2023 TAX PLANNING & TIPS

New Tax Laws

As we move forward into 2024 and say goodbye to 2023, we recommend that you take a closer look at your tax and financial plans. While we have seen limited Federal tax legislation, this year has brought high inflation rates, several significant natural disasters, increased interest rates by the Federal Reserve, and a continued pandemic that significantly impacts our personal and financial situation. It will be beneficial for you to look at your specific tax strategies to make that they are still meeting your needs.

As we approach tax season, it is important to consider some of the following items. Please note this is not an extensive list.

Electric Vehicles. Don't forget about the tax credit for buying an EV; many new EVs qualify for a credit of up to $7,500 (up to $4,000 if buying a used EV).

Effective January 1, 2023, the following price and income limits apply:

Price limits for new vehicles:

- SUVs, vans, and pickup trucks - $80,000
- Any other qualifying vehicle - $55,000

Income limits, modified adjusted gross income for new vehicles:

- $300,000 - Joint returns or surviving spouse
- $225,000 - Head of household
- $150,000 - Any other filing status

For used vehicles, the credit is 50% of the value, not to exceed $4,000.

Home Upgrades. The residential clean-energy property credit is for taxpayers who install alternative energy systems in their homes that rely on renewable energy sources (solar, wind, geothermal, fuel cell or battery). The credit is equal to 30% of the cost of materials and installation. The smaller energy-efficient home improvement credit applies to insulation, boilers, HVAC systems, water heaters, exterior doors, windows, and other improvements that meet certain energy efficiency ratings. The credit used to have a $500 lifetime limitation, but it is now a general $1,200 aggregate yearly credit limit. If planning multiple upgrades, consider staggering them over multiple years. The new law also allows taxpayers to claim the credit for expenses incurred on energy efficient property installed on any home they own and is no longer limited to their principal residence.

Child Tax Credit. The 2023 child tax credit remains at $2,000 per qualifying dependent under the age of 17. The credit decreases if your modified adjusted gross income exceeds $400,000 if you file Married Filing Jointly or $200,000 for all other filers.

Charitable Contribution Deductions. Consider lumping multiple years of charitable contributions into one year to maximize tax benefits. In most cases, the amount of cash contributions you can deduct on Schedule A is limited to 60%. For charges made with credit cards, you can claim the write-off in the year you charged the expense.

Educator Expenses. Eligible educators can deduct up to $300 for 2023 expenses paid or incurred relating to books, supplies (other than nonathletic supplies for health and physical education courses), computer equipment, and any other equipment/supplementary materials used in the classroom.

Standard Deduction. For 2023, the standard deduction amount has been increased for all filers. Single or Married Filing Separately $13,850, Married Filing Jointly or Qualifying Surviving Spouse $27,700, Head of Household $20,800. Individuals who are 65 and older as well as those who are considered blind are entitled to an additional standard deduction, an additional $1,850 for Single or Head of Household individuals who are 65 and older or blind; $3,700 if 65 or older and blind; Married Filing Jointly or Married Filing Separately $1,500 per qualifying individual if 65 and older or blind, $3,000 per qualifying individual if 65 or older and blind.

Business Depreciation. Section 179 provides a deduction for qualifying property purchased and placed in service during the tax year. The maximum deduction is $1,160,000 for 2023 and $1,220,000 for 2024. This deduction is reduced dollar for dollar by the amount that the total cost of qualifying property placed in service during the year exceeds $2,890,000 for 2023 and $3,050,000 for 2024. Any disallowed amounts cannot be carried forward.

Bonus depreciation can be taken after the Section 179 spending cap is reached. The 2023 bonus depreciation rate is 80% for new, used, and qualified improvement property acquired and placed in service during the tax year. The bonus rate decreases to 60% for 2024, 40% for 2025, 20% for 2026, and 0% for 2027 and beyond unless the rules are changed by Congress.

401(k) and IRA Limit Increases. The contribution limit for employees who participate in 401(k), 403(b) and most 457 plans has increased to $23,000 for 2024. The limit on annual contributions to an IRA increased to $7,000 for 2024. The catch-up contribution limit for employees aged 50 and over who participate in qualified plans remains at $7,500 for 2024, and the catch-up limit on IRA contributions remains at $1,000 for 2024.

Required Minimum Distributions (RMDs). RMDs are the minimum amount you must annually withdraw from your retirement accounts (e.g., 401(k) or IRA) if you meet certain criteria. Beginning in 2023, the SECURE 2.0 Act raised the age that you must begin taking RMDs to the age of 73. If you turned 73 in 2023, you will need to take your first RMD in 2023 or by April 1, 2024. RMDs are not required for Roth IRAs until the death of the owner; unless you inherit a Roth IRA from a non-spouse. The rules for inherited IRAs and RMDs continue to be complex and vary based on a number of factors, including account type, original account owner (including their age, date of death), and beneficiary. A qualified charitable distribution is allowed to be made directly to a charitable organization up to $100,000. A qualified charitable distribution allows a taxpayer to take the required distribution without having to include the amount in taxable income, while also donating to a good cause. Planning ahead to determine the tax consequences of RMDs is important, especially for those who are in their first year of RMDs.

Year-End Planning

Additional Tax and Retirement Planning Considerations
At least once a year, we recommend that you review your retirement situation. You should make the most of tax advantaged retirement saving options, such as traditional IRAs, Roth IRAs and company retirement plans. Taking advantage of health savings accounts (HSAs) can also help you reduce your taxes and save for your future.

The following are additional tax and financial planning items to discuss with us:

• Major changes in your life (marriages or divorces, births or deaths in the family, job or employment changes including retirement, new business ventures and significant expenditures such as real estate purchases, college tuition payments, etc.) that could have a tax effect.

• Tax benefits related to using capital losses to offset realized gains — and move any gains to the lowest tax brackets, if possible.

• Appropriate planning for estate and gift tax purposes. There is an annual exclusion for gifts ($17,000 per donee, $34,000 for married couples in 2023, and for 2024 it increases to $18,000 per donee, $36,000 for married couples) to help save on potential future estate taxes.

• Section 529 plans to help save for education and potentially receive income tax benefits. Section 529 plans can also now be used to pay up to $10,000 of student loans, however, the interest paid using this method cannot be used towards the student loan interest deduction.

• Tax consequences of converting traditional IRAs to Roth IRAs.

• Potential 0% federal rate on long-term capital gains. If your taxable income is not greater than $89,250 married filing joint, $59,750 head of household, or $44,625 for all others in 2023, you may want to consider selling appreciated securities held for more than one year. Until taxable income exceeds the thresholds above, long-term capital gains are taxed at a 0% federal rate.

• As discussed above, qualified charitable distributions directly out of your IRA can be made if you are age 70½ or older. You can make cash donations totaling up to $100,000 per individual IRA owner per year to IRS-approved charities directly from your IRA ($200,000 per year maximum on a joint return if both spouses make Qualified Charitable Distributions [QCDs] of $100,000). QCDs are not treated as taxable distributions, and you receive no itemized deduction for the contribution. QCDs have many potential tax benefits such as reducing your Adjusted Gross Income (which may decrease the phase out of other tax benefits and reduce the amount of your Social Security benefits that are taxable), receiving a state tax benefit where you otherwise would not, and effectively allowing you to deduct charitable contributions and claim the standard deduction on the same return. If you decide to take advantage of a QCD, be sure to transfer the funds directly from your IRA to the charity.

• Withholding, estimated tax payments, and liquidity needs going forward. Please note that the last quarterly payments for 2023 are due on January 16, 2024.