Third Quarter 2023

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FINANCIAL IDEAS FOR TODAY AND TOMORROW

Footnotes

When to Call: Common Situations that Require a Tax Planning Appointment

Taxes can affect many areas of your life. Here are some common situations when you'll want to schedule a tax planning appointment or give us a call to discuss.

Something changed in your life. A change in your life could mean significant changes in your tax status. Some of these changes include:

- Getting married or divorced
- Retirement
- A child starting college or an adult going back to school
- Moving to a new home
- The birth of a child or an adoption
- A family member passes away

How your taxes may be different: *Tax deductions and credits can increase and decrease because of these and other life changes. You'll want to know as soon as possible if your taxes will be going up so you can be prepared to pay the increased amount or potentially adjust withholding or estimated tax payments.*

Laura Monaghan, CPA, is a partner in our Mason City office.

A new job. You'll have several decisions to make when starting a new job that will affect your tax situation:

- Retirement savings plans - Learn about the available retirement savings plans offered by the employer and any other tax-deferred savings options. Remember that some employers will match a certain percentage of contributions that an employee makes to a plan. Make sure you are contributing at least enough to ensure the maximum employer match.
- Medical savings accounts - Your employer may offer a Flexible Spending Account or a Health Savings Account to help with paying certain medical expenses with pre-tax funds.
- Withholding - You'll need to determine if you want additional federal (along with state and local income taxes, if applicable) income taxes withheld from your paycheck beyond what your employer is obligated to withhold.

How your taxes may be different: *You can decrease your taxable income by contributing to qualified retirement and medical savings plans. A tax planning session can reveal how much you can contribute to each of these plans, and if you should consider adjusting your paycheck withholdings.*

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FROM THE PEN OF A PARTNER

Cont. from page 1

A new business or side hustle. A new business (hopefully!) means more money, but with it also comes more tax responsibilities. Here are some things to consider:

- Separate bank accounts and credit cards - If you only remember one tip, it's to keep separate accounts. Without this, it is easy for the IRS to deem expenses as personal and, therefore, not deductible.
- Paying estimated taxes - As a business owner, you are responsible for making tax payments throughout the year to the IRS and state if your business is profitable.
- Setting up a bookkeeping system - Having an accurate bookkeeping system is vital to making sure you don't pay any more in taxes than you're legally obligated to pay. Consider reconciling your bank accounts weekly (or even daily if possible) so they're always current.
- Other tax responsibilities - You may be required to submit a sales tax return depending on what types of products you sell or services you provide. You'll also be required to submit various payroll tax returns if you have any employees.

How your taxes may be different: *Most small businesses are flow-through entities. This means any business profits will add to your personal income. Because of this, your personal tax situation could vary dramatically. So tax planning becomes critical on two fronts: Your new taxable income level AND helping you stay in compliance at the federal, state and local business tax rules.*

Nobody likes a tax surprise and now is a great time to schedule a tax planning appointment.

The Latest on Required Minimum Distribution (RMD) Rules (September 7, 2023)

As of 2023, the age for starting RMDs is 73. It increases to age 75 by 2033. In addition, certain penalties have been reduced for late distributions. Read more for details on the latest changes.

Q: At What Age Do I Have to Start Taking RMDs?

A: It depends on when you were born:

- If you were born between July 1, 1949 and before 1951, your RMD age is 72.
- If you were born between 1951-1959, your RMD age is 73.
- If you were born 1960 or later, your RMD age is 75.

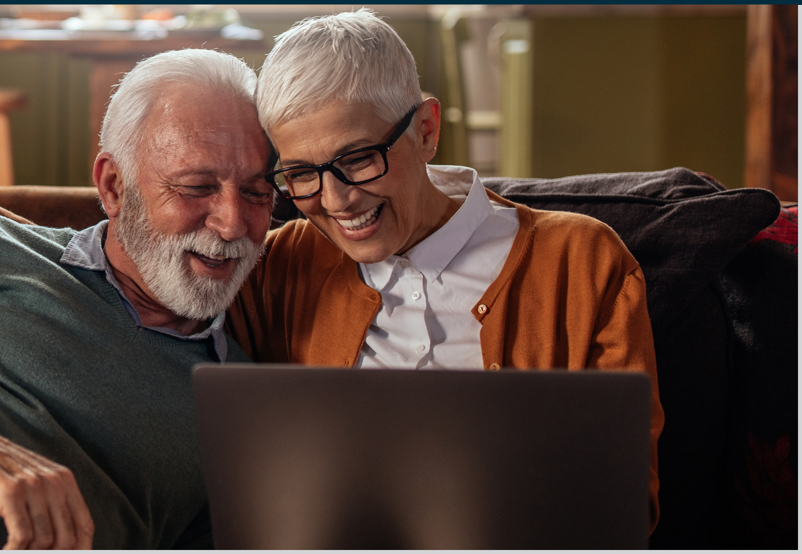
Q: After I Turn My RMD Age, When Do I Need to Take My Distribution?

