from deducting a capital loss from the sale of an item if they buy a “substantially identical” position during a 61-day period, including the 30 days before the sale and continuing for 30 days after the sale. The wash sale rules don’t apply to any sales for a gain, nor do they apply to gifts of appreciated stock to charity. While a loss under the wash sale rules is usually only deferred rather than permanently lost, taxpayers would likely prefer receiving the full tax benefit of any realized losses sooner rather than later.

Other wash sale issues to consider include:

- Selling a security for a loss in a taxable account and then repurchasing it in an IRA or other retirement account will still result in a wash sale. In this scenario, the loss on the sale is permanently lost. Therefore, investors must be aware of their entire portfolio when it comes to avoiding a wash sale.
- With interest rates having risen so much in 2023, the value of individual bond holdings have fallen, sometimes significantly. Those lower bond prices won’t affect the interest those bonds continue to pay, nor will they affect the amount received when the bond matures, but those losses could present an opportunity. A capital loss realized when selling those bonds can be used to offset other gains, while allowing you to purchase a new bond paying a potentially higher interest amount. The wash sale rules apply to bonds as well, so when purchasing a bond from the same issuer as the one you sold (such as a US treasury) be sure the new bond has a material difference in the maturity and/or interest rate from the bond that was sold.
- Investment firms are required to account for wash sales when the exact same position is bought and sold in the same account. However, wash sales involving positions that are not exactly the same but that are still “substantially identical” (such as selling a stock and then buying a call option on the same stock) or that occur across different accounts, are not required to be tracked by those firms. Taxpayers will need to watch for those potential wash sales themselves.
- Individuals who sold at a loss within the past 30 days and want to defer the loss recognition to a later year, when the capital gains rate may be higher, can create an intentional wash sale. The deferred loss could then be utilized once the repurchased asset is later sold.

TAX TREATMENT OF CAPITAL GAINS AND LOSSES

Unfortunately, determining the tax impact of realizing a gain or loss can be very complicated thanks to multiple tax rates, as well as the 3.8% Net Investment Income tax. The tax rules for capital gains (as well as qualified dividends) went virtually unchanged from 2022 to 2023.

- For 2023, married taxpayers with taxable income below \$89,250 (singles below \$44,625) can realize tax-free long-term capital gains (assets held more than one year). While that doesn’t mean low-income taxpayers can have an unlimited amount of tax-free gains, it does provide them with a planning opportunity. Taxpayers who find themselves below those levels for 2023 should consider realizing some tax-free gains this year. However, they should be sure to work with a tax advisor as there are rules limiting the overall benefit.
- Once taxpayers exceed those 0% rate income levels, long-term gains are subject to a 15% tax rate.
- Taxpayers reaching the highest capital gain bracket are subject to a 20% marginal tax. This rate applies for couples with taxable income over \$553,850 and singles over \$492,300 in 2023.
- Lastly, couples with Modified Adjusted Gross Income (MAGI) above \$250,000 for 2023 (\$200,000 for singles) will also owe a 3.8% tax on their investment income over those thresholds. Because MAGI is usually greater than taxable income, taxpayers could be subject to this tax even though their taxable income after deductions ends up

below this threshold. Also, the threshold for this tax is not subject to inflation adjustments, so taxpayers whose income was just below the threshold in 2022 may find that they are over it for 2023.

Being aware of these breakpoints can help taxpayers better understand the cost of their investment decisions. For example, for those whose income is expected to drop in 2024 due to retirement, realizing a gain in 2023 may end up costing more in taxes than it would by deferring it to the next year when they could be subject to a lower tax rate. A lower tax rate on the gain also means an investor can withstand a drop in the value of an investment and still have more sales proceeds on an after-tax basis.

On the other hand, the investment risk associated with that deferral can't be ignored. Investors thinking of realizing a gain late in the year may be willing to accept the investment risk for a bit longer in order to defer the gain into January 2024. Investors facing that same decision earlier in the year may not be so willing to accept that risk for a longer time.

