
2023—Early Planning Opportunities

Wealth Planning & Advice

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The 2023 Income Tax Landscape

Rate ¹	Single	Married Filing Jointly	Head of Household	Married Filing Separately	Trust and Estates
10%	\$0 to \$11,000	\$0 to \$22,000	\$0 to \$15,700	\$0 to \$11,000	\$0 to \$2,900
12%	\$11,001 to \$44,725	\$22,001 to \$89,450	\$15,701 to \$59,850	\$11,001 to \$44,725	n/a
22%	\$44,726 to \$95,375	\$89,451 to \$190,750	\$59,851 to \$95,350	\$44,726 to \$95,375	n/a
24%	\$95,376 to \$182,100	\$190,751 to \$364,200	\$95,351 to \$182,100	\$95,376 to \$182,100	\$2,901 to \$10,550
32%	\$182,101 to \$231,250	\$364,201 to \$462,500	\$182,101 to \$231,250	\$182,101 to \$231,250	n/a
35%	\$231,251 to \$578,125	\$462,501 to \$693,750	\$231,251 to \$578,100	\$231,251 to \$346,875	\$10,551 to \$14,450
37%	Over \$578,125	Over \$693,750	Over \$578,100	Over \$346,875	Over \$14,450

Source: Rev. Proc. 2022-38, IRS, <https://www.irs.gov/pub/irs-drop/rp-22-38.pdf> ¹The rate applies to taxable income as shown in the table (as opposed to gross income, adjusted gross income, etc.)

Standard Deduction*	\$13,850	\$27,700	\$20,800	\$13,850	n/a
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*An additional standard deduction can be claimed if you are over 65 or blind; each additional standard deduction is \$1,500 for married individuals (including those filing separately) and \$1,850 for single filers and heads of household

Transfer Taxes in 2023

- **Annual gift-tax exclusion:** The annual exclusion from gift tax, which is adjusted for inflation but which only increases in increments of \$1,000, is \$16,000 in 2022 and **\$17,000 for 2023**
 - Annual exclusion is often used to fund § 529 accounts or to pay premiums on insurance held in irrevocable life insurance trusts
- **“Med-Ed Exclusion”** Payments of tuition (but not room, board, or books) and unreimbursed medical expenses directly to the provider are excluded from gift tax; there is no limit on the amounts you can pay of these medical or educational expenses
- **Gift, Estate and Generation-Skipping Transfer Tax Rates and Exemptions:**
 - The exemption from gift and estate tax is \$12,060,000 in 2022, **\$12,920,000 in 2023** and is indexed annually for inflation
 - The exemption from generation-skipping transfer (GST) tax is \$12,060,000 in 2022 and **12,920,000 in 2023** and also is indexed annually for inflation
 - The rate for transfers above the exemption amount is **40%**
 - A couple can transfer up to \$24.12 million in 2022 or **\$25.84 million in 2023** free of federal transfer tax
 - If you used your full \$12.06 million per person exemption in 2022, you can give away another \$860,000 (\$1,720,000 for a married couple) in 2023
- The estate tax exemption—but not the GST tax exemption—is “portable” between spouses
 - If one spouse dies without having used his or her exemption, the other spouse can use the full exemption at his or her later death (or to make gifts during lifetime)
 - In cases of multiple marriages, only the most recent deceased spouse’s unused exemption is available to the survivor
 - Portability does not mean that you don’t need to think about a “bypass” trust
 - A bypass trust, unlike portability, also shields the growth in assets from estate tax in the survivor’s estate
 - If the exemption is reduced in the future, a bypass trust can fully capture the current exemption; a decrease in the exemption amount may result in a reduced amount of unused exemption available to the survivor
 - Portability does not apply for GST tax exemption or for state estate taxes; a bypass trust can help preserve those benefits

Additional Income Tax Considerations: Dividends and Long-term Capital Gains

- “Qualified” dividends will continue to be taxed at the rates applied to long-term capital gains
- A maximum 20% rate is applied to capital gain and dividend income for taxpayers with income exceeding \$492,300 (\$553,850 for married couples)
 - Taxpayers with income not exceeding \$44,625 (\$89,450 for married couples) pay a 0% long-term capital gains tax and qualified dividend tax rate
 - All other taxpayers pay a 15% long-term capital gains tax and qualified dividend tax rate
 - These changes are in addition to the health care-related taxes described on slide 5
 - Note that for trusts and estates, the 20% rate begins in 2023 at \$14,650, which is \$200 higher than the \$14,450 threshold for the 37% income tax bracket and the imposition of the 3.8% tax on net investment income
- The method for determining whether the 15% rate or the 20% rate applies is somewhat complicated
 - If other taxable income (non long-term capital gain and non-dividend income) exceeds the threshold, then all capital gain and dividend income will be taxed at the 20% rate
 - If other taxable income is below the threshold but capital gain and dividend income put the taxpayer over the respective threshold, then
 - the amount of capital gain and dividend income below the threshold is taxed at 15% and
 - the amount of capital gain and dividend income above the threshold is taxed at 20%
 - For example, if a married couple has other taxable income over \$553,850, then all long-term capital gain and dividend income will be taxed at 20%
 - If that same couple had other taxable income of \$400,000 and dividends and long-term capital gains of \$200,000, then the couple would pay 15% on \$153,850 of that \$200,000 (the difference between \$553,850 and \$400,000) and 20% on the remaining \$46,150

