

Highlighting Several Tax Law Changes-2023





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Topics



- Changing from progressive to a flat tax
- Huge impacts to retirement income
- Capital gains exemption for employer held stock
- Big incentives for retired farmers
- The changing required minimum distributions landscape
- Changes to Beneficiary distributions of qualified accounts
- Updated Iowa Homestead Credit



Iowa Progressive to Flat Tax

Iowa Progressive to Flat Tax



- Highlights

1. Top tax rate will decrease annually until 2026 when it will be flat at 3.9%
2. Nearly double the income required to get to top bracket in 2023
3. In theory, the same income year over year will result in more discretionary income.

Progressive to Flat tax in Iowa

Iowa 2023 Personal Income Tax (Married Filers)

Income Between	Tax Rate
\$0 - \$12,000	4.40%
\$12,001 - \$60,000	4.82%
\$60,001 - \$150,000	5.70%
\$150,001 +	6.00%

Iowa 2023 Personal Income Tax (Single Filers)

Income Between	Tax Rate
\$0 - \$6,000	4.40%
\$6,001 - \$30,000	4.82%
\$30,001 - \$75,000	5.70%
\$75,001 +	6.00%

2022 Top tier started at \$78,453 at 8.53% for married or single filers

Progressive to Flat Tax

Iowa 2024 Personal Income Tax Bracket

Income Between	Tax Rate
\$0 - \$12,000	4.40%
\$12,001 - \$60,000	4.82%
\$60,001 +	5.7%

Iowa 2025 Personal Income Tax Bracket

Income Between	Tax Rate
\$0 - \$12,000	4.40%
\$12,001 +	4.82%

Iowa 2026 Personal Income Tax Bracket

Income	Tax Rate
Any	3.90%

All charts represent values for married status.
Singles would be half.

Planning Considerations



Consider investing the
tax savings

Deferring this income
may also reduce federal
taxable income resulting
in little to no change to
take home pay



Huge Impact to Retirement Income

Retirement Income = 0% State Income Tax

- What counts as retirement income?
 - 401(k), 403(b), SEP, SIMPLE, IRA withdrawals
 - Income resulting from a Roth IRA conversion
 - Deferred compensation plans
 - Pensions
 - Annuities

- Qualifications
 - Age 55 or older
 - Disabled

Planning Considerations



WHAT MAY HAVE BEEN TAXED
AS HIGH AS 8.5% IS NOW \$0.



SLIGHT REDUCTION IN
WITHDRAWAL RATES



ROTH CONVERSIONS WILL
COST LESS

Converting an employer plan account or Traditional IRA to a Roth IRA is a taxable event. Increased taxable income from the Roth IRA conversion may have several consequences including but not limited to, a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA.

Why Consider a Roth IRA Conversion in 2023

- If Iowa doesn't tax retirement income why do I still need to consider a Roth Conversion?
- Answer: Federal Taxes and sunset of the TCJA
- Roth distributions do not count toward Medicare Premium determinations
- Inheritance implications with a ten-year payout period.

Table 2. Married Filing Joint Taxable Income Tax Brackets and Rates 2017

Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$18,650	10% of taxable income
15%	\$18,650 to \$75,900	\$1,865 plus 15% of the excess over \$18,650
25%	\$75,900 to \$153,100	\$10,452.50 plus 25% of the excess over \$75,900
28%	\$153,100 to \$233,350	\$29,752.50 plus 28% of the excess over \$153,100
33%	\$233,350 to \$416,700	\$52,222.50 plus 33% of the excess over \$233,350
35%	\$416,700 to \$470,700	\$112,728 plus 35% of the excess over \$416,700
39.60%	\$470,700+	\$131,628 plus 39.6% of the excess over \$470,700



Capital Gains Exemptions

Capital Gains Reduction



- Employer-owner is entitled to make one irrevocable lifetime election to exclude the net capital gain from the sale or exchange of capital stock.
- Requirements
 - Stock acquired while working for that employer
 - Must have worked there for a minimum of 10 years
 - Place of business in IA for 10 years
 - Minimum of 5 owners for those 10 years and 2 owners not related
- 2023- 33% reduction
- 2024- 66% reduction
- 2025 and after- 100%

Capital Gains Reduction



- Additional considerations
 - Election must be fully utilized within 15 years of first election.
 - Applies to subsequent sales or exchanges of qualifying capital stock
 - Inter vivos gifts eligible to spouse or trust for the benefit of employees spouse.
 - Corporation must have employees for those 10 years.