A: You can delay taking your first RMD until April 1 of the year after you reach your RMD age—although that will result in two RMDs for the year, increasing your taxable income. After your first RMD, the deadline for distributions is December 31 of each year. While you can request a distribution at any time during the year, if you wait until December 31, your taxable retirement accounts will have more time to grow.

Keep in mind that while the new retirement plan changes give you more flexibility when it comes to your RMDs, the longer you delay them, the larger they will need to be, which will add to your tax bill. RMDs are taxed as ordinary income in the year you take them.

Q: What Types of Retirement Plans Require Minimum Distributions?

A: You must take RMDs from your qualified, or tax-deferred, retirement accounts. Those include traditional, SEP, SARSEP



and SIMPLE IRAs and 401(k), 403(b), 457(b) and profit-sharing plans. Starting in 2024, Roth 401(k) account holders will no longer be required to take RMDs.

If you have several IRAs, you'll need to calculate the RMD for each account. However, you can take your total RMD from only one IRA or a combination of IRAs. If you own multiple 401(k)s, you must calculate and take the RMD for each separately.

Q: How Is My RMD Calculated?

A: Typically, your plan administrator will calculate your annual RMD and report it to the IRS. To do it yourself, start with your account's balance as of December 31 of the previous year. Then, divide that figure by the life expectancy factor for individuals your age from the IRS table relevant to your situation.

For example, say you are married, your spouse isn't more than 10 years younger than you (and not the sole beneficiary) and you turned 74 in October, 2022. The value of your traditional IRA on December 31, 2022, was $1,000,000. Using Uniform Lifetime Table III, you see that the distribution period for a 74-year-old is 25.5. Divide $1,000,000 by 25.5, and your RMD is $39,215.69.[1]

Q: Do I Have to Take an RMD if I'm 73 and Still Working?

A: In some cases, no. If you've reached RMD age and are still employed, you're not required to take an RMD from your employer-sponsored 401(k) plan until you retire. Note that this doesn't apply to IRAs or qualified plans from previous employers.

Q: Is There a Penalty for Failing to Take an RMD?

A: Yes. However, now the 50% penalty on the shortfall amount has been reduced to 25%. Plus, if you pay that shortfall within two years, the penalty can possibly be reduced to 10%.

Q: How Can I Minimize My Tax Burden?

A: To reduce your tax bill in retirement, consider the following strategies:

- Convert traditional IRA assets to a Roth IRA. When you roll over some of your IRA funds into a Roth IRA, you won't be required to take any RMDs or pay taxes on withdrawals as long as the account has been open for at least five years. However, you'll pay taxes on the amount you roll over at the time of conversion.*
- Fill up lower tax brackets. If you've recently retired but your first RMD is a few years away, you may decide to live off cash savings initially, which could put you in a lower tax bracket. Once you reach RMD age and begin taking distributions, you'll likely move into a higher tax bracket. Using this strategy, you could decrease the withdrawal amounts that eventually would have been taxed at a higher rate.
- Make a qualified charitable distribution (QCD). Once you reach age 70½, traditional IRA account holders can donate up to $100,000 of their RMD to qualified charities and reduce the taxable amount of the RMD. Beginning in 2023, you have the option to make a one-time $50,000 QCD directly from your traditional IRA to certain split-interest entities, including a charitable remainder annuity trust, charitable remainder unitrust and charitable gift annuity. However, QCD's cannot be made to donor-advised funds.

Implement a blended withdrawal strategy. If you have a taxable brokerage account, you might think about a blended withdrawal strategy to take advantage of long-term capital gains tax rates.

Whatever strategy you're considering, work with your wealth advisor to make sure it's appropriate for your situation.

Hogan - Hansen, P.C. partners with Mariner Wealth Advisors to bring expertise and engaged professionals to offer a full spectrum of wealth management and financial planning services to our clients. For more information visit: marinerwealthadvisors.com.

Source:

1"Distributions from Individual Retirement Arrangements (IRAs)."

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*If you convert a Traditional IRA to a Roth IRA, the conversion amount will be treated as a distribution for income tax purposes and is included in your gross income (excluding any nondeductible contributions). Because you will be required to pay income taxes on the conversion, you need to consider that cost and whether or not it is appropriate for your situation. A distribution from a Roth IRA is tax-free and penalty-free, provided the five-year aging requirement has been satisfied, and one of the following conditions is met: age 59½, disability, qualified first-time home purchase or death.

https://www.marinerwealthadvisors.com/insights/the-latest-on-required-minimum-distribution-rmd-rules/?modal=no? utm_source=newsletter&utm_campaign=monthly%20newsletter&utm_medium=email

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Success is falling nine times and getting up ten.

- JON BON JOVI

Halloween is not only about putting on a costume. It's about finding the imagination and costume within ourselves.

- ELVIS DURAN

There is magic in the night when pumpkins glow by moonlight.

- UNKNOWN

Honesty is the first chapter in the book of wisdom.

- THOMAS JEFFERSON

NOTABLE QUOTES

Autumn carries more gold in its pocket than all the other seasons.

- JIM BISHOP

Sticky fingers, tired feet; one last house, "trick or treat!"

- RUSTY FISCHER

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.

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