Lastly, avoid the urge to recognize gains in order to "use up" losses realized during the year, only to immediately repurchase the item sold at a gain because it still makes sense to own. Those unused losses can be carried forward to the next year and be used to offset a gain on something you no longer wish to own. Using up losses this year can result in taxable gains in the future that can't be offset.

OTHER INVESTMENT PLANNING STRATEGIES

Beyond issues concerning when to recognize capital gains and losses, there are other portfolio planning opportunities to consider before year-end:

- In order to fully deduct any investment interest expense paid during the year, an equal or larger amount of interest income, nonqualified dividends and short-term capital gains must be recognized during the year. Investment interest is deductible only against those types of investment income, although excess interest expense may be carried over indefinitely to offset future investment income.
 - Investors have the option of foregoing the lower tax rates on qualified dividends and long-term gains in order to treat those items as investment income for purposes of this deduction. Making this election essentially means taking a lower tax benefit for deducting that interest expense this year rather than carrying the deduction forward for perhaps a larger benefit in the future. Those considering this election should consult with a tax advisor who can prepare projections under both scenarios.
- In order to claim a loss for a "worthless stock," an investor must be able to prove the stock had value at the end of 2022 but did not at the end of 2023. If it's uncertain whether the stock is truly worthless by the end of the year, owners should sell the stock for whatever value they can in order to claim a capital loss. A bankruptcy filing by the company does not, on its own, mean a stock is worthless.

TAX RATES, BRACKETS & FILING STATUS

The top tax bracket for 2023 remains 37%, although the income level at which that rate applies, like that of all other tax brackets, was adjusted upward for inflation. Beyond those annual inflation adjustments, there were no changes to the tax brackets for 2023.

- Those whose 2024 income is expected to be similar to 2023 will likely want to stick with the usual strategy – defer income into next year and accelerate deductions into this year. By maintaining this strategy year over year, individuals will keep themselves in their lowest possible tax bracket.
- Taxpayers should review federal withholding and estimated income tax payments to avoid any underpayment penalties. Taxpayers who have had an increase in their 2023 tax liability when compared to 2022 don't necessarily have to pay that increased tax to the IRS before the end of the year. To avoid a penalty for 2023, total tax payments must equal the lesser of (1) 90% of the current year tax liability or (2) 100% of last year's liability (110% if 2022 Adjusted Gross Income (AGI) was more than \$150,000).

- Taxpayers whose income in 2023 is lower than it was last year may instead prefer to pay just 90% of their projected 2023 tax liability by January 15th, 2023, leaving the remainder to pay with their tax return. To provide some cushion for unforeseen events, it may be better to target 93-95% of the projected liability.
- Some taxpayers may be in the habit of always making estimated payments for the year based on the prior year's tax liability. Taxpayers whose 2023 tax liability will be less than it was in 2022 should verify they aren't paying too much with their estimated payments for this year. Those who have been overpaying for this year can always reduce their safe harbor 4th quarter payment before it's paid.
 - There is generally no incentive to make federal tax payments any earlier than necessary. Other than paying enough to avoid an underpayment penalty, the best cash management strategy is to defer as much of the federal tax liability until the due date for the tax return, while still avoiding an underpayment penalty. Keep in mind that requesting an extension of time to file a tax return does not extend the time for paying the tax.
- Taxpayers who will be getting married in 2024 will see their filing status change from single to married next year. The tax impact of this change in filing status could vary significantly depending on the couple's income level.
 - When there is a significant difference in income between the two spouses, filing jointly may result in a net tax savings over what they each paid as single individuals. In this scenario, deferring any additional income into 2024 while accelerating deductions into 2023 may be an appropriate tax planning strategy.
 - When each spouse has similar levels of income, however, the "marriage penalty" could result in an increased tax liability over what they paid as single taxpayers. Newly married couples should be prepared for this potential tax increase. The 2017 tax act took steps to significantly reduce the impact of this penalty, although at higher income levels it may still apply.
- The inverse of this applies to couple who will finalize a divorce in 2024. Also, taxpayers whose spouse passed away in 2023 can still file jointly for this year but may have to file as a single person in 2024. Like with those getting married next year, this change in filing status can create planning strategies, particularly in regard to realizing capital gains (may be best to realize in 2023) or making charitable contributions (may be best to defer to 2024).
- The Kiddie Tax generally applies to children under age 18, or under age 24 if they are a full-time student. As a result, parents will find it difficult to shift investment income from themselves to their children for a tax savings. For 2023, the first \$1,250 of unearned income is exempt from tax. This includes interest, dividends, and capital gains, as well as Social Security or distributions from an inherited retirement account – basically anything other than wages or self-employment income. The next \$1,250 is taxed at the child's tax rate, but any income over \$2,500 is taxed at the parents' marginal tax rates.

