STRADLEY RONON

November 22, 2022

Estates Alert | Trusts, Estates & Personal Planning

Estate Planning Year-End 2022

As the end of 2022 approaches, it is a great time to think about tax, estate and gift planning. In the following paragraphs, we have highlighted some year-end planning options that clients (you?) may want to consider.

Make Gifts

Every individual has a unified gift and estate tax exclusion, sometimes referred to as the "Lifetime Exclusion Amount." In addition, Federal tax law allows American citizens and domiciliaries to make annual gifts of up to $16,000 per recipient without using any of the Lifetime Exclusion Amount (this annual exclusion amount is increasing to $17,000 in 2023). If you wish to make gifts, we recommend doing so by the end of the year to take advantage of the 2022 annual exclusion. If you give more than $16,000 to a single individual, you may be required to file a gift tax return to report the transfer to the IRS.

Make 529 Plan Contributions

On the subject of gifts, you may want to contribute to 529 Plan accounts to help your loved ones pay for education from kindergarten through graduate school. The assets in 529 accounts grow income tax-free as long as the distributions are used to pay qualified education expenses, including room and board, tuition, books and supplies. Contributions to 529 accounts are gifts subject to the same annual exclusion rules described above. However, unlike other gifts, you are able to bundle up to five years of annual 529 gifts in one year, allowing you to fund a 529 with up to $80,000 without impacting your Lifetime Exclusion Amount. As a bonus, certain states (including Pennsylvania, New Jersey and New York) allow a state income tax deduction for a portion of your 529 account contributions.

Consider Estate and Inheritance Tax Planning

The Lifetime Exclusion Amount changes every year based on inflation adjustments and, occasionally, legislative changes. For individuals who have passed away in 2022, the exclusion is $12,060,000 per person. Based on current law, the exclusion is slated to be cut in half in 2026. President Biden and various legislators have advocated reducing the exclusion to an even lower amount before that date. As a result, many taxpayers are making gifts now in order to use the full Lifetime Exclusion Amount of $12,060,000 before it is cut in half in 2026 (or earlier). Furthermore, by using certain planning techniques, which leverage the use of the Lifetime Exclusion Amount, you may be able to remove additional property or future growth from your taxable estate. Since the estate tax rate is 40%, minimizing the size of your estate is beneficial from a tax perspective.

Pennsylvania and New Jersey also assess state inheritance taxes. Unlike the federal estate tax, there is no inheritance tax lifetime exclusion, and the tax rate is based on the degree of kinship between the recipient and the decedent. Many estate tax planning techniques can also be used to save future inheritance taxes.

Consider a Roth Conversion

Your contributions to a traditional IRA are tax-deductible, but income tax is due when you take distributions. In a Roth IRA, the initial contributions are not deductible, but there is no income tax on the growth and no requirement to take distributions after retirement age. When you convert a traditional IRA to a Roth IRA, the amount converted must be reported for federal income tax purposes in the same tax year as the conversion. After conversion, you will not be required to take any Required Minimum Distributions or pay any further tax on account withdrawals (as long as the Roth account has been open for at least five years and you are at least 59½). Certain 401(k), 403(b) or 457(b) plans allow Roth conversions as well.

Take Required Minimum Distributions (RMDs) From Your Retirement Plans

If you turned 70½ before Jan. 1, 2020, or if you turned 72 after that date, you must take the required minimum distributions, or RMDs, from your retirement accounts. The RMD amount is calculated based on your age and life expectancy using IRS-issued actuarial tables. If you fail to take the RMD for the year, you may be hit with an excise tax of 50% on the undistributed amount. If you have turned 72 in 2022, your first RMD must be taken by April 15, 2023. For those already taking RMDs, the distribution must be taken by Dec. 31 of each year.

If you prefer, you can donate up to $100,000 of your RMD to a qualified charity. This "Qualified Charitable Distribution" (QCD) is excluded from your taxable income, thereby lowering your income tax exposure for the year. There are rules to follow when making a QCD, so be sure to discuss the donation with your financial advisor or estate planner before taking action.

Max Out Retirement Account Contributions

Your various retirement accounts have annual contribution limits (plus additional "catch-up" contributions). Here are the contribution limits for 2022 (subject to any additional terms or restrictions in the plan):

Account Type	2022 Contribution Limit	Additional "Catch-Up" Contribution Limit
401(k)	$20,500	$6,500 if over 50 years old by the end of 2022
SIMPLE 401(k) (offered to businesses with 100 or fewer employees)	$14,000	$3,000 if over 50 years old by the end of 2022
403(b) (offered to nonprofit and government employees, including public school teachers)	$20,500	$6,500 if over 50 years old by the end of 2022; additional catch-up contributions may be available for employees with at least 15 years of service
457(b) (offered to state and local government employees)	$20,500	$6,500 if over 50 years old by the end of 2022; additional catch-up contributions may be available for employees for three years prior to the normal retirement age (as specified in the plan)
Traditional IRA (Roth IRAs may be lower depending on your income)	$6,000	$1,000 if over 50 years old by the end of 2022

Contributions to a traditional IRA are deductible on your 2022 income tax return (subject to certain income limitations). Talk with your employer's Human Resources department about maximizing your payroll deductions for your 401(k), 403(b) or 457(b) account. Those amounts can be withdrawn from your paycheck on a pre-tax basis, thereby lowering your taxable income for the year.

Flexible Savings Accounts (FSAs) – Use It or Lose It!

An FSA offered by your employer allows you to contribute up to $2,850 in pre-tax earnings to an account to pay for qualifying medical expenses. Unlike a Health Savings Account (HSA), FSA funds must be used by the end of the plan year (although some employer plans allow a portion of unused funds to be carried over to the next year). Be sure to spend your FSA funds before the end of 2022, or they may be forfeited!

Conclusion

The above suggestions are only a handful of the tax-saving and wealth-preserving options that may be available to you. Please contact an attorney in our Trusts, Estates & Personal Planning Group to discuss strategies that may be appropriate for you in more detail.

For more information, contact:

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