

# Word to the Wise

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Planning for life's short-term and long-term goals is important as well as reviewing plans to make certain they are still in line with your needs.

## Reduce Your Tax Bill in 2023

*Below are several strategies to consider to reduce your tax bill in 2023:*

### Life Events

Consider whether any of the following key events may take place in 2023, as they may have potential tax implications.

- Purchasing or selling a home
- Refinancing or adding a new mortgage
- Getting married or divorced
- Incurring large medical expenses
- Changing jobs
- Welcoming a baby

### Retirement

One of the best ways to reduce your taxable income is to use tax beneficial retirement programs. Now is a good time to review your retirement account funding. Here are the contribution limits for 2023:

- 401(k): \$22,500 (\$30,000, Age 50+)
- IRA: \$6,500 (\$7,500, Age 50+)
- SIMPLE IRA: \$15,500 (\$19,000, Age 50+)
- Defined Benefit Plan: \$66,000

(continued)



## Reduce Your Tax Bill in 2023

Cover Story - continued

### Tax Credits

There are a variety of tax credits available to most taxpayers. Look at those you currently use and determine whether you qualify for them again next year. Here are some worth reviewing:

- Child Tax Credit
- Earned Income Tax Credit
- Premium Tax Credit
- Adoption Credit
- Elderly and Disabled Credit
- Educational Credits (Lifetime Learning Credit and American Opportunity Tax Credit)

### Assess Your Income

Forecast how your 2023 income will compare to your 2022 income, then review your most recent tax return and find your effective tax rate by dividing your total tax by your gross income. Then apply that rate to your new income. This will give you a rough estimate of next year's tax obligation.

To avoid getting stuck with an unexpected tax bill, consider scheduling several tax planning sessions throughout the year. Remember, some tax saving ideas may require funding on your part. It is best to identify them now so you can save the cash necessary to take advantage of them throughout 2023.



## Plan Your Retirement Savings Goals for 2023

A big jump in cost-of-living calculations means a big jump in how much you can contribute to retirement accounts in 2023! Now is the time to plan your retirement contributions to take full advantage of this tax benefit. Here are annual contribution limits for several of the more popular retirement plans:

Plan		2023	2022	Change
<b>SIMPLE IRA</b>	<b>Annual Contribution</b> <i>50 or over catch-up</i>	\$15,500 <i>Add \$3,500</i>	\$14,000 <i>Add \$3,000</i>	+ \$1,500 + \$500
<b>401(k), 403(b), 457 and SARSEP</b>	<b>Annual Contribution</b> <i>50 or over catch-up</i>	\$22,500 <i>Add \$7,500</i>	\$20,500 <i>Add \$6,500</i>	+ \$2,000 + \$1,000
<b>Traditional IRA</b>	<b>Annual Contribution</b> <i>50 or over catch-up</i>	\$6,500 <i>Add \$1,000</i>	\$6,000 <i>Add \$1,000</i>	+ \$500 <i>No Change</i>
AGI Deduction Phaseouts:	Single; Head of Household Joint nonparticipating spouse Joint participating spouse Married Filing Separately (any spouse participating)	73,000 - 83,000 218,000 - 228,000 116,000 - 136,000 0 - 10,000	68,000 - 78,000 204,000 - 214,000 109,000 - 129,000 0 - 10,000	+ \$5,000 + \$14,000 + \$7,000 <i>No Change</i>
<b>Roth IRA</b>	<b>Annual Contribution</b> <i>50 or over catch-up</i>	\$6,500 <i>Add \$1,000</i>	\$6,000 <i>Add \$1,000</i>	+ \$500 <i>No Change</i>
Contribution Eligibility	Single; Head of Household Married Filing Jointly Married Filing Separately	138,000 - 153,000 218,000 - 228,000 0 - 10,000	129,000 - 144,000 204,000 - 206,000 0 - 10,000	+ \$9,000 + \$14,000 <i>No Change</i>
Rollover to Roth Eligibility	Joint, Single, or Head of Household Married Filing Separately	No AGI Limit Allowed / No AGI Limit	No AGI Limit Allowed / No AGI Limit	No AGI Limit Allowed / No AGI Limit





## Plan Your Retirement Savings Goals for 2023

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### What you can do

- Look for your retirement savings plan from the table and note the annual savings limit of the plan. If you are 50 years or older, add the catch-up amount to your potential savings total.
- Then make adjustments to your employer-provided retirement savings plan as soon as possible in 2023 to adjust your contribution amount.
- Double check to ensure you are taking full advantage of any employee matching contributions into your account.
- Use this time to review and re-balance your investment choices as appropriate for your situation.
- Set up new accounts for a spouse and/or dependents. Enable them to take advantage of the higher limits, too.
- Consider IRAs. Many employees maintain employer-provided plans without realizing they could also establish a traditional or Roth IRA. Use this time to review your situation and see if these additional accounts might benefit you or someone else in your family.
- Review contributions to other tax-advantaged plans, including flexible spending accounts (FSAs) and health savings accounts (HSAs).

