



HERMAN & COMPANY
— Certified Public Accountants and Consultants —

2023 YEAR END TAX PLANNING

The Best Ways to Save on Your 2023 Taxes.
Our Annual Year-End Tax Planning Guide.

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HERMAN & COMPANY
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2023 Annual Year-End Tax Planning

Take advantage of tax savings opportunities!

Fall, 2023

To Our Clients and Friends,

Another year has flown by. Lots of new memories to think back and reflect on. On the personal side, it's all been great. When I think about world developments, it's been pretty awful. I am hopeful for 2024. We have to be, right!

As we wrap up 2023, our goal is to lower your taxes for this year and plan to do the same for 2024. Many strategies involve both years as we seek to shift income and deductions. Generally, we want to defer taxable income for as long as possible and recognize deductible expenditures as soon as possible. Those that itemize have the greatest ability to utilize deductions. Unfortunately, recent tax laws changes have limited the number of us who can itemize. Still, we want to be aware of the possible strategies.

Due to Congressional gridlock and distraction with other issues, there were no major pieces of tax legislation in 2023. The passage of the Inflation Reduction Act of 2022 brought new tax incentives for you to consider. There are also several tax provisions that have expired or will soon. We continue to closely monitor any potential extensions or changes in tax legislation and will update you accordingly.

We're here to help explain tax and financial planning opportunities. Please contact us at your earliest convenience to discuss your situation so we can develop a customized plan. In the meantime, here's a look at some issues impacting individuals to consider as we approach year-end.

Key tax considerations from recent tax legislation

Charitable contribution deductions

If you are planning to donate to a charity, it's likely better to make your contribution before the end of the year to potentially save on taxes. There are many tax planning strategies we can discuss with you about charitable giving. For example, consider donating appreciated assets that have been held for more than one year, rather than cash. Opening and funding a donor advised fund (DAF) is appealing to many as it allows for a tax-deductible gift in the current year and the ability to dole out those funds to charities over multiple years. Qualified charitable distributions (QCDs) are another option for certain older taxpayers who don't typically itemize on their tax returns.

You can no longer take any charitable deduction if you do not itemize. Note that it's important to have adequate documentation of all donations, including a letter from the charity for donations of \$250 or more.

Energy tax credits

From electric vehicles to solar panels, “going green” continues to provide tax incentives. The Inflation Reduction Act of 2022 included new and newly expanded tax credits for solar panels, electric vehicles and energy-efficient home improvements. The “energy-efficient home improvement credit” applies to insulation, boilers, central air-conditioning systems, water heaters, heat pumps, exterior doors, windows and the like that meet certain energy efficiency ratings. This credit for 30% of the cost of these eco-savings upgrades used to have a \$500 lifetime limitation. Now there is a general \$1,200 aggregate yearly credit limit, but some specific upgrades have lower monetary caps, while others have larger ones. The rules are complex, some elements of the law are new for 2023. Careful research and planning now can be beneficial.

Required minimum distributions (RMDs)

You cannot keep retirement funds in your account indefinitely. RMDs are the minimum amount you must withdraw by the end of each year from your retirement accounts once you reach a certain age (generally age 73). If 2023 is your first RMD year, you have until April 1, 2024, to take the RMD. Failure to do so can result in big penalties. And withdrawals usually have tax impacts. There are also opportunities to roll retirement funds to a qualified charity to satisfy the RMD without incurring taxes. Also, note that the IRS issued new life expectancy tables effective for the 2022 tax year, resulting in lower RMD amounts. We can help you calculate any RMDs to take this year and plan for any tax exposure.

We recommend you review your retirement plans at least annually. That includes making the most of tax-advantaged retirement saving options, such as traditional individual retirement accounts (IRAs), Roth IRAs and company retirement plans. It's also advisable to take advantage of health savings accounts (HSAs) that can help you reduce your taxes and save for medical-related expenses.

State tax obligations related to teleworking arrangements

The pandemic produced changes in where people work. More people are partially working from home (i.e., teleworking). Such remote working arrangements could potentially have tax implications that should be considered by you and your employer.

Sell your crypto at a loss before year-end. Don't worry about the wash-sale rule.

The definition of securities for purposes of the wash-sale rule doesn't include crypto. So, if you own crypto that sharply falls in value, you can sell it, recognize a capital loss, and buy the same digital currency the same day or soon after.

Fraudulent activity remains a significant threat

Our firm takes data security seriously and we think you should as well. Fraudsters continue to refine their techniques and tax identity theft remains a significant concern. Beware if you:

- Receive a notice or letter from the IRS regarding a tax return, tax bill or income that doesn't apply to you. Note that the IRS will never call a taxpayer directly.
- Get an unsolicited email or other form of communication asking for your bank account number, other financial details, or personal information.

- Receive a robocall insisting you must call back and settle your tax bill. That's a scam for sure!
- Shred your mail.
- Check your credit report regularly.

Make sure you're taking steps to keep your personal financial information safe. Let us know if you have questions or concerns about how to go about this.

Virtual currency/cryptocurrency

Digital assets are defined under the U.S. income tax rules as any digital representation of value that may function as a medium of exchange, a unit of account and/or a store of value. Digital assets may include virtual currencies such as Bitcoin and Ether, Stablecoins such as Tether and USD Coin (USDC) and non-fungible tokens (NFTs).

The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services or holding such currencies as an investment, generally have tax impacts -- and the IRS continues to increase its scrutiny in this area. We can help you understand any tax and investment consequences.

Additional tax and retirement planning considerations

We recommend you review your retirement situation at least annually. That includes making the most of tax-advantaged retirement saving options, such as traditional IRAs, Roth IRAs and company retirement plans. We can help you determine whether you're on target to reach your retirement goals.

Here are a few more tax and financial planning items to discuss with us:

- **Life changes** — Let us know about any major changes in your life such as marriages or divorces, births or deaths in the family, job or employment changes, starting a business and significant expenditures (real estate purchases, college tuition payments, etc.).
- **Capital gains/losses** — For investors who are sitting with unrealized capital losses, consider tax benefits related to using capital losses to offset realized gains -- and move any gains to the lowest tax brackets, if possible. Also, consider selling portfolio investments that are down before the end of the year. Net capital losses up to \$3,000 will offset current year's ordinary income. The unused excess net capital loss can be carried forward to use in subsequent years.
- **Estate and gift tax planning** — Let's make sure you're appropriately planning for estate and gift tax purposes. There is an annual exclusion for gifts (\$17,000 per donee) to help save on potential future estate taxes. Let's review lifetime gifting opportunities to use additional exclusions and exemption amounts.
- **Education planning** — Let's consider Sec. 529 plans to help save for education; there can be income tax benefits to doing so, and we can help you with any questions.
- **Updates to financial records** — Let's determine whether any updates are needed to your insurance policies or beneficiary designations.
- **Roth IRA conversions** — Let's discuss and weigh the benefits of converting your traditional IRA to a Roth IRA to lock in lower tax rates on some of your pre-tax retirement accounts.
- **Estimated tax payments** — Let's review withholding and estimated tax payments and assess any liquidity needs.

Year-end planning equals fewer surprises

Our goal is always to minimize your taxes, reduce your compliance burden, and the related cost incurred, while meeting your filing obligations.