ITEMIZED DEDUCTION PLANNING

The TCJA of 2017 brought many changes to itemized deductions, including caps on some deductions, the elimination of others and a much larger standard deduction. While there may be significant changes in this area in the coming years, for now, most of the recent strategies still apply.

- To maximize the benefit of deductible expenses, taxpayers may utilize a "bunching" strategy, where you accelerate or defer the payment of deductible expenses to the year when they provide the biggest tax benefit. In that case taxpayers should pay extra attention to the timing of the payment of tax-deductible expenses.
 - For example, consider a taxpayer who consistently falls just short of exceeding the standard deduction each year. By moving deductible expenses from one year into another, they can itemize in one year and then claim the standard deduction in the other. The total out-of-pocket expense over the two-year period is the same, but the tax benefit of those expenses is maximized.
 - Most deductible expenses, such as state income and property taxes or mortgage interest, aren't flexible enough to be moved from one year to the next. However, charitable contributions lend themselves perfectly to

this strategy. Taxpayers considering a bunching strategy must decide if 2023 will be a year in which they itemize or take the standard deduction, and then plan the timing of their charitable gifts accordingly. For more suggestions on charitable giving, see the section specific to that topic below.

- If the planned changes to deductions do take effect, it will be much easier to deduct these expenses in 2026, meaning bunching deductions into that year could provide the best tax benefit. Taxpayers who bunch their deductions with the goal of itemizing every other year should also then plan to itemize in 2024, which would mean deferring charitable gifts and other expenses from 2023 into 2024. Be sure to have a multi-year strategy in place when considering the timing of your deductible expenses.
- When it comes to timing the payment of state income and property taxes, currently the decision may be less about tax deductibility and more about cash flow management. The TCJA capped the state and local tax (SALT) deduction at \$10,000, meaning any taxes paid during the year in excess of that amount are non-deductible.
 - Taxpayers who have already reached the \$10,000 threshold for 2023, or who will be claiming the standard deduction this year, should defer any additional state tax payments as long as possible in order to maintain control over their cash during that time.
 - While state income and property taxes are still non-deductible under the Alternative Minimum Tax, the other changes made to that system have significantly reduced the number of people subject to this additional tax. While the AMT can't be ignored, it's very unlikely that it should influence the timing of state tax payments.
 - Some states offer tax incentives related to the payment of property taxes, such as a credit based on the total property taxes paid in a year. Before choosing to delay (or even accelerate) payments into a different tax year, be sure to review how the state will treat that payment.
 - Also, be aware of any penalties assessed by the state for late payment of any tax bill. The value of maximizing a tax deduction can be offset if the state were to assess a penalty for missing a payment deadline.
- The personal exemption amount has been temporarily reduced to \$0 through 2025, meaning there is no longer a flat deduction amount for dependents. However, identifying those dependents is still important for items like the child tax credit and other tax benefits. The child tax credit has been around for many years, but the TCJA expanded the size and scope of the credit:
 - The credit amount remained at its standard level of \$2,000 for 2023, and only applies to children under age 17.
 - A separate \$500 credit is available for any dependent that doesn't qualify for the \$2,000 credit.
 - The total credit begins to be phased out for couples with income over \$400,000 and singles over \$200,000.

