FIRST MANHATTAN

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2022 YEAR-END PLANNING CONSIDERATIONS

Founded in 1964, First Manhattan is an independently owned and operated investment advisory and wealth planning firm with more than $20 billion in fee-paying assets under management. First Manhattan strives to deliver long-term value through an investment approach aligned with clients' goals and driven by in-house, proprietary research.

For more information, please visit **firstmanhattan.com**.

Recent updates to rules regarding tax, gift planning, and retirement make the end of the year an opportune time to review certain planning strategies. Below, we provide an overview of some ideas to consider. Prior to January 1, 2023, we encourage you to speak with your First Manhattan team as well as your accountant and tax and estate attorneys if there are any strategies you would like to discuss further.

Tax changes and inflation adjustments for 2023

A tax planning conversation can help you evaluate if you can (or need to) accelerate your income heading into 2023. Tax-loss harvesting, or selling an investment at a loss, can help minimize the impact of capital gains and reduce taxable income for the year, up to a $3,000 offset to taxable income. Realized losses that cannot be used this year may be carried forward indefinitely into future tax years on a federal level, with rules varying by individual state.

Federal estate and gift tax exemptions: The federal estate and lifetime gift tax exemptions are expected to increase from the current $12.06 million in 2022 to $12.92 million in 2023, with a combined exemption of $25.84 million for spouses. In 2026, this amount is expected to decrease by approximately half.

Gift tax exclusion limits: The annual gift tax exclusion is expected to increase from $16,000 per individual ($32,000 per couple) in 2022 to $17,000 per individual ($34,000 per couple) in 2023.

Social Security: According to the Social Security Administration, Social Security recipients will receive an 8.7% increase in benefits beginning in January 2023 due to a cost-of-living adjustment.

Standard deduction: The IRS has indicated that the standard deduction will increase for tax year 2023:

- Married/Filing Jointly: $27,700 (a $1,800 increase from $25,900 in 2022)
- Single/Filing Separately: $13,850 (a $900 increase from $12,950 in 2022)
- Head of Household: $20,800 (a $1,400 increase from $19,400 in 2022)

More information can be found on the IRS website.

Gifting

For those who have maximized their annual gifts, tuition, or medical payments made directly to the education or healthcare provider on behalf of an individual circumvent the gifting rules. Another option for those interested in making larger, up-front gifts is a 529 plan, which allows individuals to make a lump-sum contribution of five years' worth of gifts.

Charitable donations: To qualify for a 2022 tax deduction, gifts must be made by December 31, 2022. To further maximize tax benefits, "bunching" charitable donations into a specific year can allow you to take advantage of itemized deductions. For all but the smallest charitable donations, we recommend using appreciated stock instead of cash.

For those needing to complete their required minimum distribution (RMD), taking a qualified charitable distribution (maximum amount is $100,000) can count toward the annual requirement. Note that to use the qualified charitable distribution, you must be age 70½ or older.

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> 529 College Savings Plans and UTMA Accounts: An Overview

Retirement

Retirement accounts: For those looking to maximize their retirement savings for 2022, individuals can contribute up to $20,500 (or $27,000 if age 50 or older) to 401(k) and 403(b) plans before December 31, 2022. For SIMPLE 401(k) plans offered by small business owners, the limit is $14,000 (or $17,000 for those age 50 or older).

For both traditional and Roth IRAs, the 2022 contribution is $6,000 (or $7,000 if age 50 or older). Simplified Employee Pension Plan Individual Retirement Arrangement (SEP-IRA) contributions are capped at 25 percent of net earnings or up to $61,000 (whichever is less). Note: the deadline to contribute to IRAs for 2022 is April 18, 2023.

Required minimum distributions (RMDs): With certain exceptions, original retirement account owners who have reached age 72 are required to begin taking distributions before December 31, 2022. Those taking distributions for the first time can defer doing so until April 1, 2023, but will then need to take both 2022 and 2023 distributions next year.