There are many other opportunities to discuss as the year-end approaches. There may be strategies such as deferral or acceleration of income, prepayment, or deferral of expenses, etc., that can help you save taxes and strengthen your financial position.

Although it is late in the year, there are still planning opportunities available to you. Being aware of these opportunities is the first step toward reducing your tax burden for April 15, 2024. Ignoring your taxes until next year may not be in your best interest. As the saying goes, “If you fail to plan, plan to fail.” We want our clients to succeed in paying the least amount of taxes possible. It is the reason why we are writing this letter. By informing you of ways to save money we hope to prompt you to be proactive with your tax situation by taking advantage of planning techniques.

I’d like to suggest you have us (or your preparer if you are not a client of our office) prepare an estimate now of your current year’s tax liability. We can then review strategies to see if there are ways to keep extra money in your pocket for the holidays and beyond. Once an estimate of your 2023 tax liability is prepared, we can speak about matters that might be on your mind including cash flow, health care, future college tuition, retirement, life insurance, investments, estate planning, and more. We advise you to reflect on any personal changes that might have occurred during the year and the impact these changes may have on wills, powers of attorney and health care proxies.

At this point, you likely have a rather complete picture of your 2023 income from sources such as salary, business income, retirement plan distributions, capital gains and/or losses, interest, and dividends. The total of those, combined with other predictable income items, provides a good starting point for tax planning.

We’re going to provide you with lots of food for thought in this letter, so sit back, relax, and consider which strategies can help you reduce your taxes.

SUMMARY OF CHANGES RESULTING FROM THE TAX CUTS AND JOBS ACT OF 2017 (“TCJA”) APPLYING TO 2022

Note that many of these provisions are set to expire on December 31, 2025. That means many parts of the law will revert to what they were prior to 2017. These include higher tax rates, a much lower standard deduction, elimination of the \$10,000 SALT cap and a lower estate tax exemption. Action on any of these seems quite unlikely during 2024.

For Individuals

- Individual income tax brackets for 2023 still range from 10% to 37%
- The standard deduction has increased due to inflation
- Personal exemptions for taxpayer, spouse and dependents are no longer available
- Additional child credits are available.
- Some deductions like moving expenses and alimony have been eliminated.
- Expenses eligible for itemized deductions have changed. Highlights are discussed in the sections that follow.

- The amount of income exempted from the alternative minimum tax (AMT) has been increased to \$81,300 for unmarried individuals and to \$126,500 for married filing jointly almost eliminating its impact.
- The “Kiddie Tax” related to unearned income that was taxed at the parents’ marginal tax rates. Under the TCJA, the child’s unearned income could be taxed at the highest marginal tax rate of 37% which could cause the children’s unearned income to be taxed at a higher rate than their parents.
- 529 savings plans can now be used for primary and secondary education expenses.
- The individual mandate for health insurance and the penalty associated with it have been eliminated.

For Businesses

- The corporate tax rate remains at 21% on business taxable income including personal service corporations. BBB seeks to increase this rate.
- The corporate AMT has been repealed for our clientele.
- A reduction in the corporate dividend deduction has been implemented.
- The deduction for pass-through businesses (sole-proprietorships, partnerships, S-Corporations and LLC’s) which generally equals 20% of qualified business income (QBI) continues. This is subject to restrictions [threshold is \$182,100 for unmarried individuals and \$364,200 for married filing jointly] and is not used in computing the owners AGI; it reduces taxable income; in effect it is treated like an allowable itemized deduction.
- There are limitations on Interest deductions for large businesses.
- New Bonus Depreciation and Section 179 Depreciation limits apply.
- The 100% deduction (rather than the prior 50%) for expenses paid for food or beverages provided by a restaurant expired in 2022. In 2023, the deduction reverted back to 50%.
- Net operating loss deductions can be carried back up to five years due to the CARES Act. Previously only two years were able to be carried back.
- R&D expenses must be capitalized and amortized over 5 years (15 years if the R&D is conducted outside the US) instead of being deducted currently.

It should be noted that the brackets and thresholds in 2023 have been indexed for inflation using a “chained CPI” method. In brief, it will be a rolling average of the increase of the consumer price index. For example, if the CPI for 2020 is 2%, 2021 is 2% and 2023 is 5%, the chained CPI increase would be 3% for 2023, however, using the old, unchained metric, the brackets would rise by 5% in 2023. The government believes the chained CPI is a better long-term indicator of prices and hence brackets. For your information, the primary unchained CPI from 2000-2017 rose by 45.7%, while the chained CPI rose only 39.7%, a difference of 6%. We shall see if this change helps or hurts us over the long term. The chained CPI increased 5.3% for the 12 months ended October, 2023.

INDIVIDUALS:

Affordable Care Act:

The Affordable Care Act is still with us but the penalty for not obtaining coverage has been eliminated.

Estimated tax payments versus withholding from wages:

Have you underpaid your taxes for 2023? Taxes are due throughout the year. **Check your withholding and estimated tax payments now while you have time to fix a possible problem that could lead to a penalty.** This is especially important as many taxpayers are still having less taxes withheld based on the TCJA tax withholding charts distributed by the IRS three years ago. It’s my

opinion that the IRS messed up when putting together those withholding tax tables. We are amazed how many people continue to be under withheld for their federal taxes.

TAX TIP: If you're in danger of an underpayment penalty, try to make up the shortfall through increased withholding by the end of 2023 on your salary or bonuses. A bigger estimated tax payment can still leave you exposed to penalties for previous quarters, while withholding is considered to have been paid evenly throughout the year.

You may need not pay every penny of the tax you expect to owe by December 31st. If you prepay 90% of this year's tax bill, you're off the hook for the penalty. You can also escape the penalty in most cases by prepaying 100% of last year's tax liability. Note however if your 2022 adjusted gross income topped \$150,000, you'll have to prepay 110% of last year's tax liability to avoid a penalty. Taking these steps to boost your withholding at year-end will shield you from an underpayment penalty on your 2023 return, no matter how much you owe come April 15th. Penalties are a needless waste of money and can amount to hundreds or thousands of dollars.

Threshold for Deducting Medical Expenses

For 2023, medical and dental expenses that exceed 7.5% of your adjusted gross income (AGI) are deductible. Eligible expenses may include health insurance premiums, long-term care insurance premiums (subject to limits based on age), medical and dental expenses after insurance reimbursement, prescription drugs and mileage at 22 cents per mile for medical purposes.

Changes in Personal Exemptions and Itemized Deductions for Taxpayers

The personal exemptions and itemized deductions for taxpayers and their dependents was eliminated in 2019 under the TCJA. For the 2023 tax year, the standard deduction for taxpayers married filing jointly has increased to \$27,700 from \$25,900. For single or married filing separately, it is now \$13,850 up from \$12,950 and head of household goes to \$20,800.