CHARITABLE GIVING STRATEGIES

While some taxpayers no longer receive a tax benefit for their charitable gifts (due mainly to the larger standard deduction), that's not the case for all taxpayers. As such, it's important to structure charitable giving in a way that provides the largest benefit to both the charity and the donor. The bunching technique (see the Itemized Deduction Planning section above) is a great way to maximize these benefits, along with these other considerations:

- In order to deduct a charitable gift this year, it must be considered a completed gift by December 31, 2023. To meet that deadline, a check must be mailed or a credit card charged by the end of the year.
- The TCJA expanded the deductibility of cash gifts by allowing them to offset up to 60% of AGI.
- As in past years, utilizing appreciated property for contributions rather than cash can be a great tax savings tool. Those gifts will generate a deduction for the full value of the property without triggering a taxable gain.
 - When making charitable gifts, be sure not to gift securities that have a loss. A charitable deduction is limited to the market value at the time of the gift, and neither the taxpayer nor the charity will receive any tax benefit for

the built-in loss. Rather than donating something that has a loss, taxpayers are better off selling it first to realize the loss, which can then be deducted, and then donating the sales proceeds to the charity.

- Also be sure to donate only those items that would be considered “long-term” assets. Donating an asset that is considered a “short-term” holding will limit the donor’s tax deduction to their cost basis.
- Charitably inclined taxpayers whose income is unusually large in 2023 (due to a sale of a business, stock option exercise, deferred compensation payment, etc.) may want to consider accelerating future giving into this year when it may provide a larger tax benefit.
 - In that case, perhaps consider making that gift to a donor advised fund. With this type of gift, the tax benefit is realized immediately without having to commit to a specific charity until later. Donor advised fund assets can be held in the fund and invested tax-free, while distributions to charities can be deferred until sometime in the future. The gift to the fund is irrevocable, but these vehicles can be a great way to maximize the tax benefit of a donation.
- Taxpayers who wish to make charitable gifts but don’t anticipate being able to deduct that gift may want to consider a Qualified Charitable Distribution (QCD). A QCD is a distribution from an IRA that is transferred directly to a charity. The withdrawal from the IRA isn’t included in taxable income, although the donation is also non-deductible. That may be fine with the donor, especially if they’re only claiming the standard deduction anyway. The QCD is also a way to minimize a taxpayer’s AGI, which can allow them to qualify for other tax benefits or avoid higher Medicare premiums. Among the rules to keep in mind for these distributions are:
 - Taxpayers must be at least age 70½ at the time of the payment to the charity. Just reaching that age later in the calendar year is not sufficient.
 - The payment to the charity will count towards the taxpayer’s RMD for the year. If the taxpayer has already withdrawn their RMD for the year, a QCD can still be completed, but will not affect the taxability of the RMD.
 - Direct transfers to charity can only come from an IRA. A QCD is not allowed from an employer plan, nor is it allowed from an ongoing SEP or Simple IRA. A QCD can also be made from a beneficiary IRA, as long as the beneficiary is over age 70½ at the time of the gift. The age of the original IRA owner is irrelevant.
 - QCDs are capped at \$100,000 per IRA owner per year, regardless of the taxpayer’s RMD amount.
 - Transfers generally must be made to a public charity. Private foundations, donor advised funds, and other similar recipients are not eligible. Beginning in 2023, SECURE Act 2.0 allows IRA owners to utilize a QCD to fund a CRT or CGA, subject to a \$50,000 lifetime limit.
 - Lastly, keep in mind that donating appreciated property in some cases may lead to a better overall tax result than the QCD technique. The deduction for gifting the stock will still offset the IRA withdrawal, but the capital gain on the stock is also avoided, providing a double tax benefit.

RETIREMENT PLANNING

- The 2023 contribution limits to most forms of retirement plans have increased from 2022:
 - 401(k), 403(b) and 457 plans - \$22,500 (up from \$20,500)
 - Traditional and Roth IRAs - \$6,500 (up from \$6,000)
 - SIMPLE IRAs - \$15,500 (up from \$14,000)
 - SEP IRAs - \$66,000 (up from \$61,000)
- Taxpayers should be sure to maximize contributions to their employer-sponsored retirement plan as well as to an IRA, either Traditional or Roth (if eligible). Contributing to an employer plan does not prevent someone from also

contributing to an IRA, although having employer coverage may limit (or even eliminate) any tax deduction for a Traditional IRA contribution, as explained below.

