



## Year-End Tax Planning Checklist: Tips for Tax-Advantaged Accounts in 2023

*Our annual guide features steps to maximize benefits and minimize taxes in retirement plans such as 401(k)s, IRAs, and Roth IRAs, as well as other tax-advantaged savings vehicles.*



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As we approach the end of the year, it's important to review all your tax-advantaged accounts and take action on certain steps on or before December 31 to maximize your tax-break opportunities. Among the possibilities:

- Taking a saver's credit on contributions made to retirement accounts (if eligible)
- Converting funds to a Roth IRA
- Making sure to fully fund your 401(k)
- Making a Qualified Charitable Distribution (QCD)
- Reviewing age requirements for RMDs

Use our comprehensive year-end checklist (25 items in all) to see suggested actions to take and determine if certain situations apply to you.

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### RELATED WEBINAR

#### 2023 Year-End Focus: Retirement Account Strategies and Deadlines

Thursday, December 14, 2023

1:00–2:00 PM EST

[Register here](#)

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### 1. Did you have or adopt a child this year? You can take a qualified birth or adoption distribution.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 created a new in-service distribution option of up to \$5,000 to help pay for the expenses of a qualified birth or adoption (QBAD). This qualified distribution is taxable but not subject to the 10% early withdrawal penalty that otherwise applies to pre-age 59½ distributions. Furthermore, there's the option to repay the distribution.

Under SECURE Act 2.0, the window for repaying QBADs occurring after December 29, 2022, is limited to three years from the date of distribution. Whereas for QBADs that occurred on or before December 29, 2022, a repayment must be made before January 1, 2026.

### 2. Take advantage of the saver's credit, pending eligibility.

The [saver's credit](#) is a nonrefundable federal income-tax credit available to individuals with an adjusted gross income (AGI) of less than \$73,000 in 2023. To qualify, you must make a contribution to a 401(k), 403(b), governmental 457(b), SIMPLE IRA, traditional IRA, Roth IRA, SAR SEP, or 529 ABL account. The maximum annual contribution eligible for the credit is \$2,000, and the maximum credit is 50%, making the maximum saver's credit \$1,000.

### 3. Fully fund your employer-sponsored retirement plan.

In 2023, you can defer a maximum of \$22,500 into your 401(k), 403(b), 457(b), or Thrift Savings Plan (TSP). This limit is an aggregate of all your pre-tax and/or Roth contributions. Individuals age 50+ can defer an additional \$7,500 in catch-up contributions.

**TIP:** 457(b) plan salary deferrals are not coordinated with deferrals made to a 403(b) or 401(k) plan. Therefore, you can fully fund your 403(b) or 401(k) without reducing the contribution limits to a 457(b). Participating in both plan types allows individuals to maximize contributions.

**EXAMPLE:** In 2023, an individual participating in both a 457(b) and 403(b) or 401(k) can defer up to a total of \$45,000 (\$22,500 into a 457(b) plus an additional \$22,500 into a 401(k) or 403(b)). Plus, those age 50+ can defer an additional \$7,500 per plan for \$15,000 in catch-up contributions.

### 4. Fully fund your traditional or Roth IRA.

Although the deadline to contribute to an IRA for the 2023 tax year is April 15, 2024, why not fund it now? Virtually anyone with documented earned income (taxable compensation) is eligible to fund a traditional IRA up to \$6,500 (age 50+ the limit is \$7,500).

Anyone, regardless of age, can contribute to a traditional or Roth IRA. Roth IRAs, however, also require an individual to have earned income but also to satisfy an annual income test. Eligibility to fund the maximum Roth IRA contribution depends on tax-filing status and modified adjusted gross income (MAGI).

**TIP:** A spousal IRA is an exception to the earned income eligibility requirement. It's available to a married couple where one spouse has no compensation. A spousal IRA only applies to married couples that file a joint tax return.

### 5. Fund your SIMPLE IRA.

In 2023, you can defer up to \$15,500 into your SIMPLE IRA. Participants age 50+ may make an additional catch-up contribution of \$3,500.

By participating, you are eligible to receive a non-forfeitable, immediately vested, employer-funded contribution in the form of a 3% match or 2% non-elective contribution.

### 6. Fund a Roth IRA for a minor.

Because there is no minimum age to establish a Roth IRA, a minor with reportable earned income (taxable compensation) can establish and fund such an account. Anyone can fund the Roth IRA up to the amount earned by the minor. Contributions cannot exceed \$6,500 for 2023.



