Doerschler & Associates

Wealth Management Financial News

Jill Ingersoll, AIF, CPFA
Carl Doerschler, AIF, CPFA, CMFC
54870 N. Main Street
Mattawan, MI 49071
269-744-2004
269-744-4180

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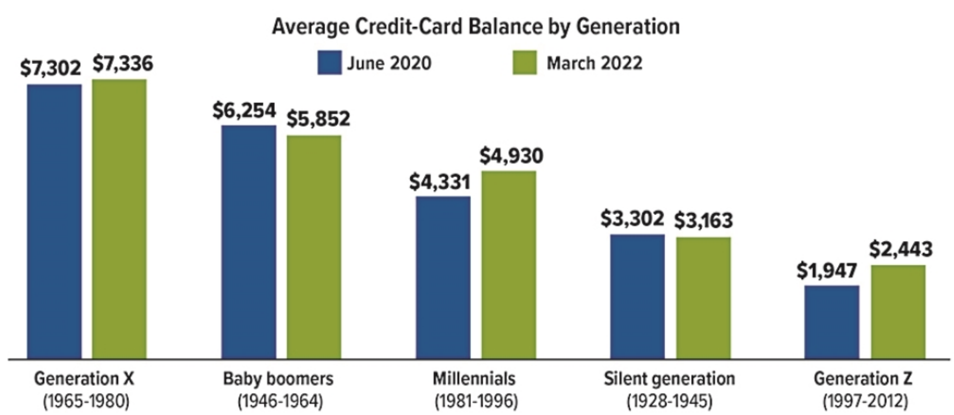
The national average FICO score in 2022. Baby boomers and the silent generation had scores higher than the national average, while other generations had lower-than-average scores.

Source: How Credit Card Usage Differs by Generation, Experian, September 13, 2022

Younger Generations See Fastest Growth in Credit-Card Balances

During the past two years, credit-card balances of younger generations have grown at a faster rate than for older generations. From June 2020 to March 2022, the average credit-card balance for Generation Z grew from $1,947 to $2,443 — more than a 25% increase. The average credit-card balance for millennials grew from $4,331 to $4,930 during that same period — close to a 14% increase.

On the opposite side of the spectrum, older generations spent the past two years paying down their credit-card debt, leading to a decline in their balances. The average credit-card balance of baby boomers dropped more than 6%, while the silent generation's average balance dropped more than 4%.



Sources: How Credit Card Usage Differs by Generation, Experian, September 13, 2022

February 2023

Key Retirement and Tax Numbers for 2023

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2023.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2023 is $17,000, up from $16,000 in 2022.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2023 is $12,920,000, up from $12,060,000 in 2022.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2023, the standard deduction is:

- $13,850 (up from $12,950 in 2022) for single filers or married individuals filing separate returns
- $27,700 (up from $25,900 in 2022) for married joint filers
- $20,800 (up from $19,400 in 2022) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2023 is:

- $1,850 (up from $1,750 in 2022) for single filers and heads of household
- $1,500 (up from $1,400 in 2022) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,500 in 2023 (up from $6,000 in 2022), with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges *(see chart).* For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges *(see chart).* The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2022	2023
Single/Head of household	$129,000–$144,000	$138,000–$153,000
Married filing jointly	$204,000–$214,000	$218,000–$228,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2022	2023
Single/Head of household	$68,000–$78,000	$73,000–$83,000
Married filing jointly	$109,000–$129,000	$116,000–$136,000

Note: The 2023 phaseout range is $218,000-$228,000 (up from $204,000-$214,000 in 2022) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0-$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer-Sponsored Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $22,500 in compensation in 2023 (up from $20,500 in 2022); employees age 50 or older can defer up to an additional $7,500 in 2023 (up from $6,500 in 2022).
- Employees participating in a SIMPLE retirement plan can defer up to $15,500 in 2023 (up from $14,000 in 2022), and employees age 50 or older can defer up to an additional $3,500 in 2023 (up from $3,000 in 2022).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,500 in 2023 (up from $2,300 in 2022) is taxed using the parents' tax rates.

Should You Consider Tax-Loss Harvesting?

Stock market losses can be rough on your portfolio's bottom line, but they may also offer the potential to reduce your tax liability and possibly buy shares at a discount. Whether this strategy — called tax-loss harvesting — is appropriate for you depends on a variety of factors, including your current portfolio performance, your long-term goals, and your current and future taxable income.

Gains and Losses

When an investment loses money, it's often best to look beyond current performance and hold it for the long term. Sometimes, though, you may want to sell a losing investment, which could help balance gains from selling an investment that has appreciated or reduce your taxable income even if you do not have gains.

