

# Why Your Refund May Be Smaller This Year and Tips for a Tax-Smart 2023

Following several years of economic stimulus programs, many taxpayers may be in for a bit of sticker shock when filing their 2022 tax returns. On average, refunds are expected to be smaller than in recent years, and some taxpayers may find they actually owe money. This is due in part to the:<sup>1</sup>

- End of pandemic-related stimulus checks; no stimulus payments were issued in 2022
- Elimination of the enhanced child tax credit, which reverted to its pre-pandemic level of \$2,000 per child, regardless of age
- Special above-the-line charitable deductions which were not extended into 2022
- Increased volatility experienced last year, which resulted in certain taxable investments being subject to capital gains, despite ending the year flat or down

The good news? This year's tax deadline is April 18, which provides taxpayers three additional days to file. The IRS has also taken steps to improve service for taxpayers in 2023. As part of the Inflation Reduction Act, the IRS has hired more than 5,000 new telephone assistants and added more in-person staff to help support taxpayers.

Keep in mind, just because traditional tax season ends in April, that doesn't mean you no longer need to factor taxes into your financial decision-making process. Because taxes erode income and reduce the amount of money you have available to spend on the things you want in life, it makes good sense to pay attention to the impact of taxes on your income year-round. Below are steps you may want to consider to help manage your tax burden to help you keep more of what you earn throughout the year.<sup>2</sup>

## Tax-smart steps you can take now

- **Adjust your withholding.** Are you expecting a large refund in conjunction with your 2022 tax return? Or did you owe money because you withheld too little last year? Either way, you may need to close the gap by adjusting your withholding for 2023. Other reasons you may want to update your withholding include a significant increase or decrease in your job-related income or changes in the number of dependents in your household. For help determining if you need to adjust your withholding, visit the Tax Withholding Estimator at IRS.gov.<sup>3</sup>
- **Maximize retirement plan contributions.** For 2023, contribution limits have increased for individual retirement accounts (IRAs) and employer plans, such as 401(k) and 403(b) accounts. Eligible individuals under age 50 can contribute \$6,500 to an IRA. Those over 50 can contribute an extra \$1,000 as a catch-up contribution for a total of \$7,500. Contribution limits for 401(k) and similar employer plans increased to \$22,500 for 2023, for those under 50. Participants over age 50 can contribute an additional \$7,500, for a total of \$30,000 this year. Whether you make traditional (pre-tax) or Roth (after-tax) contributions, earnings compound on a tax-deferred basis, allowing account values to grow faster than in a comparable, taxable account.<sup>4</sup>
- **Watch for opportunities to harvest gains on taxable investments throughout the year.** Often, investors wait until year-end to think about tax-loss harvesting for their taxable, non-retirement accounts. While it doesn't eliminate your losses, tax-loss harvesting can help you manage your tax liability by using losses to offset gains. You may deduct up to \$3,000 of capital losses in excess of capital gains for your federal tax return each year. Any remaining capital losses above that can be carried forward to potentially offset capital gains in subsequent years. Strict rules apply to tax-loss harvesting, including the wash sale rule, which prohibits you from claiming a loss on a security if you buy the same or a "substantially identical" security within 30 days before or after the sale. So be sure to work closely with your tax professional who can also advise you on how capital losses are treated on your state tax return.<sup>5</sup>
- **Implement a tax-smart strategy.** While taxes should never drive your investment decisions, putting a tax-smart strategy in place can help you keep more of your hard-earned dollars now and in retirement. A tax-smart strategy takes a holistic view of your finances, including the purpose of each of the different types of accounts or assets you own, how much you invest for retirement and whether contributions are made on a pre-tax or after-tax basis, and how investments are diversified and managed. Tax-efficient investing also includes tax-smart techniques, such as tax-loss harvesting and regular account rebalancing, which can be hard to accomplish on your own without access to professional portfolio management resources.

To learn more about a tax-smart strategy aligned with your goals, timeline and risk tolerance, call the office to schedule time to talk.

- 1 "Americans may get a tax refund shock this year." CBS News, 15 Feb. 2023, <http://www.cbsnews.com/news/tax-refund-filing-shock-2023-irs-taxes/>
- 2 "IRS sets January 23 as official start to 2023 tax filing season; more help available for taxpayers this year." IRS.gov, <http://www.irs.gov/newsroom/irs-sets-january-23-as-official-start-to-2023-tax-filing-season-more-help-available-for-taxpayers-this-year>. Accessed 7 Mar. 2023.
- 3 "Tax Withholding Estimator." IRS.gov, <http://www.irs.gov/individuals/tax-withholding-estimator>. Accessed 6 Mar. 2023.
- 4 "Taxpayers should review the 401(k) and IRA limit increases for 2023." IRS.gov, [http://www.irs.gov/newsroom/taxpayers-should-review-the-401k-and-ira-limit-increases-for-2023#:~:text=The%20amount%20individuals%20can%20contribute,up%20from%20%2420%2C\\$500%20for%202022](http://www.irs.gov/newsroom/taxpayers-should-review-the-401k-and-ira-limit-increases-for-2023#:~:text=The%20amount%20individuals%20can%20contribute,up%20from%20%2420%2C$500%20for%202022). Accessed 7 Mar. 2023.
- 5 "Counteracting Capital Gains With Tax-Loss Harvesting." Cetera Investor Center, <http://www.ceterainvestorcenter.com/resource-center/tax/counteracting-capital-gains-tax-loss-harvesting>. Accessed 6 Mar. 2023.

*This information was written by KRW Creative Concepts, a non-affiliate of the Broker/Dealer.*

*This communication is designed to provide accurate and authoritative information on the subjects covered. It is not, however, intended to provide specific legal, tax, or other professional advice. For specific professional assistance, the services of an appropriate professional should be sought.*

*Some IRA's have contribution limitations and tax consequences for early withdrawals. For complete details, consult your tax advisor or attorney.*

*All investing involves risk, including the possible loss of principal. There is no assurance that any investment strategy will be successful.*



**Scott Holstein**  
[seh@prudentwm.com](mailto:seh@prudentwm.com)  
 (800) 458-9330

Prudent Wealth Management, Inc.  
 Wealth Manager | Financial Advisor

<http://www.prudentwm.com>



[Make a phone appointment](#)

Registered Representative offering securities and advisory services through Cetera Advisor Networks LLC, member FINRA/SIPC, a broker/dealer and Registered Investment Advisor. Certain advisory services and financial planning services offered through Vicus Capital, Inc., a federally registered investment advisor. Cetera is under separate ownership from any other named entity.

Confidential: This email and any files transmitted with it are confidential and are intended solely for the use of the individual or entity to whom this email is addressed. If you are not one of the named recipient(s) or otherwise have reason to believe that you have received this message in error, please notify the sender and delete this message immediately from your computer. Any other use, retention, dissemination, forward, printing, or copying of this message is strictly prohibited.

This informational email is an advertisement and you may opt out of receiving future emails. To opt out, please click the "Unsubscribe" link below.

This message was sent by  
 Prudent Wealth Management, Inc.  
 (800) 458-9330  
 301 York Road  
 Ste 200  
 Warminster, PA 18974

[Unsubscribe](#)