

2023 YEAR-END TAX PLANNING GUIDE FOR INDIVIDUALS

Tax considerations for 2023 and beyond

Executive summary

On the horizon are several significant tax law changes affecting individuals, increasing the urgency for taxpayers to plan for scheduled decreases to various gift exemptions. Meanwhile, elevated interest rates are creating opportunities to lessen the tax burden of transferring wealth in some cases.

RSM has developed this tax planning guide to help you think through those and other considerations for 2023–24. With changing market conditions and new policy developments, we are here to provide guidance and help evaluate and optimize the tax impact on your family. We hope this guide is a helpful summary for you and your family of tax changes and items that may be important going into 2024.

Know your remaining lifetime exemption and how you will use it before its potential 50% decrease in 2026

Every person is given an amount that is exempt from federal estate, gift and generation-skipping transfer (GST) tax that they may use during their lifetimes, at death, or a combination of each. In 2023, it was \$12.92 million, and early projections for 2024 are \$13.61 million.

Although the estate, gift and GST tax exemptions are the same amount, they may be utilized on separate transfers. With separate GST and gift tax rates of 40%, these exemptions are worth over \$5 million in tax savings, with GST savings continuing for multiple generations.

- Exemption amounts were temporarily doubled as part of the 2017 Tax Cuts and Jobs Act (TCJA). This amount is set to be cut in half beginning Jan. 1, 2026.
- Any amount unutilized upon expiration of the temporary doubling will be lost.
- This exemption is adjusted for inflation, so even if you thought you utilized the amount in earlier years it is worth another look to consider significant 2023 and 2024 increases.
- Married couples that may not utilize the entire exemption of more than \$25 million should consider utilizing 100% of one spouse's exemption to capture at least part of the increase.

Learn more:

- [Estate planning after the sale of a business interest](#)
- [Multigenerational wealth planning: A guide to do's and don'ts](#)
- [Valuation and timing are critical when making a gift](#)



Utilize your annual exclusion early in the year

Individuals may gift up to \$17,000 annually to another individual without paying gift tax. The amount is adjusted for inflation annually and is anticipated to go to \$18,000 in 2024.

This means a married couple could gift \$34,000 annually per donee without paying gift tax or using gift exemption. For both ultra wealthy and wealthy taxpayers, this can be a simple tool to decrease your estate without paying any additional tax.

- Making gifts early in the year ensures you can utilize this tool. Waiting exposes you to the chance that something could happen to you, resulting in you either being unable to utilize the annual exclusion or forgetting to do so.
- Gifts are considered made when the check is cashed. This creates a risk that gifts made late in a year could be cashed the following year, potentially doubling the amount of gifts that year and causing a taxable gift. Early-year gifts are less likely to experience this foot fault.

High interest rates present the opportunity to provide liquidity or transfer appreciation to future generations

Interest rates have stabilized but are at higher levels than we've seen in 20 years. Even though higher statutory rates are required on related party transactions, for the transfer of high-growth assets there are still many planning opportunities that may create sizable tax savings.

- If a family member is in need of liquidity and has the ability to repay a loan, consider advancing annual exclusion gifts through a current-year loan to limit the growth of your assets.
- A qualified personal residence trust is one of the few planning techniques that work better in a high interest rate environment. It may be an effective tool for transferring a residence to future generations.

When considering other planning, don't forget that favorable income tax rates are set to sunset in 2026 also

The estate and gift exemption sunset in 2026 has stolen the spotlight; however, there also are significant changes set to occur in income tax rates.

The highest individual rate will increase from 37 to 39.6%. This, coupled with the expiration of the 20% qualified business income deduction, could result in tax rate increases of 10% for some individuals who own operating businesses. TCJA permanently decreased the corporate rate to 21%.

- If laws do not change, the large difference between corporate and individual tax rates may cause another examination of operating structures in 2026.
- When thinking of estate planning for your closely held business, don't forget to consider potential changes in income tax rates.
- Your estate planning today may prohibit a change in operating structure tomorrow.

Learn more:

- [The essential guide to estate planning and income taxes](#)



Digital assets are not like other assets

The IRS believes that there is substantial revenue to be gained from increased interest in digital assets. This has caused a flurry of recent activity that is expected to continue.

- Charitable contributions of greater than \$5,000 of digital assets require a qualified appraisal even though there may be a stated market value.
- Losses from worthless cryptocurrency are miscellaneous itemized deductions (eliminated under TCJA until 2026).
- Cryptocurrency rewards received through staking—the process of validating updates on a blockchain—are considered gross income to the recipient.
- Reporting requirements are coming into being for brokers and those utilizing digital assets to purchase real estate.
- Yet to come: Guidance on whether non-fungible tokens are collectibles and subject to several rules including the increased 28% long-term capital gains rate.

Learn more:

- [Income tax, charity and estate planning strategies for digital assets](#)



Consider the beneficiaries of your retirement assets

President Biden on Dec. 29, 2022, signed into law the SECURE 2.0 Act of 2022, which makes notable changes to qualified retirement plans. SECURE 2.0 is generally taxpayer-friendly but requires taxpayers to reexamine beneficiary designations to ensure that planning is still effective.

- If the decedent was already receiving required minimum distributions (RMDs), the beneficiary will be required to continue, except for certain spousal transfers.
- Only eligible designated beneficiaries (EDB) may stretch RMDs over their lifetime. Included in the definition of EDB are a decedent's spouse or minor child (under age 21), a disabled or chronically ill individual (including a qualified special needs trust), or an individual not more than 10 years younger than the decedent.
- If the beneficiary is not an EDB, the account balance must be distributed within 10 years for individuals and five years for certain trusts.

Will your charitable gifts be upheld?

The tax benefits arising from charitable gifts are not available unless the gifts are properly substantiated on an income tax return with many cases of deductions being disallowed for seemingly minor mistakes.

- You generally must keep written records of your contributions and receive a contemporaneous written acknowledgement from the charity confirming your gift.
- For gifts of noncash assets, you may need to include a completed Form 8283 and a qualified written appraisal of the assets with your return.

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