The makeup of the itemized deductions has not changed from 2020 to 2023:

- Deduction for all state and local taxes is still capped at \$10,000 in total for both state/city income taxes and real estate taxes. This is unlikely to change over the next two years.
- Mortgage interest deductibility covers only the first \$750,000 of a home mortgage if the debt was incurred after December 15, 2017; there is no longer a deduction for home equity loans unless its original purpose was to substantially improve the home, but the total of the two cannot exceed \$750,000 in total.
- Deductions for unreimbursed employee business expenses, tax preparation and portfolio management fees have been eliminated. 😞
- The CARES Act raised the limit for contributions in 2022 to public charities to 100% of adjusted gross income. For 2023, the deduction has reverted to 60% of AGI.

It is important to review all your deductions to make sure you receive all the allowable deductions to which you are entitled under the new tax law.

Tax Scams

Note that the IRS will never:

- Call or email you.
- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. **The IRS will mail you a bill if you owe any taxes.**
- Threaten to immediately bring in local police or other law-enforcement groups to have you arrested for not paying.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.

- Ask for credit or debit card numbers over the phone.

Protect yourself from Identity Theft

In the past three years tax-related identity theft has shot through the roof. Tax-related identity theft occurs when someone uses your personal information including your social security number to file a tax return and claim a refund.

Most important, do not ever respond to any phone call, e-mail, text message, social media channel, or any type of electronic communication from anyone claiming to be an IRS agent or officer or from the Social Security Administration. The IRS NEVER initiates contact with taxpayers by telephone.

Contact us before you share any information with any individual claiming to be from the IRS or any other tax authorities.

Planning Ideas for Individuals

Net Investment Income Tax (NIIT) and Additional Medicare Tax

For a few years now, individual taxpayers with incomes over \$200,000 and married taxpayers with incomes over \$250,000 get hit with two additional taxes. These taxes, the 0.9% Medicare surtax on earned income and the 3.9% tax on net investment income remain a permanent part of the tax laws. While it was hoped these taxes would be eliminated, the TCJA did not eliminate them.

Net Investment Income Tax:

Net investment income includes interest, dividend, most rental income, and net gains attributable to the disposition of property other than a property held in a trade or business (i.e., capital gains).

Some ways to mitigate the impact of NIIT include:

- Invest in tax-exempt state and municipal bonds.
- Consider an installment sale if selling an appreciated asset if the gain from the sale will exceed the threshold amount for putting you into the NIIT.
- NIIT applies to income from passive activities. That is one in which you do not materially participate. Review your participation and involvement. If you participate “enough”, income may not be subject to NIIT. Be sure to document the hours spent with a calendar and appointment books, e-mails and/or summarized narratives.
- Review your investment statements. If you have realized capital gains or capital gains distributions, take capital losses now to offset those capital gains. See more on this below “Capital gains and losses” and “Mutual Fund Capital Gains Distributions”.
- Don’t lose deductible losses. See below “Watch out for the Wash Sale Rule”.
- If you plan to donate to a charity, consider donating appreciated property. The gain on appreciation will not factor in your taxable income, and therefore not be subject to NIIT, while enabling you to take a charitable deduction equal to the fair market value of the property donated.

Additional Medicare Tax:

This tax is imposed on wages and self-employment income. Your employer withholds this from your wages if your wages exceed \$200,000. If you and your spouse’s combined wages and/or self-employment income is more than \$250,000, the withheld taxes may not cover your entire 0.9% liability and you may be hit with additional taxes and possibly penalties at the end of the tax year. Consider income deferral strategies. For example, request your bonus be paid next year or bill your clients in January, assuming you anticipate lower income next year. See more on income/deduction deferral and acceleration strategies later in this newsletter.

Education

The cost of education is always increasing and planning for a 4-year college education is important for many parents. Here are some of the strategies that parents can employ.

Contribute to a QTP:

Contribute to a section 529 plan, also called a Qualified Tuition Program (“QTP”), a saving plan from which tuition can be paid. Contributions up to \$10,000 for a married couple are generally deductible for state tax purposes if the plan is administered by your home state, and distributions are tax-free, if distributions are used for qualified primary and secondary education costs. Income earned in such accounts will not be taxed. There are no income limitations for these plans. There are also 529 prepaid tuition plans, which guarantee tuition costs will not be higher when the beneficiary attends the school. A major caveat is that the beneficiary may be limited to a specific school.

If your child attends a private or religious elementary or secondary school, up to \$10,000 per year can be paid towards the cost of that education from the 529 plan. This allowance began in 2019, however, some states do not allow these distributions to be used for K-12 education. See: [Heritage Foundation 529 Accounts in the States](#) for more information on your particular state.

American Opportunity Tax Credit:

If you have kids in college listen up. The American Opportunity Tax Credit can be claimed for qualified undergraduate education expenses (including books and other required course materials) paid for an eligible student.

The credit is equal to \$2,500 per student each year and is available for a taxpayer who pays \$4,000 or more in qualifying expenses. The credit is available to married taxpayers who have modified adjusted gross income of less than \$160,000 (\$80,000 if single). Above those levels, sorry, it is phased out.

The Lifetime Learning Credit

The lifetime Learning Credit of up to \$2,000 (20% of tuition of up to \$10,000) applies to graduate classes as well as undergraduate. It is also subject to phase out at higher income levels. If you are taking college courses to enhance your skills at work, consider claiming the Lifetime Learning Credit.

Tax Tip:

Let Uncle Sam Pay Part of Your Kid’s College Tuition Bill: Don’t pay your children’s college tuition bill by selling appreciated securities you own. Instead, give your children the shares of appreciated stock or mutual fund and have them sell the shares to pay for school. Capital gains are out of your income tax bill and in theirs. Their capital gains tax rate is likely lower than yours. Their rate may even be zero! However, it is important to review the TCJA’s impact of the Kiddie Tax before employing this strategy.

Take Advantage of Wealthy Grandparents

I didn’t mean that quite the way it sounded. This is one of my favorites and makes so much sense. If Grandma or Grandpa have sizeable estates and are facing a large estate tax bill, admittedly less likely under TCJA, consider asking them to pay your child’s college tuition! Payments made directly to the school are not counted towards the \$16,000 annual gift limit. This is also an effective way to reduce Grandma and Grandpa’s estate taxes!

Don’t forget the deduction for interest paid on student loans:

The new tax law did not change treatment of student loan interest. Interest you pay on qualified student loans up to \$2,500 per year is deductible in the year paid. However, it begins to phase out with modified adjusted gross income of \$155,000 for married taxpayers and \$75,000 for single individuals.

Borrowing for Tuition

There are various methods to borrow money to finance education costs. These methods include borrowing from pension plans, life insurance policies, related parties, as well as federal education loans. Under prior tax law, the most preferable type of borrowing was a home equity loan, since up to \$100,000 of interest attributable to home indebtedness was allowable as an itemized deduction. Interest on a home equity loan is now no longer deductible.

Charitable Donations

Don't forget your tax situation when "giving." How you give, and what you give can have an impact on your personal tax bill.

Donate appreciated securities:

Consider using appreciated securities to make your charitable contributions. You can deduct the fair market value of the securities and avoid paying the capital gains tax you would incur if you sold the securities.

Securities with Losses:

Sell securities that will generate losses and use the cash to make donations. This strategy enables you to offset capital gains with capital losses, thus reducing NIIT impact and still claim a charitable deduction.