- Those covered by an employer-sponsored retirement plan are subject to income limits that affect the ability to deduct contributions to a Traditional IRA. For 2023, married couples with MAGI over \$116,000 (singles over \$73,000) will begin to lose the benefit of the IRA deduction, and it is fully phased out once MAGI reaches \$136,000 (\$83,000 for singles). However, being over that threshold does not prevent someone from making a non-deductible contribution as long as they have taxable earned income equal to or greater than the contribution amount.
- For 2023, full contributions to a Roth IRA are only allowed for joint taxpayers with AGI below \$218,000 (singles below \$138,000), with contributions fully phased out at \$228,000 (\$153,000 for singles).
- The “Backdoor Roth” strategy remains an option for those who are unable to contribute to a Roth IRA directly due to these income limitations.
- Taxpayers age 50 or older are usually eligible for a “catch-up” contribution – an additional contribution amount over the base limitation. Those who turned 50 in 2023 should be aware of this increased IRA or employer plan contribution amount. The catch-up amounts for 2023 are \$1,000 for IRAs, \$7,500 for 401(k), 403(b) and 457 plans, and \$3,500 for SIMPLE IRAs.
- Taxpayers should consider the potential benefit of converting a Traditional IRA to a Roth IRA prior to year-end. The conversion amount will be fully taxable in the year of conversion (other than any previous non-deductible contributions to the account) but future growth in the account can later be withdrawn tax-free. This can be especially attractive for positions held in a Traditional IRA that have fallen in value during 2023 but are expected to recover. By converting those positions to a Roth IRA, that future recovery can occur in a tax-free account.
 - Converting to a Roth IRA may be attractive for those who feel they are in a lower tax bracket today than they will be in the future, whether that is a result of future retirement benefits, or changes in legislation. We know at a minimum that our tax rates are scheduled to revert back to pre-TCJA levels after 2025.
 - Remember, once a taxpayer completes a conversion, they are no longer able to recharacterize that conversion back to a Traditional IRA. In other words, taxpayers can’t “change their mind” on the conversion. Because of this, the old strategy of doing a large conversion now and then recharacterizing some of it back once other income and deductions are more certain is not available.
- SECURE Act 2.0 increased the required beginning date (RBD) for RMDs from age 72 to age 73. Although this is effective beginning in 2023, those that turned 73 during 2023 also turned 72 in 2022 and were subject to the old rules. Therefore, individuals turning 73 in 2023 were and are still required to take their 2022 and 2023 distributions. This increase in RMD age effectively impacts those who turn 73 in 2024 or later.
- IRA owners must take their 2023 RMD by December 31, 2023 or they risk a 25% penalty on the undistributed amounts (reduced from 50% in SECURE Act 2.0).
 - The RMD rules apply to Traditional IRAs and, in most cases, to employer retirement plans. Roth IRAs, however, are exempt from these rules. Beginning in 2024, Roth 401(k)s will also be exempt from the RMD rules, but they are still required for 2023. Upon death of the owner, there are mandatory distributions required from all qualified plans, although the timing and amount will vary depending on the individual who inherits the account.
 - Owners of multiple Traditional, SEP and/or Simple IRAs must calculate the RMD on the value of each of these accounts, but can withdraw the full RMD from any or all of the accounts. However, owners of multiple 401(k) or other employer plans must calculate and withdraw the applicable RMD from each of those individual plans – no aggregation is allowed for those accounts.