Additional Income Tax Considerations: Health Care-Related Taxes

- The Patient Protection And Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 imposes a tax on “net investment income”
 - This tax is 3.8% on the lesser of
 - net investment income (including capital gains)¹ or
 - the excess of modified AGI over a specified dollar amount (which is not indexed for inflation):
 - \$250,000 for married persons filing jointly or a surviving spouse
 - \$200,000 for single taxpayers and heads of household
 - \$125,000 for married persons filing separately
 - For trusts and estates, the threshold for this tax is the AGI at which the highest income tax bracket begins
 - In 2023, that threshold is \$14,450
 - “Net investment income” includes income, net of any deductions allocated to that income, from
 - Interest
 - Dividends
 - Annuities
 - Rents and royalties (other than active trade or business income)
 - Net capital gains
 - Note that the sale of stock in a C corp. would be subject to this tax on net investment income (unless the gain is not recognized for regular tax purposes, (e.g, ESOP rollover, qualified small business stock exclusion or rollover, etc.)), while sale of a partnership, LLC taxed as a partnership, or S corp. stock would not (unless your interest was a passive activity or attributable to trading in financial instruments or commodities)
 - Since 2013, the Medicare hospital insurance tax (HIT) has been increased by 0.9 percentage points on wage income over the same thresholds at which the 3.8% tax on net investment income is imposed
 - Unlike the base 1.45% HIT, this additional tax is on the combined wages of the employee and the employee’s spouse in the case of a joint return, and is not deductible for self-employed individuals
 - Employers are obligated to withhold this amount on income over \$200,000, regardless of spousal income

Strategies for 2022 Taxes

Individuals

- Make retirement contributions in 2023 for the 2022 tax year
 - The only strategy that individuals may still be able to use to reduce their 2022 income is a retirement plan contribution
- If you set up a retirement account in 2022 or earlier
 - If you are self-employed or own a small business and set up a SIMPLE IRA or SIMPLE 401(k), a solo or individual 401(k), or another qualified defined contribution plan by the end of 2022, you generally have until the date the employer's tax return is due (including extensions) to make contributions for 2022
 - For most small businesses and self-employed individuals, that is April 15, 2023, although if you take an extension, that will extend the date by which you can make employer contributions
- If you **did** not set up a retirement account in 2022 or earlier
 - If you are self-employed or own a small business, you can set up a Simplified Employee Pension (SEP) IRA any time up until the due date of your tax return (including extensions)
 - If you own a small business and set up a SEP, you must make a contribution for each employee of your business
 - Your business is entitled to a deduction for amounts you contribute to a SEP
 - Generally, contributions are a percentage of each employee's pay, up to a maximum of \$61,000 for 2022

Trusts

- Distribute income from non-grantor trusts to trusts beneficiaries within the first 65 days of 2023
 - Non-grantor trusts reach the highest income tax more quickly than do individuals (income of \$13,450 in 2022)
 - In some instances, distributions to a beneficiary from a non-grantor trust could shift the income tax liability from the trust to the beneficiary
 - If the beneficiary is in a lower income tax bracket than the trust, this could reduce the tax liability
 - Distributions made within the first 65 days of a calendar year could be treated as having been made in the previous calendar year (in 2023 this has to be done by March 6, which is a Monday)

Strategies for 2023

Be aware of the tax on “net investment income”

- Generally this tax is imposed on unearned income, including net capital gains, dividends, interest, rents, royalties, and passive business income
- The tax is imposed once your modified adjusted gross income (AGI) reaches certain thresholds: \$200,000 for single taxpayers and \$250,000 for married couples filing jointly (these thresholds are not indexed for inflation)
- The tax is imposed at a 3.8% rate on net investment income once modified AGI goes over those thresholds