Be able to substantiate your Donations:

Remember that to take deductions on your tax return, you must be able to substantiate your donations with proper documentation. If the property is valued at more than \$5,000, a "qualified written appraisal" is mandatory. You must obtain receipts for contributions over \$250. Your cancelled check alone will not satisfy the IRS. Instead of putting cash in the collection basket at your church, consider putting a check in! If you want to donate but won't have the money until next year, consider charging your gift on a credit card before the end of the year. The gift will be deductible on your 2023 return!

Donation of non-cash property:

If you claim a charitable deduction of more than \$500 in non-cash property, like clothing, furniture, appliances, I strongly suggest that you take pictures of what you are donating to help support the donation and its value. Substantial donations of your in-kind property are an easy target for disallowance or reduction by the IRS. Remember you can't deduct contributions of clothing or household items unless the property is in at least "good condition." For in-kind donations you must attach Form 8283 to your tax return. The value of the items you donate are not based on what you originally paid for them, but should be based on their current value, i.e. on what a buyer would pay in a consignment or thrift shop.

Car donation:

If you are claiming a deduction of \$250 or more for a car donation, you will need a written acknowledgement (Form 1098-C) from the charity that includes a description of the car. Generally, you can deduct only an amount equal to what the charity receives when it sells the car.

Some things you cannot deduct:

Remember, you cannot deduct donations to individuals, social clubs, political groups or candidates or foreign organizations, or GoFundMe donations (unless it is a 501(c)(3) charitable organization). You also cannot deduct the value of your time donated to a charity. However, as a volunteer you can deduct travel expenses incurred on behalf of charitable work. In addition, 14 cents per mile for using your personal vehicle for charitable work is deductible.

Consider Using Donor Advised Fund for Making Donations:

For those high-income taxpayers with generous donative intentions, transferring assets to your own donor advised fund can allow you to receive an immediate charitable income tax deduction (at the maximum amount allowed for gifts to public charities) while providing time to decide who the recipients should be. If you would like to create a donor advised fund in 2023, you can establish one as late as December 31. However, I suggest that you do not wait until the last minute, especially if you are planning on funding the account with anything other than cash.

Planning for Retirement

Maximize your contributions to your employer's retirement plan:

If your employer has a retirement plan, consider maximizing your contribution to the plan. Typically, contributions to employer provided retirement plans are tax-free, and income earned in the plan is tax deferred. Your employer may provide matching contributions, which is not taxable to you until withdrawn.

If eligible, contribute to a Traditional IRA:

In prior years, if you were not covered by an employer's retirement plan and had wages or self-employment income, you were eligible to make a tax-deductible contribution of up to \$6,500 (\$7,500 if you are at least age 50) per year to an Individual Retirement Account (IRA) up until the year that you turn 70½. For 2024, these amounts go up to \$7,000 and \$8,000 respectively.

TAX CHANGE: Now there is no age limit on making regular contributions to traditional or Roth IRAs. Required minimum distributions must now start in the year you become age 73, rather than age 70½ as in prior years.

Money in these plans will earn income tax-free and is taxable only when you withdraw funds from the account. If you withdraw the money before age 59½ there may be a penalty tax of 10%. You (and/or your spouse) must have wages or self-employment income at least equal to the amount you contribute. Payment can be made to the IRA anytime up until April 15, 2024 to be deductible on your 2023 return.

If you are covered by a retirement plan at work, you can take a full IRA deduction in 2023 if your modified adjusted gross income is less than \$73,000 if you are single, \$116,000 if you are married and filing jointly or \$10,000 if you are married and filing separately. Above these income levels, the ability to deduct an IRA contribution is reduced and eventually fully phased out.

Maximum retirement plan contribution limits for 2023 are as follows:

RETIREMENT PLANS	2023	2024
401(k), 403(b)-402(g)(1) - Maximum employee elective deferral	\$22,500	\$23,000
Defined Contribution Plan Total Limit (Employee + Employer)	\$66,000	\$69,000
Solo 401k Maximum Contribution (Employee + Employer)*	\$66,000	\$69,000
Catch-up Contribution for the plans above (age 50 or older, above annual limit)	\$7,500	\$7,500

IRA Contribution Limit	\$6,500	\$7,000
IRA Catch-up Contribution (age 50 or older, above annual limit)	\$1,000	\$1,000
Roth IRA Contribution Limit	\$6,500	\$7,500
Roth IRA Catch-up Contribution (age 50 or older, above annual limit)	\$1,000	\$1,000
SEP IRA Maximum Contribution	\$66,000	\$68,000
SEP Catch-up Contribution	NOT PERMITTED	NOT PERMITTED
SIMPLE Maximum Contributions	\$15,500	\$16,000
SIMPLE Catch-up Contribution (age 50 or older, above annual limit)	\$3,500	\$3,500

Chart from Withum.com

Consider Roth IRA contributions:

A Roth IRA is one of the few items in the tax law that is too good to be true. Contributions to Roth IRAs are non-deductible when made, but all principal and earnings will be distributed tax free, if distributions are made more than five years after the first contribution and after the individual has reached the age of 59½. Therefore, Roth IRAs may be preferable to traditional IRAs. An individual with earned income may make a nondeductible contribution to a Roth IRA of up to \$6,500 plus a \$1,000 “catch-up” contribution if at least 50 years of age in 2023 (reduced by any amount contributed to a regular IRA). Unfortunately, married taxpayers with adjusted gross incomes (“AGI”) over \$228,000 (singles over \$153,000) can’t contribute to a Roth, but there is a phaseout (\$218,000 to \$228,000 for married individuals and \$138,000 to \$153,000 for singles). Between these amounts you can make at least a partial contribution.

Consider the “Back Door” Roth IRA

As noted above, high incomers cannot contribute to a Roth IRA . . . or can they? There is a loophole in the law that you may want to consider taking advantage of. It’s perfectly legal. If your income is above the threshold for contributing directly to a Roth IRA, first contribute to a non-deductible traditional IRA. Anyone can do that up to \$6,500 a year or \$7,500 if over age 49. After some reasonable period (discuss this with your financial advisor), convert these contributions to a Roth IRA. Any income earned prior to the conversion will be taxable. Therefore, it is advisable to make the conversion sooner rather than later.

Distributions from IRA’s:

Whenever possible, withdraw money you need from taxable savings and investments accounts. Traditional IRA accounts should be left to grow tax-free as long as possible. Once you reach the age of 73 you MUST begin taking distributions and paying income tax on the monies withdrawn or be subject to a penalty of 50% of the amount you should have withdrawn.

Taxpayers receiving retirement plan distributions should note that while such distributions are not subject to the 3.8% surtax, they could raise your adjusted gross income over the \$200,000 threshold, making all other unearned income fair game for the tax. One possible solution would be to convert your IRA to a Roth IRA. You will recognize income now, but future Roth distributions will be tax free.

If you have inherited a retirement plan. Please let us know, as these rules have recently changed so we can advise you about the distribution rules that apply to your situation.

Roth Conversions and Recharacterizations:

Distributions from traditional and rollover IRAs are generally taxable when received. High-income taxpayers with traditional IRAs or rollover IRAs have an opportunity to roll over their IRAs into a Roth IRA. Contributions to Roth IRAs are non-deductible when made, but all principal and earnings will be distributed tax free, subject to meeting certain conditions. Many of you reading this may want to consider this. Over time it could save you and your heirs big taxes. However, it does not make

sense in all cases and needs to be analyzed carefully.

