



Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

ADVANCED MARKETS

2023 tax updates



AMK-301-N (R-12/2022)



There is nothing permanent except change.

– **Heraclitus**, ancient philosopher

The federal income tax rate has been subject to change over the years. In the 1970s, the highest federal income tax rate was 70% for those individuals with high taxable income – whereas the highest income tax rate in 2017 was 39.6%. More recent years were no exception to change with the passing of the Tax Cuts and Jobs Act (TCJA) in 2017, which temporarily drops the highest income tax rate to 37% from 2018 until 2025. In addition to the fluctuation of tax rates, other aspects of the federal income tax system have changed too – including deductions, credits, and exemptions. Some of these changes are permanent and some expire after 2025.

Although tax rates may continue to shift in the future, it's important to understand how the current federal income tax rate works and how it might impact your retirement income or financial statement.

A. Income taxes

INCOME TAX RATES

In 2023 the federal income tax rates are 10%-37%, depending on filing status and taxable income. Income above the \$578,125 (single)/\$693,750 (married) thresholds is taxed at a rate of 37%, which is down from the pre-TCJA rate of 39.6%.

CAPITAL GAINS and DIVIDENDS TAXES

Income tax rates on long-term capital gains and qualified dividends remain at 0%, 15%, or 20%. However, the thresholds at which those capital gains and dividends rates apply have changed and have become somewhat complex, as they no longer align with the current tax rates.

The 2023 long-term capital gains tax rate of 0% applies to individuals with ordinary income up to \$44,625 and if married, filing jointly up to \$89,250. And single filers whose taxable income exceeds \$492,300 or married, filing jointly whose taxable income exceeds \$553,850 are taxed at 20%. For those taxpayers who have marginal income that falls between those thresholds, their capital gains and dividends are taxed at 15%.

Tax brackets occurring in 2019 and thereafter will use chained CPI, which tends to be slightly lower than the traditional CPI, but many believe is a **more accurate representation of inflation**.

PERSONAL EXEMPTIONS, STANDARD and ITEMIZED DEDUCTIONS, and PHASE-OUTS

Personal exemptions and phase-outs were eliminated under TCJA. However, the 2023 standard deduction has been set at \$13,850 for individual taxpayers and those married, filing separately and \$27,700 for those married, filing jointly. A head of household filer has a standard deduction of \$20,800. An additional standard deduction for taxpayers who are age 65 or older, or who are blind, goes up to \$1,500, and \$1,850 if unmarried and not a surviving spouse. Certain types of itemized deductions have temporarily been removed or are limited.

ALTERNATIVE MINIMUM TAX

Originally created to ensure the wealthy couldn't avoid significant amounts of taxes by using certain deductions, exemptions, losses, and credits, the Alternative Minimum Tax (AMT) had increasingly become a burden on the middle class. The TCJA has increased both the AMT exemption amounts and the phase-out ranges and automatically indexes them for inflation.

2023 AMT exemption amounts and phase-out ranges:

Filing status	Exemption amount	Phase-out threshold
Single	\$81,300	\$578,150
Married, filing jointly	\$126,500	\$1,156,300
Married, filing separately	\$63,250	\$578,150

The **AMT** can be affected by your filing status.

Rev. Proc. 2022-38.

RETIREMENT PLAN CONTRIBUTIONS

The rules allowing tax advantages for contributions to section 401(k) plans and IRAs remain the same in 2023. The limit on elective deferrals to a 401(k) plan have increased to \$22,500 (\$30,000 if age 50 or older) for 2023. Contributions to an IRA (traditional or Roth) increase slightly for 2023 and are capped at \$6,500 (\$7,500 if age 50 or older).

IRS Notice 2022-55.

B. Social Security and Medicare taxes

SOCIAL SECURITY

While you are working, you contribute to the Social Security and Medicare systems through payroll taxes. In 2023, employees contribute 6.2% on wages up to \$160,200 and 1.45% (the Medicare portion) on all wages – employers match those amounts (the self-employed pay both halves).

Once receiving Social Security retirement benefits, you might be subject to income taxes on the Social Security benefits if your “combined income” exceeds certain thresholds. However, no more than 85% of the Social Security benefits you receive would be included in taxable income.

Retirement income causing benefits to be taxed

Single or head of household	up to 50% taxable with \$25,000 combined income
	up to 85% taxable with \$34,000 combined income
Married, filing jointly	up to 50% taxable with \$32,000 combined income
	up to 85% taxable with \$44,000 combined income

—————
Your Social Security may be subject to income taxes in certain cases.
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Percentages are the amount of Social Security benefit included in income, not the tax rate on the Social Security benefit.

Adjusted Gross Income

- + nontaxable interest
 - + one-half of Social Security benefits
-
- = Combined income

MEDICARE

With the passing of the Patient Protection and Affordable Care Act, a 3.8% Medicare surtax applies to the net investment income of taxpayers with modified adjusted gross income that exceeds \$200,000 for single taxpayers, \$250,000 for married couples, filing jointly, \$125,000 for married, filing separately, or \$14,450 (2023) for trusts and estates.¹

These Medicare taxes are designed to target taxpayers with either high investment income, high salaries (earned income), or both.

In addition, a 0.9% Medicare payroll tax also applies to taxpayers with earned income exceeding \$200,000 for single taxpayers, \$125,000 for married, filing separately, or \$250,000 for married couples, filing jointly. The employer will be required to withhold the additional 0.9% once an employee's earned income with that employer exceeds \$200,000 for the calendar year. Note that for a married couple, the withholding may be less than the tax.

The TCJA repealed the individual health care mandate fee for 2019 and beyond.

¹ Rev. Proc. 2022-38.

C. Estate and gift taxes

ESTATE TAXES

For individuals who die in 2023, the first \$12,920,000 of value in an estate is exempt from the federal estate tax. Estates are taxed at a maximum rate of 40%.

In addition, portability between married couples still applies if elected. Portability means the executor of the estate of the first spouse to die can transfer the deceased spouse's unused estate tax exemption to the surviving spouse.

The federal estate tax exemption and "portability" should result in fewer married couples paying a federal estate tax, unless their total net worth is \$12.92 million or greater.

GIFT TAXES

In 2023 the federal annual gift tax exclusion increased to \$17,000 for gifts (\$34,000 if both spouses consent to the gift – see IRS Form 709).

Rev. Proc. 2022-38.

→ **CALL YOUR TAX AND FINANCIAL PROFESSIONALS** to discuss your situation in more detail, and to learn how the 2023 income tax and other tax changes could affect your retirement strategies.

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