The SECURE Act introduced significant changes to the rules governing the distribution of inherited IRAs. For those who inherited IRAs after December 31, 2019, understanding if you are considered an "eligible designated beneficiary" or a "non-eligible designated beneficiary" will be helpful in determining if you are a) exempt from the 10-year rule, b) subject to the 10-year rule without annual RMDs, or c) subject to both the 10-year rule and annual RMDs. The financial community is hoping to receive additional guidance from the IRS regarding this topic. We encourage you to speak with your accountant before the end of 2022 to determine if you are required to take a distribution this year.

Roth IRA conversions: Converting a 401(k), 403(b), or traditional IRA to a Roth IRA can offer certain benefits, including tax-exempt growth, no RMDs, estate reduction, and strategically accelerated income. For IRA owners who have cash on hand for the tax payment, do not need their retirement funds in the immediate future, and want to add to their tax-exempt assets, a Roth IRA conversion may make sense. For those who have decided to convert, implementing the conversion following a dip in the stock market may be beneficial.

VIEW OUR WHITE PAPER:

> Should You Consider a Roth IRA Conversion?

Opportunities in fixed income

Given current yields, increasing your fixed-income exposure may be advantageous. Most high-quality, tax-exempt municipal bonds are yielding 3.5% to 4% or more (as of November 11, 2022), which is the highest level since 2011. High-quality corporate bonds (often appropriate for non-taxpaying or tax-deferred accounts such as IRAs) are yielding above 5%. Investing in high-quality bonds can help to generate more portfolio income while reducing volatility. As rates rise, any decline in bond prices will not turn into realized losses if you own individual bonds and hold them until maturity.

Beneficiary designations

We recommend that you coordinate your beneficiary designations with your Wills, and, if applicable, revocable trust documents. It is important to remember that beneficiary designations supersede your Will. Assets that commonly pass by beneficiary designation are retirement accounts—401(k)s, 403(b)s, IRAs—as well as life insurance policies and annuities. It is also possible to establish transfer-on-death or payable-on-death designations for taxable accounts or bank accounts. For those who have experienced a change in their financial circumstances or whose estate plans are more than five years old, the end of the year may be a good time to revisit these documents.

> Many assets pass by beneficiary designation, which is the ability to fill out a form with a financial company holding the asset and name who will inherit the asset upon your death.

Trusted contacts

If you are over the age of 60 or a new client, we recommend adding a trusted contact to your First Manhattan account. This grants us the authorization to contact this person in certain situations including in the event we are unable to reach you, but he or she would not have any authority with respect to your account(s).

Credit reports

Individuals are entitled to an annual credit report check from each of the credit reporting companies at no cost. This can help to identify credit report errors, which are common and can be difficult to remove. More information can be found at annualcreditreport.com.

Pending legislation: New York Long-Term Care (LTC) Trust Act

Individuals who work in New York State may want to pay special attention to Senate Bill S9082, the New York LTC Trust Act. Similar to laws enacted in Washington State in 2019, this pending legislation appears to be an effort to provide coverage for looming long-term care costs in New York State. It is not yet clear if the legislation will become law, or if it will be modified prior to enactment. However, as currently drafted, the legislation would impose a payroll tax on individuals who work in New York, regardless of their state of domicile. Having a long-term care policy in place by a set deadline may enable workers to opt out of the payroll tax, and it has been suggested that this deadline might be as soon as January 1, 2023. We encourage you to speak with your insurance agent to better understand the legislation's implications for your specific circumstances (private long-term care policies would need to qualify under regulation 26 U.S. Code § 7702B in order to opt out of the tax). Your accountant can help you to assess the significance of the payroll tax in the context of your projected earnings as well as other factors.

Wealth planning

By creating a comprehensive, customized wealth plan that reflects your net worth, detailed cash flows, asset allocation, and insurance coverage, we can facilitate thoughtful discussions on a range of topics including, but not limited to, buying or selling real estate, moving to another state, accelerating or delaying retirement, making sizeable annual or lifetime gifts to the next generation, and paying for substantial long-term care costs at the end of life. Please contact us if you are interested in learning more about our wealth planning services.

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