There is a key change to be aware of. The government used to give you a do over, called “re-characterization”. However, the Tax Cuts and Jobs Act of 2017 banned this strategy. In the past you could have changed your mind if the value of your now Roth IRA went down and you didn’t want to pay taxes on the original higher value. You could have put it back to a regular IRA, as if nothing ever happened. And what made this even better was that the government gave you until you filed your tax return for that year. So, in a perfect world, if you converted on January 2, 2023 and you extend your 2023 tax return, you would have had until October 15, 2024, to look back, see how it is doing and perhaps re-characterize it. As the TCJA of 2017 is scheduled to end in 2026, maybe this strategy will come back in the future.

Last point on this, issues related to transferring wealth to succeeding generations also come into play here and should be considered. There is a lot to think about when it comes to whether to convert an IRA to a Roth IRA. Reasons for us to chat!

Set up a Cash Balance Pension Plan:

A “Cash Balance Plan” allows you to make substantially higher tax-deductible contributions than those permitted under other common types of plans. Such plans are easy to set up, but they must be established prior to the end of 2023 to make contributions that will save you taxes this year. Perfect candidates are businesses with at least two owners. They can also be used for a business owned by one individual if the business has substantial profits. Contributions to a Cash Balance Plan can be made on top of the maximum contributions made to a defined contribution plan. We’ve used these plans in recent years to save some of our business clients big taxes!

Self-employed? Consider a SEP or SIMPLE:

If you are self-employed, you should consider establishing a SEP or SIMPLE retirement plan before year-end. You can contribute significantly more than \$6,500 to these plans and you may not have to make any contributions to the plans until the filing date (including extensions) of your personal tax return.

Start your child’s savings with a tax-smart Roth IRA:

If your child earns income from babysitting, an after-school job, a summer job or from helping out in your office, he or she is eligible for a Roth IRA. Although your teenager is probably not thinking about retirement, a Roth IRA is perfect for a child in a low tax bracket who has many years to let their account grow tax-free. You can contribute for your child if you don’t exceed the annual gift tax limits. This is a great savings strategy. 😊

Planning for AMT

All taxpayers are potentially subject to two tax systems – the regular tax and the alternate minimum tax (AMT). Originally intended for high income taxpayers, it can affect anyone. It can affect you in one year and not in another. While the TCJA did not eliminate the AMT, it did make some changes to make it more “fair.” The act increased the exemption amount to \$126,500 for married couples and \$81,300 for all other taxpayers other than estates and trusts. These amounts will be adjusted for inflation annually until this provision expires in 2025. It's important to note taxpayers with AMT income over a certain threshold (\$578,150 for individuals and \$1,156,300 for married taxpayers.) do not qualify for the AMT exemption.

The changes to the AMT may make it easier to do year-end planning. However, since many of the strategies that are used for reducing your regular taxes may backfire when it comes to the AMT, you really need to know your exposure to the AMT. A combination of the following factors could trigger an AMT liability:

- Large deductions for state and local income or sales tax (welcome to New York, New Jersey and Connecticut!) – less now, as there is a cap on these deductions.
- A large long-term capital gain
- Large real estate taxes – less so now, as there is a cap on these deductions.
- Tax-exempt interest on certain private activity bonds
- The exercise of incentive stock options (ISOs)

With the changes made by the TCJA, you will be less likely to fall into the AMT. However, if you can prepay the following to reduce income subject to AMT:

- Charitable contributions
- Mortgage interest
- Margin interest

Be careful before you do this as the new standard deduction levels are higher in 2023 and this coupled with the higher AMT income levels, it may not make sense for you to prepay.

Impact of Incentive stock options on AMT:

The major AMT planning strategy comes into consideration when an executive receives an incentive stock option from his/her employer. While gain upon exercise of an ISO is not taxable for regular tax purposes, it is for AMT purposes unless stock is sold in the same year as in the exercise year. One must plan carefully when to exercise the ISO and whether to immediately sell the shares received upon exercise or hold them. Exercise ISO's early in the year. This gives you the full year to see if the shares are down, get rid of them and not get hit with the AMT. I have heard the horror stories of people who converted their options, then held the stock they got until it subsequently went down. They ended up with an AMT bill higher than the value of their stock. A nightmare scenario.

Miscellaneous Planning Items for Individuals

Flexible savings accounts with a balance remaining (FSA):

Have a health flexible spending account with an undistributed balance? Spend it before year end (unless your employer allows you to go until March 15, 2023, in which case you have until then). Check with your employer if you have an optional grace period or else spend it before the year end. Remember you lose it unless you use it.

Health Spending Account (“HSA”):

If your employer offers an HSA, consider contributing. Contributions are typically made by the employer to your HSA and are not taxable to you. If you are a self-employed individual and have a high deductible health plan, consider opening your own HSA. An HSA allows you tax deductible contributions of up to \$3,850 a year for self-only coverage and \$7,750 for family coverage. If you are 55 or older, you can contribute an additional \$1,000. There is no penalty if you contribute more. Unlike FSA contributions that you lose if not used, the unused HSA contributions accumulate year after year and can be used any time for qualified medical expenses. Earnings on contributions to an HSA can grow tax free. Distributions from an HSA if used for qualified medical expenses are tax free.

Vacation home:

If you own a vacation home that was rented out, look at the number of days it was rented and number of days it was used for your pleasure. If you spent less than 14 days at the home, it may make sense to spend a few more days and have the house qualify as a second residence, with the interest being deductible. For a rental home, deductions of expenses, including interest, are limited to rental income.

Where you live:

Consider moving your home and establishing residency in a state with lower or no state income tax. States with no income tax include Florida, Texas, Nevada, Wyoming, Washington and Alaska.

Entrepreneurs: Beware of the Hobby Loss Rule

Business versus a hobby is a frequently litigated areas of individual income tax law. If you have your own business (for instance as a consultant) that is reported on Schedule C of the personal tax return and have losses for several years, the IRS may say it is a hobby and the losses will not be permitted to reduce your other income.

Could an activity be deemed a hobby?

In determining whether the activity could be deemed a hobby, we look at the nine factors cited within the IRS regulations:

1. *Manner in which the taxpayer carries on the activity:*
 - a. Do you keep separate books and records?
 - b. Are you taking necessary steps to ensure the business is profitable?
 - c. Do you have a documented product or service line?
2. *Expertise of the taxpayer based upon past experience and education.*
3. *Time and effort expended by the taxpayer in carrying on the activity.*
4. *Expectations that assets used in the activity may appreciate in value.*
5. *The success of the taxpayer in carrying on other similar activities.*
6. *History of income or losses with respect to the activity.*
7. *The safe harbor rule of generating a profit at least three out of last five years.*
8. *The financial status of the taxpayer. Substantial income from other sources could prevent a taxpayer from establishing that the business is engaged for profit.*
9. *Elements of personal pleasure or recreation.*

Capital Gains and Trading in 2023

Tax Rate on Certain Capital Gains and Dividends

Rates of 0%, 15%, and 20% apply to capital gain and dividend income for 2023 depending on your tax bracket as shown below. These rates also apply for alternative minimum tax purposes. They were not changed under the TCJA.

