

2023 Year-End Financial Checklist

As we approach the end of the year, it may be an opportune time to review your investments and year-end tax situation with your Davenport Financial Advisor. It is also an excellent time to begin a broader discussion of your financial goals for 2024 and beyond. The following is a checklist to help you focus on important strategies and opportunities.

TAX RATES AND ADDITIONAL TAXES

There are seven federal marginal income tax rates for 2023: 10%, 12%, 22%, 24%, 32%, 35%, 37%. The 37% rate applies at Net Taxable Income levels of:

Single	Head of Household	Married Filing Jointly	Married Filing Separately
\$578,125	\$578,100	\$693,750	\$346,875

Taxpayers with Modified Adjusted Gross Income in excess of \$200,000 Single and Head-of-Household, \$250,000 Married Filing Jointly, and \$125,000 Married Filing Separately will pay an additional 3.8% tax on the lesser of net investment income or the amount by which their Modified Adjusted Gross Income exceeds these thresholds.

Taxpayers with earned income in excess of \$200,000 Single and Head-of-Household, \$250,000 Married Filing Jointly, and \$125,000 Married Filing Separately will pay an additional 0.9% Hospital Insurance Tax (Medicare) on earned income above the applicable limit.

SOCIAL SECURITY ACCOUNT AND STATEMENT

We suggest that clients go to the Social Security Administration website (www.SSA.gov or www.socialsecurity.gov), click on the My Social Security (Create an Account) tab and complete the process to create an online Social Security account. Once an account is created, the individual's Social Security statement is available online. Currently, the Social Security Administration only mails statements to workers age 60 and over who aren't yet receiving Social Security benefits and have not signed up for online statements.

RETIREMENT PLAN CONTRIBUTIONS

The maximum salary elective deferral limit for 401(k), 403(b), and 457 plans in 2023 is \$22,500. Individuals who are 50 and over may contribute an additional \$7,500 per year "catch-up contribution."

EDUCATIONAL PLANNING

529 Savings Plans have limits set by individual states, and federal gift rules apply to contributions. Contributions made by December 31, 2023 to 529 Plans sponsored by the donor's state of residence may be eligible for a state income tax deduction or credit for 2023.

Please consult the applicable plan sponsor to confirm processing timelines and the deadline for making contributions for the 2023 tax year.

CAPITAL GAINS/LOSSES

The sale of a security held for one year or less results in a short-term capital gain or loss. Short-term capital gains are taxed at an individual's federal marginal income tax rate. The sale of a security held more than one year results in a long-term capital gain or loss. Long-term capital gains are generally taxed at 15%, but may vary based upon taxable income.

The long-term capital gains rate is 0% for single taxpayers with taxable income of up to \$44,625 (\$89,250 for Married Filing Jointly and \$59,750 for Head-of-Household). A 20% rate applies for single taxpayers with taxable income above \$492,300 (\$553,850 for Married Filing Jointly and \$523,750 for Head-of-Household).

The 0% rate may only apply to a portion of the gains recognized. Because capital gains and losses during the tax year are netted against one another for income tax purposes, it may be beneficial to make adjustments to a portfolio by December 31. Additionally, the 3.8% Medicare surtax on unearned income, including investment income, for high-income taxpayers may increase the tax rate. Consult with a tax professional if considering realizing long-term capital gains for this year.

WASH SALES

Securities sold at a loss before the end of the year may be subject to wash sale rules. The IRS states that taxpayers may not take a deduction for a loss if they purchased the same security (or a "substantially identical" security) 30 days before or 30 days after the sale. Please note: if a loss is incurred on December 29, 2023, then November 28, 2023 would be the last day to "double up" on the security to avoid a wash sale, and January 29, 2024 would be the first day to repurchase the same security subsequent to the sale.

MUTUAL FUNDS

Exercise caution when buying mutual fund shares in a taxable account near the end of the year. Many funds distribute taxable gains for the year in December. It is important to avoid creating a tax liability for a year's worth of gains on an investment held for only a few days. Please consult your Financial Advisor regarding the capital gains distribution status on any mutual fund considered for purchase between now and December 31, 2023.

TAXATION OF SOCIAL SECURITY BENEFITS

Under current law, Social Security recipients may be subject to federal (and possibly state) income tax on up to 85% of their annual Social Security benefits.

For single taxpayers with "provisional" income (Adjusted Gross Income, excluding Social Security benefits, plus tax-exempt interest, plus 50% of Social Security benefits) less than \$25,000 (\$32,000 for Married Filing Jointly), Social Security benefits are not subject to income tax.

For provisional income between \$25,000 and \$34,000 (\$32,000 and \$44,000 for married filing jointly), up to 50% of Social Security benefits may be subject to income tax. Up to 85% of benefits may be subject to income tax for provisional income in excess of \$34,000 (\$44,000 for Married Filing Jointly).

REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

- Born 1950 or earlier
 - » Annual RMD due by December 31, 2023
- Born 1951-1959
 - » No RMD due in 2023; first distribution due in the year the individual attains age 73
- Seek guidance from your financial advisor regarding RMDs on inherited IRAs

IRA CONTRIBUTIONS

The maximum contribution amount for both Traditional IRAs and Roth IRAs is \$6,500 for 2023 (subject to eligibility requirements). Contributions may be made until April 15, 2024 and still be counted for the 2023 tax year. Please note that individuals age 50 and over are eligible to make an additional \$1,000 “catch-up” contribution.

BENEFICIARY DESIGNATIONS

Now is an excellent time to review beneficiary designations for IRAs, qualified plans, and life insurance policies. For example, the beneficiary designations on these accounts should generally be living people (not an estate or trust) and should include primary and successor beneficiaries. It should also be noted that the distribution of these accounts is determined by the beneficiary form, not by the individual’s will. Additionally, life changes such as birth, divorce, and death may require modifications to beneficiary designations.

CHARITABLE GIVING

Specific record-keeping requirements must be satisfied to deduct any cash donations made to a charity. A bank record or written communication from the charity must be kept as documentation regardless of the size of the donation. Donations to charities generally must be received by the charity by year-end in order to secure a 2023 deduction. Note: IRA account owners over age 70 1/2 may make direct transfers of up to \$100,000 to qualified charities (often called Qualified Charitable Distributions or QCDs) from their IRA accounts tax-free. These transfers can satisfy Required Minimum Distributions (RMDs).

Note: as a result of the Secure Act 2.0, individuals who are age 70½ and older may make a one-time QCD up to \$50,000 (inflation adjusted) to a charitable remainder annuity trust, charitable remainder unitrust, or a charitable gift annuity.

To be eligible to deduct charitable contributions, taxpayers must itemize their deductions. Generally, one can deduct between 20% and 60% of adjusted gross income, depending on the type of asset you donate and the type of organization you donate to. For corporations, the limit on deductions for charitable contributions is 10% of taxable income. Consult your tax professional for specific advice.

MEDICARE ADVANTAGE AND MEDICARE PRESCRIPTION DRUG PLAN OPEN ENROLLMENT

The open enrollment period to join a Medicare Prescription Drug Plan, change Medicare Prescription Drug Plans, switch from original Medicare to a Medicare Advantage Plan, or switch from one Medicare Advantage Plan to a different Medicare Advantage Plan runs from October 15 to December 7, 2023. It is important to review your prescription drug plan annually to ensure that you have the plan that best fits your needs at the most reasonable cost.

GIFT AND ESTATE TAXES

In 2023, up to \$17,000 in cash or securities can be given to any other individual free of federal gift tax; however, the gift must be completed (i.e., deposited) by December 31, 2023 in order to count for the 2023 tax year. Direct payments of tuition or medical expenses are not included in the \$17,000 limit. In addition to the annual exclusion, gifts totaling \$12.92 million during one's lifetime will be free from gift tax. During 2023, gifts in excess of the \$12.92 million limit are taxable at a rate of 40%. Estates of decedents dying during 2023 will be taxed at 40% on all assets exceeding the \$12.92 million exclusion.

ROTH IRA CONVERSIONS

A Roth conversion is the process of shifting assets held in a Traditional IRA or qualified retirement plan to a Roth IRA. Potential benefits of a Roth IRA may include tax-free withdrawals, longer tax-free growth since Required Minimum Distributions do not apply, and leaving assets to heirs income tax-free. Taxpayers contemplating a Roth conversion should consider the potential impact of the 3.8% Medicare Surtax on unearned income. Additionally, a conversion may result in a higher tax rate on investment income (which includes interest, dividends, and capital gains) for some taxpayers in the year of conversion.

Reminder: on January 1, 2026, barring a change in legislation, tax rates revert to the higher rates in effect prior to the passage of the 2017 Tax Cuts and Jobs Act. A Roth conversion could result in lifetime tax savings by paying taxes over the next three tax filing years at the current rates.

Additionally, since tax rates are indexed to inflation each year, the recent increase in inflation has created the largest tax bracket ranges in history for 2023. This allows the opportunity to convert more assets into a Roth IRA without crossing into the next tax bracket. Consult your tax professional to determine if a Roth IRA conversion is appropriate for your financial and estate planning goals.

IMPACT OF ONE TIME OR "EXTRAORDINARY" TRANSACTIONS

Certain large transactions that may occur infrequently can have unexpected tax impacts in the year of the transaction or in subsequent years. These transactions include gains from the sale of securities, property, or businesses, income recognized on Roth IRA conversions, and distributions from non-qualified deferred compensation plans, etc.

The gain or income recognized on these transactions can result in: the loss of itemized deductions, the application of higher income tax or capital gains tax rates, triggering the additional 3.8% tax on unearned income, additional Social Security benefits to become taxable, and/or higher part B Medicare premiums. These issues should be addressed with a professional tax advisor.

CORPORATE HEADQUARTERS:

One James Center | 901 East Cary Street, Suite 1100 | Richmond, VA 23219
(804) 780-2000 | www.investdavenport.com

Davenport & Company LLC Member: NYSE | FINRA | SIPC

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