## 7. Consider a “backdoor” Roth IRA.

A [backdoor Roth IRA](#) is a retirement savings strategy for high earners. An individual contributes after-tax funds (nondeductible) to a traditional IRA and then converts such funds to a Roth IRA.

Roth IRA eligibility is means tested—an investor must satisfy an annual income threshold set by the IRS. Contributions directly to a Roth IRA require that your MAGI be below a certain threshold, dependent on tax-filing status. High-income earners, regardless of their MAGI, are eligible to convert funds to a Roth IRA.

## 8. Did you make an Excess Contribution to your IRA?

Many investors contribute more to their IRA than allowed without realizing it. “Excess IRA Contributions” include contributing more than the maximum annual contribution limit, not satisfying Roth income-eligibility, and funding an IRA with an ineligible rollover such as a required minimum distribution (RMD) or hardship withdrawal.

Excess contributions can be withdrawn without tax penalty if corrected within the tax-filing deadline (including extension). If not corrected, the excess contribution plus earnings are subject to a 6% penalty for every year they remain in the account.

Reviewing all IRA account activity for the past year with your financial and/or tax professional can help avoid tax liability.

## 9. Did you make a nondeductible (after-tax) traditional IRA contribution?

File IRS Form 8606 Nondeductible IRAs if you made such a contribution.

Tax-filing status, MAGI, and whether you or your spouse are an active participant in a workplace retirement plan determine whether a contribution to a traditional IRA is tax deductible.

Participation in an employer-sponsored retirement plan, such as a 401(k), 403(b), 457(b), Thrift Savings Plan, SIMPLE, or SEP IRA, does not affect IRA eligibility or contribution amounts, but may affect whether your traditional IRA contribution is tax deductible.

## 10. Did you take an IRA distribution that contains basis?

Owners’ IRAs (except Roth and inherited IRAs) are considered a single IRA regardless of where the account is held (for example, different IRA providers). Distributions are taxed “pro-rata,” partly from pre-tax (tax-deductible contributions plus earnings) funds and partly from non-deductible (after-tax) funds.

The amount of the distribution is subject to income tax, based on the ratio of after-tax dollars to total IRA assets (across all IRAs excluding Roth and Inherited IRAs) at the end of the year. When there are after-tax dollars held in a traditional IRA (including rollover, SEP, and SIMPLE IRAs), and the total IRA balance across all accounts aren’t distributed, this tax is applied.

Reporting the tax liability of an IRA distribution that contains after-tax funds requires the completion of IRS Form 8606 “Nondeductible IRAs.” An IRA owner is required to file Form 8606 in those tax years that a non-deductible traditional IRA contribution was made and in any year funds are distributed (including conversions to a Roth IRA) from an IRA that contains non-deductible dollars.

## 11 Consider making a Roth IRA conversion.

Individuals regardless of age and or income can convert funds to a Roth IRA. However, to qualify for 2023, the conversion must be completed on or before December 31. There is no such thing as a prior-year Roth conversion.

IRA owners can convert as much or as little of a traditional IRA (including SEP and SIMPLE) to a Roth IRA as they want. The value of converted funds (minus basis) is subject to income tax (federal and state, if applicable) in the year of conversion. The conversion amount is taxed at your marginal tax bracket. To report a Roth conversion, file IRS Form 8606.

Converting to a Roth account is irrevocable. The ability to recharacterize a Roth IRA conversion was previously repealed as part of the Tax Cuts and Jobs Act.

**12. □ Review your age for minimum distributions.**

If you're turning 73 in 2023 and taking your initial RMD, you can delay it until April 1, 2024. You will be subject to two RMDs in calendar 2024—both your delayed 2023 and 2024 RMD. Each subsequent year, you must take an RMD by December 31. (We've written in detail [about how Secure Act 2.0 affected RMDs.](#))

**Key Milestones to Remember**

Age	Eligibility
50	You may be eligible to make a catch-up contribution to an IRA and/or employer-sponsored retirement plan [e.g., SIMPLE IRA, 401(k), 403(b), or governmental 457(b)]
55	You may be eligible to make a catch-up contribution of \$1,000 to an HSA
59½	You may be eligible to take a distribution from your retirement account/plan without the 10% federal penalty tax. The distribution will generally be subject to ordinary income tax
62	Eligible to apply for Social Security benefits
65	Eligible to apply for Medicare
70½	The age at which you're eligible to take a Qualified Charitable Distribution (QCD).
73	Required to begin taking minimum distributions from an IRA Separate RMD rules apply to 401(k) and other employer-sponsored retirement plans Check with your employer and/or financial professional to determine when to begin plan RMDs

Source: Lord Abbett.