2023 Capital Gains Tax Brackets

	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
0%	\$0	\$0	\$0
15%	\$44,625	\$89,250	\$59,750
20%	\$492,300	\$553,850	\$523,050

Source: Internal Revenue Service. Tables from <https://taxfoundation.org/2023-tax-brackets/>

Capital gains and losses

Should you sell stocks and bond now or wait until the new year?

If you expect capital gain rates to rise (this seems unlikely in at least the near term), you could sell stock now and reestablish the position immediately after the sale. With publicly traded stock, recognizing the gain can be done with an actual sale or a constructive sale, such as a short sale against the box. The wash sale rules do not apply to recognized gain, so there is no risk of having the gain deferred as there would be with selling stock at a loss and then buying it back. See below

If you have realized capital gains this year, consider taking capital losses prior to the end of the year to offset those capital gains. Anyone sitting with net gains in 2023 should act now if possible. Long-term gains are taxed at a lower rate than short-term gains and ordinary income. Planning for investment gains can reduce your taxes significantly. The long-term capital gains tax can be as much as 24%. An asset must be held for more than a year to be considered long-term.

Here is an easy way to save potential taxes that every investor should take the time to check out. Review the securities you have sold this year to see if you have a net gain or loss. Net any carry-forward losses from last year against 2023 trades. If the result is a short-term capital gain, it will be taxed as ordinary income unless you offset it with additional losses. If you have a net loss, remember that the maximum net capital loss you may deduct in any one year is \$3,000. Losses in excess of this limit may be carried forward to 2024 and beyond.

If you have net gains, review your current holdings for sales that would result in a loss and which will reduce or eliminate your net gain. The last day to sell a security for a 2023 loss is December 29th. If you have losses already and are holding some positions with gains that you no longer wish to own, sell them to use up your existing losses or just keep the losses to use in the future.

Remember that capital losses realized in an IRA account are not deductible. ☹️ Although you can choose when to realize capital gains and losses, we advise you to consider the future prospects of investments and not let tax consequences alone dictate when to sell.

Mutual fund capital gain distributions

Each year, mutual funds are required to distribute most of their net capital gains to avoid an excise tax. Mutual funds generally post their distribution estimates around this time of the year. Once you have reviewed this information, you should estimate your potential tax liability associated with your mutual fund holdings to determine if you should consider offsetting these capital gains with losses from the sale of securities prior to the end of the year.

In addition, you may wish to postpone the purchase of a mutual fund's shares immediately before it distributes a substantial capital gain.

Watch out for the “wash sale” rule

To accelerate a loss without significantly changing your investment position, you can “tax swap” securities. That is, sell securities to recognize a loss and replace them with the same or similar securities. But watch out for the “wash sale” rule. If you sell a stock to recognize a loss, you may not repurchase the same stock for a 30-day period before or after the date of sale or the loss will be disallowed. You can replace it with a similar, but different security. The wash sale rule does not apply to gains.

If you like a particular stock for the long term but would like to sell it this year to get the benefit of the loss, double up on the position more than 30 days before selling the original position. After at least 31 days, sell the higher cost shares. You’ll create a tax loss and be left with the same number of shares you originally owned.

You must act quickly so that you will have owned the shares for at least 31 days and be able to sell the shares prior to December 31st. If too late for this year, remember this great strategy for next year.

Short Sales

When you sell a stock short, you effectively borrow the stock from your broker and sell it in the hope that the price will decrease. You then purchase stock at the lower price, using these shares to repay your broker. If you purchase at a lower price, you have a gain. This is treated as short-term capital gain subject to ordinary income tax rates. If you purchase at a higher price, you generally have a short-term capital loss. A number of special tax rules apply to short sales.

Margin Trading

Margin trading involves borrowing money from your broker to purchase a security. Interest charged on a margin account is deductible, but only when the interest is paid, subject to potential investment interest limitations.

Dividends and Interest Income

Reduction of tax on certain dividends

If you are an owner of a closely held ‘C’ corporation and as the company is in the 21% bracket (tax rate for 2023 and you are in at least the 25% bracket, taking a dividend payout in place of salary can result in a bit more money in your pocket after taxes. Note that if you follow the rules, dividends on stocks may be taxed at a lower rate than interest paid on bonds.

Keep track of accrued interest you paid

Keep accurate records for any accrued interest you paid when you bought bonds. You received interest from the last date the bond paid interest. This interest will be reported on your 1099 Form. Since you purchased the accrued interest, it’s not taxable to you. Speak to us for information on how to write-off the accrued interest on your 2023 return.

Paying off nondeductible interest with a home equity loan no longer works.

Under the TCJA all home equity loans created after December 21, 2017 are fully deductible only if the mortgage plus the home equity loan total \$750,000 or less if the proceeds of the HELOC are only used to buy, build or substantially improve the taxpayer’s home. Amounts exceeding the \$750K threshold (even if used for home improvement) will be considered personal interest and not deductible or allowable.

Consider establishing a family limited partnership (“FLP”)

Families set up these types of entities to provide for the consolidation of investments, centralization and succession of management, protection of assets from claims of creditors, and for the eventual transfer of wealth to succeeding family generations. Parents and grandparents often use an FLP as part of their estate and wealth transfer planning since the value of an interest in such an entity for gift tax purposes often is discounted due to restrictions on the ownership interests. We have utilized this powerful tool but if you are going to consider using this technique as part of your planning, do so sooner rather than later as FLP’s might be on the “hitlist” for future tax law changes.

Gifting Strategies to Maintain Family Wealth

Anyone is permitted to make gifts of up to \$17,000 *per year* to an unlimited number of people without having to pay gift taxes. This gift limitation jumps up to \$18,000 in 2024. Married couples can make combined gifts of up to \$34,000. A married couple wishing to make gifts to two married children and four grandchildren can make gifts of up to \$272,000 per year (\$34,000 to each child, grandchild and child's spouse) without paying any gift taxes. This is a simple way to reduce the size of one’s future taxable estate.

Above and beyond the annual gift exclusion of \$17,000, the federal applicable exemption amount for gifts during a lifetime is \$12,920,000 per person and \$28,840,00 for a married couple. This is by far the highest it has ever been. Wealthy individuals, who have both the means and desire to do so, might plan on making gifts up to the exclusion amount. This amount could be reduced in the future. As every estate and financial planning expert will tell you, making lifetime gifts is a simple and effective estate tax minimization strategy. Giving away assets at no gift tax cost will allow both the present value and its appreciation to escape the federal estate tax.

Be aware that direct payments of tuition and medical expenses for another individual are not subject to gift tax. There is an unlimited exclusion of amounts paid directly to health care providers for medical expenses and educational organizations for tuition. This is in addition to the \$17,000 (\$34,000 in case of combined gift by married taxpayers) annual gift tax exclusion. In 2023, everyone can transfer up to \$12,920,000 during their lifetime without incurring a gift tax.

Of interest to New York State residents, in 2020 New York has increased the amount of property that can pass free of New York estate tax. The NYS Estate Tax Exemption is \$6,580,000 per person. The Federal estate tax exemption in 2023 is \$12,920,000 per person through December 31, 2025.

