May 2023

Here's to Your Wealth

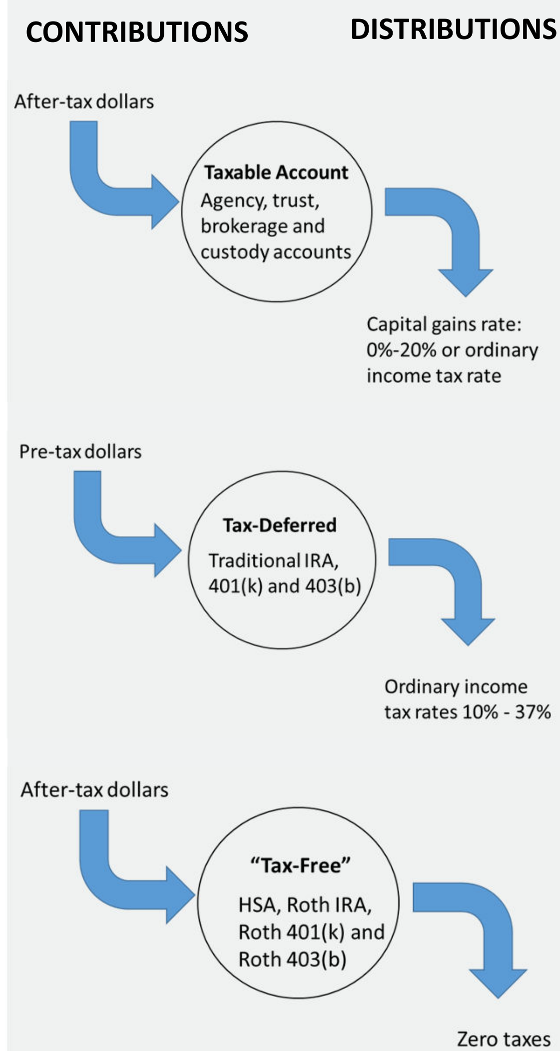
Discussions for financial health and well-being

If someone were to ask you what the 2022 tax brackets were, would you be able to answer? How about the 2023 tax brackets? Last question: what if you were asked about the tax brackets in 2033? The tax brackets for 2022 and 2023 can be found quickly through a Google search. The tax brackets for 2033 are anyone's guess. You might be wondering why I have gone through this exercise. I wanted to bring awareness to the advantages of diversification. In this case, not diversification of investment securities, which is important, rather diversification in investment *accounts*. We will review the three types of investment accounts, the potential tax implications and the potential benefits of having exposure to all three.

<u>Taxable investment accounts:</u> These accounts have various names like agency accounts, investment management accounts, trust accounts, custody accounts and brokerage accounts.

Pros:

- You can buy and sell all kinds of investments in these accounts like stocks, bonds, mutual funds and exchange trade funds (ETF).
- They are flexible because anyone can open an account and there are no limitations on how much you deposit into them.



Bank of New Hampshire
WEALTH MANAGEMENT

3 Eagle Square
Concord, New Hampshire 03301
603.527.3371 | www.banknh.com

- They are liquid because you can withdraw any amount of money, at any time, regardless of your age or circumstances.

Cons:

- Usually funded with money that has already been taxed.
- Sales of investments in these accounts could result in capital gains. If you end the year with a capital gain, you could be subject to capital gains taxes that currently range from 0% to 20%, depending on your taxable income. If the asset was held for less than a year, it could be taxed at your ordinary income tax rate.
- For some types of investments, interest and dividends could be taxed at various rates depending on where they fall in the current tax code.

Who knows what future tax brackets will look like?

2023 Federal Income Tax Brackets and Rates for Single Filers, Married Couples Filing Jointly, and Heads of Households

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	$0 to $11,000	$0 to $22,000	$0 to $15,700
12%	$11,000 to $44,725	$22,000 to $89,450	$15,700 to $59,850
22%	$44,725 to $95,375	$89,450 to $190,750	$59,850 to $95,350
24%	$95,375 to $182,100	$190,750 to $364,200	$95,350 to $182,100
32%	$182,100 to $231,250	$364,200 to $462,500	$182,100 to $231,250
35%	$231,250 to $578,125	$462,500 to $693,750	$231,250 to $578,100
37%	$578,125 or more	$693,750 or more	$578,100 or more

Source: Internal Revenue Service

Future Federal Income Tax Brackets and Rates for Single Filers, Married Couples Filing Jointly, and Heads of Households

Tax deferred accounts: Commonly known examples of tax deferred accounts include 401(k), traditional IRA, and 403(b) accounts. The usual strategy for most people is to reduce their tax liability now, with the hope that they will be in a lower tax bracket once they retire and stop receiving a paycheck.

Pros:

- These accounts are funded with pre-tax dollars. When you earn income and contribute to these types of accounts, you reduce your taxable income.

- The investments in these accounts grow tax free and any interest and dividends are also not taxed.
- Some employer sponsored plans have an employee match on contributions up to a certain limit. This is like getting a 100% return on your investment immediately.

Cons:

- Because these accounts are funded with pre-tax dollars, you will be taxed when you withdraw money, which for most people occurs in retirement or when they reach the age of 59 ½. Withdrawals are taxed at your current ordinary income tax rate in the year you make the withdrawal.
- These accounts are subject to required minimum distributions.
- Employer sponsored plans, like a 401(k) and 403(b), will have less investment choices than a traditional IRA, but they have higher contribution limits than an IRA.
- There are penalties if you withdraw before you are eligible. There are some hardship exceptions to accessing these funds.

“Tax free” accounts: I put the words tax free in quotes because there are two types of accounts and they are treated slightly differently.

There is one true tax free account, the health savings account (HSA).

Pros:

- It is funded with pre-tax dollars.
- The investments grow tax free.
- If the money is used for a qualified medical expense, there is no tax on the withdrawal.

Cons:

- There are annual contribution limits.
- If you withdraw money that is not used for a qualified medical expense, and you have not reached the age of 65, taxes and a 20% penalty will be due. If you are over 65, only taxes will be due.
- HSA plans are only available for people with high deductible health insurance plans.

The other type of "tax free" accounts are the Roth IRA or Roth 401(k), for example.

Pros:

- These accounts are funded with after-tax dollars.
- The money is allowed to grow tax-free.
- There are no taxes due when you take money out.
- Roth IRA plans are not subject to required minimum distributions during the account owner's lifetime. Starting in 2024, Roth 401(k) and 403(b) will not be subject to required minimum distributions.

Cons:

- Employer sponsored plans, like a Roth 401(k) and Roth 403(b), will have less investment choices than a traditional Roth IRA, but they have higher contribution limits than a Roth IRA.
- Traditional Roth IRA accounts have contribution limitations based on your taxable income.
- There are penalties if you withdraw before you are eligible.

Having a mix of taxable, tax deferred and "tax free" accounts can help you optimize your tax situation and achieve your financial goals. Each type of accounts has its own pros and cons, some of which were outlined above. This is why it is important that you work with your wealth advisor **and** your tax advisor to determine the best strategy for your personal circumstances.

Wishing you good health and good wealth.

Michael St. Onge, CIMA®, CPWA®
SVP, Investment Officer

603.527.3234
stonge@banknh.com