December 2023

To Our Clients and Friends:

We have listed below some tax-saving ideas that you may want to put into action before the end of 2023. Please note that some of these ideas reflect legislation from three recent tax acts: The Inflation Reduction Act of 2022, the Secure 2.0 Act of 2022 and the Consolidated Appropriations Act of 2023.

- Postpone income and bonuses until 2024 and accelerate deductions into 2023 to lower your 2023 tax bill, unless you expect to be in a higher tax bracket for 2024.

- For 2023, the standard deduction is $27,700 for married taxpayers filing joint returns. For married taxpayers filing separate and for single taxpayers, the amount is $13,850. As a result of the standard deduction, many people continue to no longer itemize. You can try to "bunch" some of your deductions, such as paying charitable donations and real estate taxes in January and December of the same year, but you still might not itemize.

- If you do itemize your deductions, consider using a credit card to pay certain deductible expenses before the end of the year. You can take the deduction even if the credit card bill is not paid until 2024.

- If you do itemize your deductions, consider prepaying state and local taxes/increase your withholding before the end of the year, unless you tend to be subject to alternative minimum tax (AMT). This could lower your Federal income taxes. BUT keep in mind that your total state and local tax deduction, including real estate taxes is limited to $10K for married joint and for single taxpayers, $5K for married filing separately. Also note, a prepayment of real estate tax that has not yet been assessed is not deductible until the year it is assessed.

- If you have appreciated stock (or mutual fund shares) that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value, and no capital loss deduction will result.

- Solve an underpayment of estimated tax problem. Some individuals have faced penalties for underpayment of estimated tax. An employed individual who is facing a penalty for underpayment of estimated tax for any other reason should consider asking his employer—if it's not too late to do so—to increase income tax withholding before year-end. Generally, income tax withheld by an employer from an employee's wages or salary is treated as paid in equal amounts on each of the four estimated tax installment due dates. Thus, if an employee asks his employer to withhold additional amounts for the rest of the year, the penalty can be retroactively eliminated. This is because the additional year-end withholding will be treated as if it was paid equally over the four installment due dates.

- Between now and year-end, review your securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the $3,000 ($1,500 married filing separate) net capital loss that's deductible each year.

- Make HSA contributions. Under Code Sec. 223(b)(8)(A), a calendar year taxpayer who is an eligible individual under the health savings account (HSA) rules for December 2023, is treated as having been an eligible individual for the entire year. Thus, an individual who first became eligible on, for example, Dec. 1, 2023, may then make a full year's deductible-above-the-line contribution for 2023. If he/she makes that maximum contribution, he/she gets a deduction of $3,850 ($4,150 for 2024) for individual coverage and $7,750 ($8,300 for 2024) for family coverage (those age 55 or older also get an additional $1,000 catch-up amount).

- If you have a Flexible Spending Arrangement (FSA) with your employer, you are likely to have a 2.5 month grace period after year-end to pay for qualified medical expenses. Any amounts not used after the grace period are nonrefundable. A carryover provision allows for $610 to be carried to the next year ($640 for 2024). A plan may allow either the grace period or a carryover, but not both.

- Make year-end gifts. A person can give any other person up to $17,000 for 2023 ($18,000 for 2024) without incurring any gift tax. The annual exclusion amount increases to $34,000 per donee ($36,000 for 2024) if the donor's spouse consents to gift-splitting. Annual exclusion gifts take the amount of the gift and future appreciation in the value of the gift out of the donor's estate, and shift the income tax obligation on the property's earnings to the donee who may be in a lower tax bracket (if not subject to the kiddie tax). Direct payments related to education and medical expenses on behalf of someone else do not count towards the annual exclusion. Gifts are never taxable to the recipient.

- Fund Section 529 college savings plans by 12/31. If you use an Ohio plan with CollegeAdvantage, an individual can invest $17K per beneficiary (married couples can invest $34K) without incurring any Federal gift tax consequences. You can also contribute five years' worth of tax-free gifts at one time, $85K/$170K. The donor can also take an Ohio deduction of up to $4,000 per beneficiary per year until exhausted.The deduction is no longer limited to an Ohio Section 529 plan.

- Starting in 2024, excess 529 plan account balances can be rolled to a Roth IRA provided the 529 plan has been opened more than 15 years. Up to $35K can be rolled over by direct trustee to trustee transfer.

- If you have a retirement plan through your employment, check the status of your contribution for the year. For 2023, employees can defer up to $22,500 ($23,000 for 2024) of income into a 401(k) or 403(b) plan, plus catch-up contributions of $7,500 if they are 50 or older. If you are self-employed, there are a variety of retirement plan options for you to consider. Some do require action before 12/31.