There are several other ways to reduce your taxable estate.

An individual can make a low interest rate loan to another person (e.g., a child or another person) who can invest the money and earn an amount greater than the interest he or she is required to pay on the loan.

Trusts:

Grantor Retained Annuity Trusts (“GRATs”)

GRATs allow a donor to transfer assets with high appreciation potential out of their estate, provided certain conditions are met. The donor will fund the GRAT with highly appreciating assets and must receive an annuity payment from the trust each year. If the assets in the trust appreciate more than the interest rate prescribed by the Internal Revenue Service, that excess amount gets passed onto others (e.g., children) at the end of the trust term.

Intentionally Defective Grantor Trusts

The sale of assets to an intentionally defective grantor trust allows the donor to transfer or sell appreciated assets to a trust in return for an installment note. The transaction allows the grantor to freeze the value of the estate at the value of the promissory note, without income and gift tax consequences. If the assets in the trust appreciate beyond the interest rate prescribed by the IRS, the excess is transferred free of transfer tax to the remainder beneficiaries of the trust (i.e., children and grandchildren).

Shift income to your children. Consider making gifts to family members. Put your kids on the payroll!

Income taxes can be saved by shifting income-producing assets from parents or grandparents who are in a high-income tax bracket to their children and grandchildren who are in lower tax brackets.

Planning considerations include asset protection (accomplished with using trusts) and the “kiddie tax” for beneficiaries under age 24. For 2022 and beyond, the kiddie tax returns to pre-TCJA rules wherein a child's unearned income is taxed at the parent's marginal tax rate. For children under age 24 (and a full-time student) without earned income, the first \$2,500 of unearned income will not be taxed at the parents tax rate. To avoid the “kiddie tax” do not sell appreciated securities and minimize interest and dividend paying investments. Alternatively, instead of gifting to a child's custodial account, put cash into a 529 plan. Earnings in a 529 plan are never taxed if used to pay for college, graduate school or post high school vocational education and now, limited primary and religious education expenses.

If you own your own business, you can hire your kids and fully deduct their pay. And, if your business is unincorporated and your children are under the age of 18, you won't owe any payroll taxes on their wages. A child having earned income may not be subject to “kiddie tax”, can establish his/her own retirement account (which may be funded by you!) thus shifting more income to lower tax bracket child!

Shift income upwards

Income can also be shifted upwards. For example, a high-earning professional can make a gift to his/her elderly parents who are in a lower tax bracket. The additional income can be used to help pay for medical and/or assisted living expenses. After the parents pass on, the assets can go to the original donor's children for additional income shifting.

Among the services we provide is personal financial recordkeeping.

We track your income and expenses and provide comprehensive reports, so you'll know where your money is coming from and where it's going. We reconcile your bank, credit card and brokerage accounts to monthly statements. **Reports show changes in your net worth!** If you'd like, we can pay your bills for you. This service is also great for an elderly or disabled relative for whom you have fiscal responsibility. We can also prepare and file payroll tax returns for household employees like nannies and aides.

Other Miscellaneous Items

Casualty Losses

The casualty loss limitations have been changed under the TCJA. A loss occurring in 2023 can only be claimed when they are losses related to federally declared disaster areas. The loss is claimed as an itemized deduction and is calculated by first comparing the adjusted basis in the property before the

casualty and the decrease in fair market value of the property because of the casualty and taking the lower number. The next step is to subtract insurance or reimbursement received (or expected to be received). This sum is then reduced by \$100 and then reduced further by 10% of your adjusted gross income.

Bunch Itemized Deductions

Many expenses can be deducted only if they exceed a certain percentage of your adjusted gross income (AGI). Bunching itemized deductible expenses into one year can help you exceed these AGI floors. However, with the TCJA, it has rendered most of those strategies moot. Here are some strategies still available and some that are no longer applicable:

1. Consider scheduling your costly non-urgent medical procedures in a single year to exceed the AGI floor for medical expenses. This may mean moving a procedure into this year or postponing it until next year. The AGI medical limit for 2023 is 7.5%.
2. In years prior to 2019, the deductions for miscellaneous expenses, bunch professional fees like legal advice and tax planning, education expenses, as well as unreimbursed business expenses such as travel and vehicle costs that exceed the 2 percent AGI floor could be deducted. As the TCJA has eliminated these deductions, it is no longer applicable.
3. Paying your final estimated state tax payment before year-end was a good way to increase your itemized deductions. With the IRS cap of \$10,000 on all taxes paid, it likely no longer make sense to make this prepayment.

Changes in Life Events

All of our lives have changed in recent years. Certain life events can also affect your tax situation. If you got married or divorced, had a birth or death in the family, lost or changed jobs, or retired during the year, you should discuss the tax implications of these events. Some of these may provide planning opportunities.

Alimony/Child Support

There have been significant changes regarding alimony. For 2020 and beyond all payments for alimony are no longer deductible by the payee and amounts received will not be considered as income to the recipient unless the divorce decree was executed by December 31, 2019. All pre-2020 divorce decrees regarding alimony follow the law in place before the TCJA and are deductible/includable by the payee/recipient on their 2023 tax return. As in past years, child support remains non-deductible/includable for the payee/recipient.

The birth of a child may allow you a credit for dependent care if both parents are working. You may have inherited appreciated property or an IRA account upon the death of a loved one. Timing of the sale of the property may be important and whether to take distributions from the inherited IRA or roll it over will depend on your income for the year.

Same-sex marriage: The Obergefell v. Hodge Decision and Taxes

In Obergefell v. Hodges, the Supreme Court has unequivocally affirmed the constitutional right to same-sex marriages in all 50 states. This ruling is advantageous to couples that were legally married in any of the 50 states, the District of Columbia, a US territory or a foreign country. Notice 2017-15 allows same-sex couples and the estates of deceased same-sex spouses to recalculate their lifetime estate and gift tax amounts retroactively.

Adoption Credit

The maximum adoption credit or exclusion for employer-provided adoption benefits has increased to \$15,950. To claim either the credit or exclusion, your MAGI must be less than \$279,230.

Overstating basis of property sold can extend the statute of limitations (not a good thing!)

In cases where a taxpayer overstates the basis of property sold and thereby underreports gain subject to tax, the IRS now has the authority to audit returns for six years (as opposed to 3 years as before). How the IRS will decide if there is an overstatement of basis and therefore that the extended statute of limitation applies remains to be seen. Just be aware that the gain upon sales of property and securities will be subject to further scrutiny by the IRS.

Standard mileage rates.

The 2023 rate for business use of your vehicle is 65.5 cents per mile. The rate for use of your vehicle to get medical care or move is 22 cents per mile. The rate of 14 cents per mile for charitable use is unchanged.

Personal exemption eliminated

The personal exemption amount WAS ELIMINATED under the TCJA.

What to do between now and December 31, 2023

Strategies for Acceleration or Deferral of Income and Deductions

Many factors govern whether to accelerate income or defer income and to accelerate deductions or to defer deductions. AMT, impact on net investment income tax, impact on additional Medicare tax, available capital losses to offset capital gains, a need to seek financial aid to fund 4-year education of your child, your charitable giving intentions, medical needs of you and your family members, potential for greater or lower income in the future years, are only some of the factors to consider. Below we give some options to accelerate or defer income and/or deductions.