Capital gains and losses are classified as long term if the investment was held for more than one year, and short term if it was held for one year or less. Long-term gains are taxed at a rate of 0%, 15%, or 20% depending on your income. Short-term gains are taxed at your ordinary income tax rate, which may be much higher than your capital gains rate.

For tax purposes, capital losses are applied first to like capital gains and then to the other type of gains; for example, long-term losses are applied first to long-term gains and then to short-term gains. Up to $3,000 of any remaining losses can then be applied to your ordinary income for the current year ($1,500 if you are married filing separately). Finally, any remaining losses can be carried over to be applied to capital gains or ordinary income in future years. For most taxpayers, the biggest benefit comes when applying losses to short-term gains or ordinary income.

Selling, Buying, and Washing

Some investors sell losing investments with the idea of harvesting the tax loss and then buying the same investment while its price remains low. In order to discourage this, the IRS has a *wash-sale* rule, which prohibits buying "substantially identical stock or securities" within 30 days prior to or after a sale. This also applies to securities purchased by your spouse or a company you own.

It is impossible to time the market, but under the right circumstances, harvesting a tax loss and then buying the same security at least 30 days later (i.e., after the wash-sale period) could potentially result in a lower tax liability when you sell that security later at a gain.

2023 Income and Capital Gains Tax Rates

	Taxable income	
Income tax rate	Single filers	Joint filers
10%	Up to $11,000	Up to $22,000
12%	$11,001 to $44,725	$22,001 to $89,450
22%	$44,726 to $95,375	$89,451 to $190,750
24%	$95,376 to $182,100	$190,751 to $364,200
32%	$182,101 to $231,250	$364,201 to $462,500
35%	$231,251 to $578,125	$462,501 to $693,750
37%	Over $578,125	Over $693,750

	Taxable income	
Long-term capital gains tax rate	Single filers	Joint filers
0%	Up to $44,625	Up to $89,250
15%	$44,626 to $492,300	$89,251 to $553,850
20%	Over $492,300	Over $553,850

This is most likely if you repurchase the security at a similar or lower price, and you are in a higher tax bracket at the time you take the loss than at the time you take the gain — for example, if you take the loss while working and sell when you are retired.

Any year in which your taxable income falls within the 0% capital gains rate is an opportune time to take gains, and any losses in that year would be applied to short-term gains or ordinary income. Keep in mind that capital gains and losses apply only when investments are sold in a taxable account.

Tax-loss harvesting is a complex strategy, and it would be wise to consult your financial professional before taking action. Although there is no guarantee that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Double Up with a Spousal IRA

If you and your spouse are looking for a way to build your retirement savings but one of you is not working, you might consider funding a spousal IRA. This could be the same IRA that the spouse contributed to while working or it could be a new account.

In either case, IRS rules allow a married couple to fund separate IRA accounts for each spouse based on the couple's joint income. The total of both IRA contributions cannot exceed the total taxable income reported on the couple's joint tax return.

You can make contributions for 2022 up to the April 2023 tax filing deadline. You might also get a head start for 2023 and contribute for both years.

For tax year 2022, an individual with earned income from wages or self-employment can contribute up to $6,000 annually to his or her own IRA and up to $6,000 more to a spouse's IRA. An additional $1,000 catch-up contribution can be made for each spouse who is 50 or older. For tax year 2023, the contribution limit increases to $6,500, but the $1,000 catch-up contribution remains the same.

Traditional IRA Deductibility

If neither spouse is an active participant in a workplace retirement plan such as a 401(k), contributions to a traditional IRA are fully tax deductible. However, if one or both are active participants, income limits may affect the deductibility of contributions. Limits are higher for contributions to the IRA of a nonparticipating spouse, so some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution to a spousal account.

For joint filers, the ability to deduct contributions to the IRA of an active participant in 2022 is phased out at a modified adjusted gross income (MAGI) between $109,000 and $129,000, but contributions to the IRA of a nonparticipating spouse are phased out at a MAGI between $204,000 and $214,000. (For 2023, phaseouts increase to $116,000–$136,000 and $218,000–$228,000.)

Withdrawals from traditional IRAs and workplace plans are taxed as ordinary income and may be subject to a 10% penalty if withdrawn prior to age 59½, with certain exceptions.

The Roth Option

Roth IRA contributions are made with after-tax funds, so they can be withdrawn without penalty at any time. For a tax-free withdrawal of earnings, the account must meet a five-year holding requirement, and the withdrawal must take place after age 59½ (or result from the owner's death or disability).

Regardless of participation in a workplace plan, the ability to contribute to a Roth IRA in 2022 is phased out at a joint MAGI between $204,000 and $214,000 ($218,000–$228,000 in 2023).

File # 5463086.1