Consider strategies to reduce (to the extent possible) your taxable income

- Consider tax-effective investment strategies (e.g., municipal bonds, charitable remainder trusts, MLPs)
- Maximize the impact of your tax deductions
- Make charitable contributions, and consider a qualified charitable distribution from retirement accounts if you're over 70-1/2
- Make annual exclusion gifts early; the annual exclusion is \$17,000 in 2023
- Using today's high gift tax exemption (\$12.92 million per donor in 2023), consider shifting assets to beneficiaries who may be in lower tax brackets
- Reconsider income capitalization in trusts
 - trusts reach the highest income tax bracket at only \$14,450 of modified AGI (although they are not subject to 20% capital gains tax rate until they reach \$14,650 of modified AGI)
 - if a trust distributes income rather than capitalizing it, the trust can deduct the entire distribution (and so owe no tax); the beneficiary will include the income on his or her individual tax return, but is more likely to be shielded from the net investment income tax since the thresholds for that tax begin at \$200,000 for single taxpayers and \$250,000 for married couples filing jointly
- Consider your domicile—if you live in a high-tax state or a state with an estate tax, lifetime gifts can be even more important as a way to trim your overall estate tax burden; Connecticut is the only state to impose a state-level gift tax
- Consider the role of life insurance and tax-deferred annuities: tax-deferred growth, tax-free lifetime basis recovery for insurance, and an income-tax-free death benefit

Strategies for 2023

Fund retirement plans early

- Rather than waiting until the end of the year, or early 2024, consider funding your retirement plans for 2023 as early as possible
 - The sooner your assets can begin to grow in a tax-deferred environment the more efficiently they can grow over time
 - Contribution maximums and deadlines can be found in the “Retirement plan contribution rules for 2023” chart in the Appendix

Consider exercising incentive stock options (ISOs) early in the year

- When you exercise an ISO, the spread between the strike price and the stock price when you exercise is not included in your ordinary income but is included as an adjustment for the alternative minimum tax (AMT)
 - Exercising an ISO can thus subject you to the AMT
 - If you sell the stock you receive from exercising the ISO within a year of the exercise (or within two years from the grant date of the option, whichever is later), the sale is called a “disqualifying disposition”
 - The consequence of a disqualifying disposition is to wipe out your AMT liability; instead, you pay:
 - ordinary income tax rates on the difference between the price at which you exercised and the strike price of the option you exercised; and
 - short-term capital gains tax on any difference between the sale price and the price of the stock when you exercised (if this is a gain it is subject to the 3.8% net investment income tax; if it’s a loss you can use it to offset capital gains)
 - The earlier in the year you exercise, the longer you have to follow the stock’s price to see whether incurring any AMT liability is worthwhile
 - If you exercise in January, you have nearly 12 full months to decide whether or not to disqualify the stock
 - If the stock price is still well above your strike price, it probably makes sense to wait another week to get the benefit of the long-term holding period, understanding that there are likely to be AMT implications
 - On the other hand, if the stock has declined in price, you can elect to disqualify and avoid the AMT
 - If you wait until December to exercise, you have at most 30 days to observe the stock price and rethink the exercise

APPENDIX

Tax Rate Chart 2023

ESTIMATE YOUR TAXES New rate schedule for 2023

Talk to your J.P. Morgan Representative about timely tax-planning ideas.

Married, filing jointly¹

Filing singly¹

If your income in 2023 is: ¹	\$190,751-\$250,000	\$250,001-\$364,200	\$364,201-\$462,500	\$462,501-\$553,850	\$553,851-\$693,750	Over \$693,750	\$182,101-\$200,000	\$200,001-\$231,250	\$231,251-\$492,300	\$492,301-\$578,125	Over \$578,125	
Your maximum federal income tax rate on wage income	24% ²	24%	32%	35%	35%	37%	32%	32% ²	35%	35%	37%	
Your share of Medicare tax on wages	1.45%	2.35%	2.35%	2.35%	2.35%	2.35%	1.45%	2.35%	2.35%	2.35%	2.35%	
Your maximum tax rate on long-term capital gains and dividend income	15%	18.8% <small>(3.8% Medicare surtax)</small>	18.8% <small>(3.8% Medicare surtax)</small>	18.8% <small>(3.8% Medicare surtax)</small>	23.8% <small>(3.8% Medicare surtax)</small>	23.8% <small>(3.8% Medicare surtax)</small>	15%	18.8% <small>(3.8% Medicare surtax)</small>	18.8% <small>(3.8% Medicare surtax)</small>	23.8% <small>(3.8% Medicare surtax)</small>	23.8% <small>(3.8% Medicare surtax)</small>	
Your maximum tax rate on unearned income—other than capital gains and dividends	24%	27.8%	35.8%	38.8%	38.8%	40.8%	32%	35.8%	38.8%	38.8%	40.8%	
Your maximum Social Security tax on wages	\$19,864.80³						\$9,932.40³					

Sources: J.P. Morgan calculations, JCT, U.S. Social Security Administration, Tax cuts and Jobs Act of 2017, Rev. Proc 2022-38.