OTHER FINANCIAL PLANNING CONSIDERATIONS

- The annual gift tax exclusion increased to \$17,000 for 2023. Taxpayers trying to minimize a future estate tax liability can begin by making annual gifts to family members. Keep in mind that payments made directly to a university for tuition or to a medical provider on someone else's behalf do not count towards the \$17,000 limit. For 2024, this amount will increase again to \$18,000.
- The lifetime gift and estate tax exemption amount increased to \$12.92 million for 2023. Making large gifts under this provision should be done only after a thorough review of the overall estate plan but should be strongly considered by those who are likely to pay an estate tax. For 2024, this amount will increase again to \$13.61 million.
 - The portability rules remain intact, meaning a married couple has a combined \$25.84 million exemption in 2023.
 - As it stands today, this increased exemption is temporary, as it's scheduled to fall back to roughly half the current amount in 2026. This creates planning complexity for couples with an estate between roughly \$15 million and \$30 million. Those individuals may be able to delay making any lifetime gifts for now, but as 2026 approaches, it may be appropriate to take advantage of the larger exemption before it expires.
 - The IRS has issued anti-clawback regulations as it relates to this exclusion amount, meaning in the case of a donor who makes lifetime gifts when the larger exclusion amount is in effect, if death occurs at a time when the exclusion amount has decreased, the decedent's estate will not claw back and tax the excess.
- For 2023, there were no changes to the rules that adjust the cost basis of assets owned by a decedent to their fair market value on the date of death.
- Taxpayers may consider funding a 529 plan to help pay for future education expenses. One advantage of gifting to a 529 plan is that 5 years' worth of gifts can be made in one year. With the annual gift exclusion at \$17,000 for 2023, a taxpayer can gift up to \$85,000 at one time to a 529 plan – double that if the gift comes from a couple. Taxpayers considering making 5 years' worth of gifts at once should wait until early 2024 to do so. That will allow them to still contribute \$17,000 to the 529 for 2023 before doing the 2024 through 2028 gifts next year.
 - Those who made the maximum 5-year gift to a 529 plan in prior years can add an additional \$1,000 to the plan this year due to the increase in the annual gift tax exclusion.
 - As a result of the TCJA, 529 plan assets can now be used to fund K-12 expenses. Withdrawals for these purposes are limited to \$10,000 per beneficiary per year, and can only be used for tuition costs, but this new flexibility may cause donors to reconsider contributing to a Coverdell in the future.
 - Beginning in 2024, assets in a 529 plan can be rolled over to a Roth IRA for the benefit of the same individual. There are many rules regarding how a 529 account can qualify, as well as annual and lifetime limits on the rollover amount, so be sure to review those with your advisor. In particular, the eligible rollover amount is reduced by any contributions to an IRA for that individual, so be sure to evaluate this rollover opportunity before making 2024 IRA contributions.

STAYING UP-TO-DATE

While not necessarily related to year-end, there are other items you may use this time to address that are related to your finances.

- Identity theft and data security continue to be important issues. Use the end of the year to consider the following:
 - Change your online passwords, using something that isn't easily guessed.
 - Review your credit report, which can be obtained for free at www.annualcreditreport.com.

- Consider enrolling in a credit monitoring service. If you fear your credit may be at risk, consider establishing a credit freeze or fraud alert for you, your spouse and dependents.
- For additional tips, review our article "[Practical Strategies to Safeguard Your Online Information](#)".
- Investors should review their investment asset allocation with their Baird Financial Advisor to determine if it's still appropriate given their goals and time horizon. Market volatility can also trigger a need to rebalance a portfolio periodically back to a target allocation.
- Also timely is checking the state of your emergency fund. Many families have tapped into their emergency funds in recent years due to the pandemic and its impact on their financial situation. It's important to develop a plan to replenish this account now in order to be prepared for unexpected expenses in the future.
- Individuals should [compile a list](#) of where all pertinent financial documents can be found in the event they become incapacitated. Include account numbers, contact names and phone numbers, as well as important facts on all family members. This sheet should be kept in a safe location, but be accessible by the appropriate person if the need arises.
- Estate documents should be reviewed to ensure they're still appropriate. This is important with changes in legislation, as we've highlighted in other areas, but it is especially paramount if there has been any change in marital status, any births or deaths in the family, a significant change in personal net worth or relocation to a new state during the year.
- Review any beneficiary designations on insurance policies, retirement plans, etc. to ensure they are still appropriate.