**13. □ Are you planning on using Net Unrealized Appreciation (NUA)?**

If you hold highly appreciated company stock in your 401(k), NUA is a tax-planning strategy that allows you to pay ordinary income tax on the cost basis only, when the stock is distributed. The difference between the two amounts (NUA) isn't taxable until the shares are sold—and at favorable long-term capital gains rates—even if sold within a year.

NUA treatment requires an individual to satisfy several rules. One requirement is that all plan funds must be distributed by the end of the year. If funds remain in the retirement plan, the lump sum distribution requirement will not be satisfied. Learn more about NUA [here.](#)

**14. □ Is your beneficiary current?**

Retirement accounts are not generally subject to probate, and the beneficiary designation paperwork on file is what prevails. If you got married, divorced, experienced the birth or adoption of a child, or if a previously designated beneficiary died, these life events could affect your beneficiary designation.

Review your beneficiary forms for all tax-advantaged accounts (401(k), IRA, Health Savings Account, etc.) to ensure the correct individual(s) are designated to receive benefits. Also make certain the forms are signed and dated.

If you are unsure who or what (i.e., charity) to designate as your beneficiary (primary or contingent), discuss your estate planning needs with your financial professional.



#### 15. Did you inherit an IRA or other retirement account in 2022? Be aware of new payout requirements.

Inheriting an IRA (traditional, SEP, SIMPLE, Roth) may require the beneficiary to take annual distributions and/or receive funds over a specific number of years. The payout schedule may depend on several factors including the named beneficiary (spouse, non-spouse, estate, charity, etc.), type of account (401k, IRA, etc.), and age of the account owner upon their death. (Read more on [some recent updates](#) to RMD requirements.)

#### 16. Review qualified charitable distributions (QCD) requirements.

QCDs are tax-free, direct transfers of funds up to \$100,000 (2023) from your IRA, payable to qualifying charities. Moreover, QCDs count toward satisfying your RMD for the year if certain rules are satisfied.

Eligible individuals can begin making QCDs at age 70 ½. Notably, QCDs can be made from only traditional IRAs, inactive SEPs, and SIMPLE IRAs.

The distribution will be reported on IRS Form 1099-R. Although the distribution will be reported, there is no code signifying the distribution as a QCD. Therefore, QCDs can easily be missed on tax returns, resulting in a taxable IRA distribution. Be sure to properly report the QCD.

A 2023 QCD must be received by a qualifying charity by December 31, 2023, so don't wait until the last minute. (We recently discussed [some important timing considerations for QCDs.](#))

#### 17. If you did a 60-day rollover in 2023, verify its timely completion.

Verify that the 60-day IRA rollover was completed timely. Also, confirm that only one 60-day IRA-to-IRA rollover was done in a 365-day period (not by calendar year). This rule prevents an unwanted IRA distribution from being rolled back into the same or another IRA via 60-day rollover if another IRA-to-IRA 60-day rollover has been completed during the past 365 days.

Owners who received multiple IRA distributions can still roll over such funds and bypass the 365-day rollover rule by rolling subsequent distributions into a qualifying non-IRA employer-sponsored retirement plans (i.e., 401(k), 403(b), etc.). If an employer plan rollover is not available, you still can receive benefits via a Roth conversion, which is not subject to the once-per-year rollover rule. Funds, however, will generally be subject to income tax.

#### 18. Are you taking substantially equal periodic payments under section 72(t)?

Taking substantially equal periodic payments (commonly known as Section 72(t) payments) allows IRA owners under age 59 ½ to access their funds without the usual 10% early distribution penalty tax. Importantly, these payments are subject to several rules. For example, payments must be taken annually and must continue for at least five years, or until the age 59 ½, whichever period is longer.

#### 19. Establish a Coverdell Education Savings Account (ESA).

The deadline to establish and/or fund a Coverdell ESA for 2023 is April 15, 2024. The total contributions for the beneficiary cannot exceed \$2,000 in any year, no matter the number of accounts established. Any individual can contribute to an ESA if their household income (MAGI) for the year is less than \$110,000. For married couples filing joint returns, it increases to \$220,000.