¹The income tax rate is imposed on taxable income of the amounts shown in this row; the long-term capital gains tax rate is also based on taxable income; the threshold for the 0.9% Medicare surtax is wage income; and the threshold for the 3.8% tax on net investment income is based on modified AGI.

²Note that employers will begin to withhold when an employee's income reaches \$200,000 even if the employee and his or her spouse would not reach the \$250,000 threshold; the additional tax collected can be claimed as a credit on the couple's joint return.

³The OASDI tax is not imposed on wages above \$160,200, although the tax is imposed on the wage income of each member of a couple, if applicable, so a couple could pay up to \$19,864.80 on income of \$320,400 if each of them made at least \$160,200.

Retirement Contribution Chart 2023

RETIREMENT PLANNING Contribution rules for 2023¹

Talk to your J.P. Morgan Representative to begin planning your 2023 retirement contributions.

Qualified Defined Benefit Plan

MAXIMUM CONTRIBUTION

Amount needed to provide an annual benefit no larger than the smaller of \$265,000 or 100% of the participant's average compensation for his or her highest three consecutive calendar years

MAXIMUM DEDUCTION

Based on actuarial assumptions and computations

DEADLINE FOR ADOPTION

Anytime up to the due date of employer's return (including extensions)

LAST CONTRIBUTION DATE

Contributions generally must be paid in quarterly installments depending on the plan year; due 15 days after the end of each quarter (potentially subject to minimum funding requirements)

Qualified Defined Contribution Plan

MAXIMUM CONTRIBUTION

Employee contribution:
Elective deferral up to \$22,500 (\$30,000 if age 50 or over)

Employer contribution:

Lesser of \$66,000 or 100%² (\$73,500 if age 50 or over) of participant's compensation (reduced by any elective deferrals)³

MAXIMUM DEDUCTION

25%² of all participants' compensation,³ plus amount of elective deferrals made

DEADLINE FOR ADOPTION

Anytime up to the due date of employer's return (including extensions)

LAST CONTRIBUTION DATE

Elective deferral:
Due date of employer's return (including extensions)⁵

Employer contribution:

Due date of employer's return (including extensions)

Simplified Employee Pension (SEP) IRA

MAXIMUM CONTRIBUTION

Lesser of \$66,000 or 25%² of participant's compensation³

MAXIMUM DEDUCTION

25%² of all participants' compensation³

DEADLINE FOR ADOPTION

Anytime up to the due date of employer's return (including extensions)

LAST CONTRIBUTION DATE

Due date of employer's return (including extensions)

SIMPLE IRA and SIMPLE 401(k)

MAXIMUM CONTRIBUTION

Employee contribution:
Salary reduction contribution up to \$15,500 (\$19,000 if age 50 or over)

Employer contribution:

Either dollar-for-dollar matching contributions, up to 3% of employee's compensation,⁴ or fixed non-elective contributions of 2% of compensation³

MAXIMUM DEDUCTION

Same as maximum contribution

DEADLINE FOR ADOPTION

Anytime between January 1 and October 1 of the calendar year

For a new employer coming into existence after October 1, as soon as administratively feasible

LAST CONTRIBUTION DATE

Salary reduction contributions:
30 days after the end of the month for which the contributions are to be made⁵

Matching or non-elective contributions:

Due date of employer's return (including extensions)

Traditional or Roth IRA

MAXIMUM CONTRIBUTION⁶

\$6,500 (\$7,500 if age 50 or over)

MAXIMUM DEDUCTION⁶

\$6,500 (\$7,500 if age 50 or over) for traditional IRA; no deduction for Roth IRA contributions

DEADLINE FOR ADOPTION

Due date of taxpayer's return (not including extensions)

LAST CONTRIBUTION DATE

Due date of taxpayer's return (not including extensions)

¹ Internal Revenue Service Publication 560 - Retirement Plans for Small Business; Internal Revenue Service Publication 590-A - Contributions to Individual Retirement Arrangements; IRS Notice 2022-55.

² Net earnings from self-employment must take the contribution into account. Contributions made on behalf of self-employed individuals can be more complex; please see Internal Revenue Service Publication 560 for more information, or speak to your tax advisor.

³ Compensation is generally limited to \$330,000 in 2023.

⁴ Under a SIMPLE 401(k) plan, compensation is generally limited to \$330,000 in 2023.

⁵ Certain plans subject to Department of Labor rules, such as 401(k) plans, may have an earlier due date for salary reduction contributions and elective deferrals.

⁶ A taxpayer who is covered by a retirement plan at work, or whose spouse is covered by a retirement plan at work, may not be able to deduct all or part of his or her traditional IRA contributions depending on his or her modified Adjusted Gross Income (AGI). Similarly, your ability to contribute to a Roth IRA may be limited based on your modified AGI. You should consult with your tax advisor to confirm whether you are able to deduct your traditional IRA contribution or contribute to a Roth IRA.

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