The best way to take advantage of increases in annual contribution limits is to start early in the year. The sooner, the better.



## Tips to Get Your Finances in Tip-Top Shape

Here are some tips to get your finances in tip-top shape for 2023.

- **Know your net worth.** The first step to improving your finances in 2023 is to create a snapshot of your current financial situation. So note all your assets, then subtract all your liabilities (what you owe others) to calculate your net worth. When done on a regular basis, you will be able to evaluate changes to your financial status and identify steps to reach your financial goals.
- **Plan for hardships.** If the pandemic has taught us anything, it's to plan for the unexpected. Now is the time to prepare by building an emergency fund that covers six or more months of expenses.
- **Prepare for a lower refund.** The 2021 tax year saw increases to the child tax credit and the dependent care credit, resulting in a big jump in tax refunds for many taxpayers. These changes, however, were not extended to 2022. If you plan to take advantage of either of these two credits on your 2022 tax return, be prepared for a possible decrease in your refund.
- **Create a debt repayment plan.** Design a plan to pay off your existing debts and try to avoid taking on any new debt. Pay special attention to credit card debt, as inflation is vastly increasing the cost of this debt every month! Also consider whether consolidating your debt is a good option for you.
- **Save for retirement.** Plan for your future self by building your retirement fund. In 2023 you can contribute up to \$22,500 in your 401(k), plus another \$7,500 if you're 50 or older. Keep in mind your company may provide matching contributions up to a stated percentage of compensation. And you may be able to supplement this account with contributions to IRAs and/or other qualified plans.
- **Review and re-balance your portfolio.** Review your investments periodically and reallocate funds to reflect your main objectives, risk tolerance, and other personal preferences. This will put you in a better position to handle the ups and downs of the markets.
- **Set a date to review your estate.** Review your estate and legal documents at least once a year, in addition to whenever you experience a significant change in your life. Now is a good time to review your will, trust documents, beneficiary designations, powers of attorney, healthcare directives, and other estate- and legal-related documents.

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## It's Tax Time! Tips to Get Organized

The beginning of a new year brings the need to recap the previous one for Uncle Sam. Here are some tips and a checklist to help get you organized.

- **Look for your tax forms.** Forms W-2, 1099, and 1098 will start hitting your inbox or mailbox in the next couple of weeks. If you have not already done so, review last year's records and create a checklist of the forms to make sure you get them all.
- **Collect your tax documents using this checklist.** Using a tax organizer or last year's tax return, sort your tax records to match the items on your tax return. Here is a list of the more common tax records:
  - Informational tax forms (W-2s, 1099s, 1098s, 1095-A) that disclose wages, interest income, dividends, and capital gain/loss activity
  - Other forms that disclose possible income (jury duty, unemployment, IRA distributions and similar items)
  - Business K-1 forms
  - Social Security statements
  - Mortgage interest statements
  - Tuition paid statements
  - Property tax statements
  - Mileage log(s) for business, moving, medical and charitable driving
  - Medical, dental and vision expenses
  - Business expenses
  - Records of any asset purchases and sales, including cryptocurrency
  - Health insurance records (including Medicare and Medicaid)
  - Charitable receipts and documentation
  - Bank and investment statements
  - Credit card statements
  - Records of any out of state purchases that may require use tax
  - Records of any estimated tax payments
  - Home sales (or refinance) records
  - Educational expenses (including student loan interest expense)
  - Casualty and theft loss documentation (federally declared disasters only)
  - Moving expenses (military only)

If you aren't sure whether something is important for tax purposes, retain the documentation. It is better to save unnecessary documentation than to later wish you had the document to support your deduction.

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## It's Tax Time! Tips to Get Organized (continued from page 6)

- **Clean up your auto log.** You should have the necessary logs to support your qualified business miles, moving miles, medical miles and charitable miles driven by you. Gather the logs and make a quick review to ensure they are up to date and totaled.
- **Coordinate your deductions.** If you and someone else share a dependent, confirm you are both on the same page as to who will claim the dependent. This is true for single taxpayers, divorced taxpayers, taxpayers with elderly parents/grandparents, and parents with older children.

With proper organization, your tax filing experience can be timely and uneventful.

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