TAX-PLANNING CHECKLIST FOR THE NEW YEAR

2023 is here! We hope you'll find this checklist helpful as you prepare your clients for tax season.

Tax season is a busy time for financial professionals, so we've put together a robust list of information and tips for you to quickly access as you tackle your clients' 2023 tax planning.

- ☐ **Check withholdings.** Underpayment of taxes can result in penalties. Clients can help make up for underwithholding with quarterly estimated payments based on quarterly income. Withholding from an individual retirement account (IRA) distribution is treated as though withheld ratably through the year and can help clients who did not withhold enough money for taxes.

  Tip! Encourage soon-to-be and new retirees to review their withholding requirements.

- ☐ **Evaluate retirement plan contributions.** Good news! There is still time for some clients to maximize their contributions. In addition, contribution limits are going up in 2023. Now is a good time to discuss the opportunity for your clients to increase their deferral percentages, so they can contribute the maximum amount allowed.

- ☐ **Review asset location.** With interest rates increasing, it may be worth looking to see where certain fixed-income assets are held and consider moving them to a more tax-efficient location.

  Tip! Evaluate whether some clients should consider fixed or variable annuities to help manage 1099s.

- ☐ **Consider tax-loss harvesting.** Keep an eye on wash-sale rules and tax-gain harvesting for investors who may enjoy the 0% long-term capital gains rate.

  Tip! The Social Security cost-of-living adjustment (COLA) will push more clients over the 0% threshold. Early planning may help.

- ☐ **Bunch deductions to take advantage of itemized deductions.**

  Tip! Remind clients to keep receipts from their charitable contributions.

  Tip! Qualified charitable distributions (QCDs) are great for charitable contributions.

- ☐ **Check to see if required minimum distributions (RMDs) were taken.** If not, clients will incur a 50% penalty. Also check on any inherited accounts such as an inherited IRA or nonqualified annuity, as these also may have RMDs due before year-end. Note that charitably inclined individuals can utilize a QCD to satisfy their RMD up to $100,000.

  Tip! The first dollars distributed are RMD dollars, so make the QCD first.

- ☐ **Review portfolios for tax-inefficient investments.** If clients are reinvesting their dividends and distributions and not living off the income, they may be able to lower future tax bills. A variable annuity allows the distribution of gains to be controlled by the client and can be deferred to years where they may be in a lower tax bracket.

- ☐ **Discuss the use of flexible spending account (FSA) savings.** If a client is close to the adjusted gross income limit that allows for the deduction of medical expenses, they can benefit from itemization if they get it done this year.
- ☐ **Evaluate the impact of a partial Roth IRA conversion**. With asset prices down considerably this year, investors may be able to convert and shift their potential future gains to a tax-free, qualified Roth distribution. Additionally, if they find themselves in a lower tax bracket this year, they may reduce the value of future RMDs by moving assets from a traditional IRA to a Roth IRA.
- ☐ **Remind clients that they can gift low-basis assets to family members in a lower tax bracket**. Instead of cash, clients can give low-basis capital assets (such as equities or mutual funds) to family members in a lower tax bracket. The family members can then sell those assets. They will likely pay less in taxes than if they had received cash from assets sold by the family member in a higher tax bracket.
- ☐ **Ask if clients can delay income until next year**. If a client is on the threshold for a higher tax bracket or potential income-related monthly adjustment amount (IRMAA) penalty, see if some of their income can be deferred until next year when bracket ranges will be higher.

Your clients' tax situations can change dramatically from year to year based on changes in filing status or shocks to income—both positive and negative. When those events arise, it's important to review the tax efficiency of their investments and adjust. It may be time to accelerate or defer income.

Take Action Now

As tax time gets closer, it's important to review the tax situations of your clients' investments. Consider strategies that allow them to have more control over when they take withdrawals and recognize taxes.

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

VLC2927-0123W