CPA Practice Advisor

advisors as soon as possible in order to take advantage of planning opportunities.

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With the individual tax filing deadline approaching, high-net-worth (HNW) individuals and their advisors should be aware of the latest federal tax changes for 2023 that may impact their financial and retirement planning, especially as pandemic-related tax breaks begin to expire.

By staying informed on policy and tax changes such as the Secure Act 2.0, estate-tax changes and shifts in charitable deductions, HNW individuals can take proactive steps to ensure that their financial plans are aligned with their long-term goals.

The Secure Act 2.0

The Secure Act 2.0, signed into law by President Biden in December 2022, aims to

It's also important to note that in 2025, the Secure Act 2.0 calls for the limit on catch-up contributions to increase for individuals ages 60 to 63 who are participating in employer plans such as a 401(k), 403(b) and 457(b). The limit will be 150% of the standard catch-up amounts or $10,000, whichever is greater. This strategy can not only lower gross income but also enhance retirement savings for those who are eligible.

However, a restriction for high-income individuals comes into play. In 2024, all catch-up contributions for those earning at least $145,000 must be made to a Roth IRA account. It's important for advisors to discuss options with their HNW clients, including adding more assets to their Roth accounts to prepare for this change.

Secure 2.0 also ushers in new options for those who want to further their tax diversification. Previously, all employer contributions to 401(k), 403(b) and or 457(b) plans were required to be made pre-tax with no tax on the contribution or related earnings until distribution. Now the law allows for plan participants to designate some or all employer-matching contributions and/or non-elective contributions as Roth contributions. Advisors should note this to clients who want to balance pre-tax, Roth and non-retirement accumulations.

Another Secure 2.0 Act change for high-net-worth individuals to consider are penalty-free rollovers from a 529 college savings plan to a Roth IRA. Any rollover counts as part of your $6,500 yearly Roth IRA contribution cap ($7,500 if you are age 50 or older). The lifetime rollover limit from a 529 plan to an IRA is $35,000.

Gift Tax and Estate Tax Changes

For 2023, the federal annual gift tax exemption increased $1,000 to $17,000 for individuals; for married couples, the exemption is now $34,000. Moreover, the total lifetime gift and estate tax exemption moved up to $12.92 million for individuals

opportunities.

Deductions for Charitable Donations

Charitable giving to non-profit organizations is a tried-and-true way to lower your tax bill and one that many HNW Individuals can use as a lucrative deduction.

In an environment where interest rates are rising and deductions are changing, advisors should explore the potential benefits strategies to help their clients lower their taxable income with charitable deductions. One example is the use of charitable remainder trusts (CRTs). A CRT allows the taxpayer to give to charity while also allowing them to draw annual income for a pre-determined time. This is particularly helpful if the taxpayer has major planned donations to charities and/or needs a predictable source of income.

With various tax law changes going into effect in the coming years HNW Individuals will face previously unseen tax complexity and tax refund volatility. Advisors will need to pay even closer attention to their clients' tax situation. Scheduling a mid-year check-up to avoid surprise balances at tax time is highly advisable. These strategies can help advisors provide their high-net-worth clients with an analysis that is specific to their circumstance and can help them take advantage of tax planning opportunities.

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