Big Incentives for Farmers

Big Incentives for Retired Farmers- State of Iowa

- Exclude net income from farm tenancy agreement.
- Must be real property held by the farmer for 10 or more years.
- Individual must have materially participated in the farming business for 10 or more years
- Cannot use a capital gain exclusion
- Must be at least age 55 or disabled
- Exclude capital gains on sale of farmland
- Materially participated for 10 years or more
- Sale of real property and farming equipment
- Must be at least age 55 or disabled



The Changing RMD Landscape

The Changing RMD Landscape



REQUIRED MINIMUM DISTRIBUTIONS APPLY TO RETIREMENT ACCOUNTS SUCH AS IRA, SIMPLE IRA, 403(B), AND 457 ACCOUNTS IN WHICH YOU MUST START TAKING DISTRIBUTIONS.



EFFECTIVE 1/1/2023 YOU MUST BEGIN TAKING DISTRIBUTIONS ONCE YOU REACH AGE 73 AND ALL YEARS AFTER THAT AS LONG AS YOU HAVE FUNDS IN THOSE ACCOUNT(S).



EFFECTIVE 1/1/2033 THE BEGINNING AGE WILL BE 75



Changes to Beneficiary (inherited) Distributions of Qualified Accounts

Beneficiary Rules



- Owner died before RMDs age
 - Designated beneficiary can take distributions at any time but must withdrawal 100% of funds in the 10th calendar year following owners death.
- Owner dies after RMD age
 - Determine if owner took RMD prior to death. Beneficiary must take if not.
 - RMDs required by designated beneficiary each year and must withdrawal 100% of funds in the 10th calendar year following the owners death.
- Non designated beneficiary option
 - Account(s) must be 100% withdrawn by the end of the fifth year following the death of the owner.

Beneficiary Rules



- Owner died before RMDs age
 - Designated beneficiary can take distributions at any time but must withdrawal 100% of funds in the 10th calendar year following owner's death. *

Yr1

Yr10



- Owner dies after RMD age
 - Determine if owner took RMD prior to death. Beneficiary must take if not.
 - RMDs required by designated beneficiary each year and must withdrawal 100% of funds in the 10th calendar year following the owner's death.

Annual RMDs

Yr 10



• Describes non spouse beneficiary option. Exceptions may apply

RMD is based upon life expectancy of the beneficiary



Updated Iowa Homestead Exemption

Homestead Tax Exemption for Claimants 65 of Age or Older Years of Age or Older

Age or Older

- On May 4, 2023, Governor Reynolds signed [House File 718](#), establishing a homestead tax exemption for claimants 65 years of age or older.
- In addition to the homestead tax credit, eligible claimants who own the home they live in and are 65 years of age or older on or before January 1 of the assessment year are now eligible for a homestead tax exemption. For the assessment year beginning on January 1, 2023, the exemption is for \$3,250 of taxable value. For assessment years beginning on or after January 1, 2024, the exemption is for \$6,500 of taxable value. An exemption is a reduction in the taxable value of the property rather than a direct reduction in the amount of property tax you pay.
- The Iowa Department of Revenue has amended the [Homestead Tax Credit and Exemption \(54-028\)](#) to allow claimants to apply for the new exemption. Applications are due July 1 to your local assessor. If the exemption is granted, the exemption will be allowed for future years without future filing as long as the claimant continues to qualify.

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