- Effective with the tax year 2020, the maximum age for making a traditional IRA contribution was repealed. Roth IRA contributions were never subject to an age limitation. IRA contribution limits for 2023 are $6,500 per person, ($7,500 if age 50 or older by year-end). Earned income limits still apply. You have until April 15th of 2024 to make an IRA contribution for 2023.

- Consider doing a ROTH IRA conversion or making a backdoor ROTH contribution.

- Under Secure 2.0, the age at which participants must begin taking RMD's is increased over a period of ten years. Starting in 2023, the age is increased to 73 for individuals who turn 72 after 2022 and to 75 after 2033. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Those who turned age 73 in 2023 can delay the first required distribution to 2024. However, taxpayers who take the deferral route will have to take a double distribution in 2024 — the amount required for 2023 plus the amount required for 2024. An RMD is based on the total value of all retirement accounts and remaining expected life expectancy. Life expectancy tables have recently been updated.

- Consider making a Qualified Charitable Distribution (QCD) up to $100K from an IRA withdrawal or RMD to charity. Not only is the income not taxable, but it reduces AGI and can lower your state tax liability in some states. Under the Secure Act, the QCD amount gets reduced by any deductible traditional IRA contribution made for the year.

- If you own an interest in a partnership or S corporation that you expect to generate a loss this year, you may want to make a capital contribution (or in the case of an S corporation, a shareholder loan) before year end to ensure you have sufficient basis to claim a full deduction.

- One of the biggest changes and challenges that came out of the Tax Cuts and Jobs Act (passed in Dec 2017) was the Qualified Business Income (QBI) deduction. It is available to sole-proprietors, partners in partnerships, shareholders of S-Corporations and some trusts and estates. C-corporations and employees are not eligible. The amount of the deduction is generally up to 20% of QBI received from a qualified trade or business. The calculation is complex and involves income, wages and certain property elements. There are thresholds based on taxable income of the taxpayer, which may reduce the deduction. The deduction is also limited for certain "Specified Service Trades or Businesses," mainly personal service types of businesses, as well as those in the fields of health, law and accounting. It is possible to plan for this deduction in order not to exceed some of the limitations and receive the full deduction.

- Taxpayers with rental real estate activities may also be eligible for the QBI deduction mentioned in the previous bullet, as long as certain conditions are met in accordance with a safe harbor ruling. The conditions are 1) separate books and records are maintained that reflect the income and expenses of the activity, 2) 250 or more hours of rental services are performed per year (which can include the hours of subcontractors and service people), and 3) the taxpayer maintains contemporaneous records and logs that document hours of service performed, description of services performed, dates the services were performed, and who performed the service. Triple net leases do not qualify for the safe harbor.

- Watch out for the Alternative Minimum Tax (AMT) in your planning because what may be a great move for regular tax purposes may create or increase an AMT problem. In most cases, AMT may no longer apply given the higher thresholds.

- The Inflation Reduction Act of 2022 expanded a variety of energy efficient credits with respect to a home. The lifetime cap of $500 was eliminated. The credit is non-refundable and is generally 30% of the cost, not to exceed $1,200 per year. There are still some annual caps on specific types of improvements. Tax credits for EV's were revamped and a new clean vehicle credit was also established.

- The Corporate Transparency Act (aka Beneficial Owner Reporting Requirements) is effective January 1, 2024. The purpose is to pursue corruption, money laundering, terrorist financing, tax fraud, etc. It will also identify anonymous shell companies that assist with illegal acts. New entities formed in 2024 will have 30 calendar days to file a "beneficial owner report." Entities created before 2024 will have one year to file their reports. The law applies to any domestic entity formed under a state charter. Specific exemptions apply.

- There are numerous changes for Ohio starting with 2023:

  - Reduction in the number of tax brackets to three (2023) and two (2024)

  - Tax advantaged homeowner savings account established starting in 2024

  - Donation credit to scholarship granting organization (SGO) established. A taxpayer can make a donation before filing their current tax return and take a credit for that applicable tax year even if paid in the subsequent tax year.

    - Non-chartered, nonpublic private school tuition credit expanded
    - Commercial Activity Tax exclusion increased
    - Baby products sales tax exemption enacted effective October 1, 2023
    - Adoption grant/deduction program created to replace the adoption credit
- Some Life Cycle Changes Important to Year-End Planning:
    - Change in filing status due to marriage, divorce, death, or HOH
    - Death of a spouse, or birth of a child
    - Child no longer eligible for the child tax credit
    - Changes in medical expenses
    - Move or relocation
    - College and tuition expenses
    - Employment changes
    - Retirement
    - Bankruptcy
    - Inheritance
    - New business, or close a business

These are just some suggestions to get you thinking about your own tax situation. If you'd like to know more about any of them or want to discuss other planning ideas, please feel free to contact us. Please also contact us if you feel we should prepare a tax projection for you, as you may be unsure or something has changed since the previous year.

Very truly,

SENDER CPA & CONSULTING, LTD

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