Options for accelerating income include:

- Ask your employer to pay your bonus in the current year
- Sell appreciated property
- Convert a retirement account into a Roth IRA and recognizing the conversion income this year
- Take IRA distributions this year rather than next year
- For self-employed, try to get clients or customers to pay before the year end
- Settle lawsuits or insurance claims with income potential

Options for deferring income include:

- Have your employer pay your bonus in 2024
- Delay the sale of property with a gain until 2024
- Consider installment sales of appreciated assets
- Delay exercise of stock options
- Invest in tax-exempt securities or in tax deferred annuities
- If possible, participate in an employer retirement plan or establish your own tax deferred retirement plan such as a traditional IRA, SEP or Simple

Options for deferring deductions include:

- Postpone charitable giving to next year
- Postpone payment of medical expenses
- Postpone the sale of any loss-generating property

Options for accelerating deductions include:

- Make January mortgage payment in December
- Bunch itemized deductions in one year
- Make larger charitable contributions in 2023, rather than 2024, if you can itemize your deductions
- Sell assets that may generate losses
- If qualified, set up a health savings account and contribute the maximum allowable
- If self-employed, set up a retirement account to take a self-employed retirement account deduction
- If self-employed, don't forget to take the self-employed health insurance deduction
- If you have children in college, make sure you take advantage of all available education credits or deductions

State Income Taxes and Rates

Take a Closer Look at Your State Residency Status

For individuals who split their time in two different states throughout the year, now is an excellent time to consider where you may be taxed as a resident for 2023 and to plan for 2024. To make it more likely that the high-tax jurisdiction will respect the move and not continue to tax you as a resident, you should track the number of days you are spending in each jurisdiction. Generally, if you reside in a state for 183 days or more, that state will assert residency and the ability to tax all your income. Furthermore, if you move to a new state but you maintain significant contacts with the old state (including driver's license, residences, bank accounts and the like), you could run the risk of being taxed as a resident in the old state and possibly also in the state you move to. A careful consideration and review of state residency rules may help mitigate this unfortunate result.

Maximum State Tax Rates:

Connecticut	6.99%
New Jersey	10.75%
New York	10.90%
New York City	3.876%
California	13.3%

Year-end Planning for Businesses

Business Structure and Tax Planning

Income taxation and owner's liability issues determine which form of business entity should be chosen to operate a business. One may begin as a sole proprietor and as the business grows may consider changing the type of entity under which business should operate going forward. You have the choice of conducting your business as a sole proprietorship, a partnership, a "C" corporation or an "S" corporation. Any of these types of entities may have additional liability protection by electing to be an LLC. The choice depends on many factors: type of business, need for protection against creditors, need for simplicity, future growth plans and the likelihood of adding new owners. With the addition of the TCJA into the mix, it may be harder to decide which structure is the best.

S Corporation shareholder salaries

An individual owner actively involved in the business of his or her S corporation is required to take “reasonable compensation” for services provided to the S corporation. Many S corporation shareholders prefer to take distributions from the corporation as opposed to taking salary.

IRS scrutinizes distributions paid to the S shareholders. The distributions can be re-categorized as salary and penalties assessed. If the salary is not considered “reasonable”, the IRS might re-categorize salary payments to the shareholders and require payment of back taxes along with interest and penalties. The key to avoid these is to provide “reasonable compensation” to the officers and shareholders based on facts and circumstances.

Depreciation

Under Internal Revenue Code Section 179, a taxpayer, other than an estate, or trust, or certain non-corporate lessors, may elect to deduct as an expense, up to \$1,160,000 for qualified property. Bonus first-year depreciation is still applicable. This allows taxpayers to deduct 80% of the cost of new depreciable property purchased before December 31, 2023. For 2024, the percentage drops to 60%, then 40% for 2025, 20% for 2026; For business vehicles, the maximum first-year depreciation allowed is \$12,200 (\$20,200 with bonus depreciation).

New York’s Paid Family Leave program

Starting January 1, 2019, the New York State Paid Family Leave Program went into effect. Nearly all private employees in the state will be eligible. Insurance coverage will be added to an employer’s existing disability benefits policy and will be paid for by payroll deductions. For 2023, the maximum employee contribution is \$399.43 for the year (.455% of an employee’s weekly wage). Benefits paid to those who are eligible could be as much as \$1,131.08 per week for up to 12 weeks of leave.

Business Owners: Planning for vehicle deductions and substantiation

Vehicle expenses can be a source of significant deductions for many businesses. Make sure you maintain all the records required. If the standard mileage rate is used, businesses must maintain a detailed mileage log to be able to substantiate business mileage claimed. Parking and tolls are also deductible and records for these payments must be maintained. To deduct actual costs, additional records of fuel, lease, repairs and maintenance must be maintained. Since the IRS tends to focus on vehicle expenses in an audit and seeks to disallow these expenses, maintenance of proper records is essential.

Call us for help!

We’ve covered a lot of ground here and we hope it’s been helpful to you. If you would like to discuss any topic concerning your specific situation, please give us a call. As always, we are available to help you with any tax, accounting, bookkeeping, investment, personal financial planning, insurance, or estate planning needs. But don’t wait until the end of the year!

If you are not a client of our office and wish to consider implementing any of these strategies, or just want to talk about your situation, please call us for a free consultation.

Sincerely,

Paul S. Herman, CPA
paul@hermancpa.com



Disclaimer: The information presented here is to inform our clients of planning opportunities and tax laws. Since everyone's financial situation is unique, the material presented is not intended to constitute specific accounting, tax, investment, or legal advice. Accordingly, please consult with a competent professional advisor as appropriate.



- APPENDIX-

Tax brackets 2023

Tax Rate	Single	Married filing jointly	Head of household
10%	\$0 to \$11,000.	\$0 to \$22,000.	\$0 to \$15,700.
12%	\$11,001 to \$44,725.	\$22,001 to \$89,450.	\$15,701 to \$59,850.
22%	\$44,726 to \$95,375.	\$89,451 to \$190,750.	\$59,851 to \$95,350.
24%	\$95,376 to \$182,100.	\$190,751 to \$364,200.	\$95,351 to \$182,100.
32%	\$182,101 to \$231,250.	\$364,201 to \$462,500.	\$182,101 to \$231,250.
35%	\$231,251 to \$578,125.	\$462,501 to \$693,750.	\$231,251 to \$578,100.
37%	\$578,126 or more.	\$693,751 or more.	\$578,101 or more.

2023 Standard Deduction

Filing Status	Deduction Amount
Single	\$13,850
Married Filing Jointly	\$27,700
Head of Household	\$20,800

2023 Capital Gains Tax Brackets

	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
0%	\$0	\$0	\$0
15%	\$44,625	\$89,250	\$59,750
20%	\$492,300	\$553,850	\$523,050

2023 Alternative Minimum Tax Exemption Phaseout Thresholds

Filing Status	Threshold
Unmarried Individuals	\$578,150
Married Filing Jointly	\$1,156,300