#### 20. Establish a 529 ABLER Account

Section 529 ABLER (Achieve a Better Life Experience), also known as a 529A, is a tax-advantaged account for individuals who become disabled before age 26. An ABLER account helps pay for qualified disability expenses without affecting eligibility for benefits such as Medicaid.

If a beneficiary makes the contribution, he/she will be able to claim the [Saver's Credit](#), which is generally reserved for retirement account contributions.

Learn more about 529 ABLER Accounts [here](#).

### Health Savings Accounts (HSAs)

#### 21. Contribute to an HSA.

You may be eligible to contribute to an HSA if you are enrolled in a high-deductible health plan. HSAs are triple-tax-advantaged and designed to cover future qualified medical expenses. In 2023, an eligible individual with single coverage can contribute \$3,850. For those with family coverage, the limit is \$7,750. A \$1,000 catch-up contribution is available to those individuals aged 55 and older.

A 2023 HSA contribution, like an IRA, can be made anytime between January 1, 2023, and April 15, 2024.



## 22. Did you contribute to or take a distribution from your HSA?

If so, the account owner is required to complete IRS [Form 8889 "Health Savings Accounts"](#). HSA contributions include those made by an employer.

## 23. Did you inherit an HSA in 2023?

Like retirement accounts, an HSA requires an account owner to name a beneficiary. The designated individual (beneficiary) inherits the HSA after your death. You can name anyone as beneficiary (spouse, non-spouse, estate, etc.). The beneficiary payout options differ from retirement accounts such as a 401(k) or IRA.

## 24. Did you make a qualified transfer from an IRA to your HSA?

Once in a lifetime, an eligible individual can transfer funds tax-free from the individual's IRA to his or her HSA. Known as a Qualified HSA Funding Distribution (QHSADF); it allows for a tax-free transfer of traditional IRA funds to an HSA, and subsequent distributions for "qualified medical expenses" are also tax-free. Properly reporting a QHSADF is critical to ensure you receive the tax benefit. (Get more info on the topic [here](#).)

## Small Business Owners

## 25. Distribute SIMPLE IRA plan notifications to your eligible employees.

An employer that sponsors a SIMPLE IRA is required to distribute notices to eligible participants with plan information such as the opportunity to make or change salary deferrals, a summary plan description, and the employer contribution formula for the following year. The election period is generally a 60-day period immediately preceding January 1 of a calendar year.

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A **401(k)** plan is a qualified plan that includes a feature allowing an employee to elect to have the employer contribute a portion of the employee's wages to an individual account under the plan. The underlying plan can be a profit-sharing, stock bonus, pre-ERISA money purchase pension, or a rural cooperative plan. Generally, deferred wages (elective deferrals) are not subject to federal income tax withholding at the time of deferral, and they are not reported as taxable income on the employee's individual income tax return.

A **403(b)** plan, also known as a tax-sheltered annuity plan, is a retirement plan for certain employees of public schools, employees of certain Code Section [501\(c\)\(3\)](#) tax-exempt organizations and certain ministers. A 403(b) plan allows employees to contribute some of their salary to the plan. The employer may also contribute to the plan for employees.

Plans of deferred compensation described in IRC section 457 are available for certain state and local governments and non-governmental entities tax exempt under IRC Section 501. They can be either eligible plans under IRC 457(b) or ineligible plans under IRC 457(f). Plans eligible under 457(b) allow employees of sponsoring organizations to defer income taxation on retirement savings into future years.

A **Traditional IRA** is an individual retirement account (IRA) that allows individuals to direct income, up to specific annual limits, toward investments that accumulate tax-deferred. Contributions to the traditional IRA may be tax-deductible depending on the taxpayer's income, tax-filing status, and other factors.

A **SIMPLE IRA** is a retirement plan that may be established by employers, including self-employed individuals. The employer is allowed a tax deduction for contributions made to the SIMPLE. The employer makes either matching or nonelective contributions to each eligible employee's SIMPLE IRA, and employees may make salary deferral contributions.

A **Roth IRA** is a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax-free if the account has been held at least five years, and the individual is at least 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax-deductible, but withdrawals during retirement are generally tax-free.

A **Roth 401(k)** is an employer-sponsored savings plan that gives employees the option of investing after-tax dollars for retirement. Although you pay taxes on your contributions, withdrawals that you take after age 59½ will be tax-free if the account has been funded for at least five years.

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