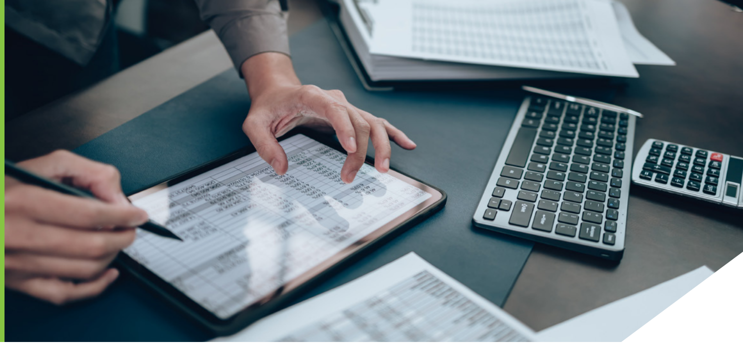
2023 YEAR-END TAX PLANNING CHECKLIST



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As 2024 draws near, it is an excellent time to review your tax planning strategies. This guide outlines various potential tax-saving opportunities. Taking a moment to reassess your tax strategies before the year closes will help ensure you are in the best position to save money come filing time.

Executive Summary

This guide will discuss the following year-end tax planning strategies:

- Benefits of accelerating deductions into 2023 and deferring income into 2024 and vice versa
- Maximize your itemized deductions
- Retirement planning for contributions, distributions, and conversions
- Clean Vehicle Credit for New and Used Vehicles
- Estate planning moves to make before year-end and in 2024
- Maximizing the Qualified Business Income (QBI) deduction
- Generous asset-expensing opportunities
- Pass-through Entity Tax (PTET) workaround
- Sunset of Provisions Enacted in the Tax Cuts and Jobs Act of 2017

2023 Tax Planning Opportunities — Individuals

The time-honored tactic of accelerating deductions and deferring income may not always be the best strategy. It is important to consider target income thresholds to maximize the benefit of deductions (e.g., itemized, student loan interest, tuition, and fees) and/or the utilization of credits (e.g., child credit, education credits) that are based on a percentage of adjusted gross income or income levels and then plan to shift income or deductions to maximize these tax benefits.

☐ For individuals who expect to be in a higher federal income tax bracket or have higher income in 2023 than in 2024, it may be advantageous to defer income into next year. Some ways to defer income before year-end include:

- **Installment Sales –** If you expect to sell property before the end of 2023, and it makes economic sense, consider selling the property and reporting the gain under the installment method.
- **Delay Billing –** An option for taxpayers utilizing the cash method of accounting
- **Interest and Dividends –** Since interest earned on CDs or treasury securities with maturities of one year or less are not includible in income until received at maturity, consider buying short-term bonds or certificates that will not mature until next year.
- **Year-end Bonuses –** Consider arranging to defer a year-end bonus with your employer until early 2024.

☐ On the other hand, accelerating income into this year may be advantageous if you expect to be in a higher tax bracket in 2024 compared to 2023. Some ways to accelerate income before year-end include:

- **Issue Invoices and Pursue Collection –** An option for taxpayers utilizing the cash method of accounting
- **Interest and Dividends –** If you are not in the highest capital gains bracket for 2023, but you expect to be in 2024, and you have control over when dividends are paid on an investment or from your closely held corporation that pays qualified dividends, consider authorizing such dividends before year-end.
- **Retirement Plan/IRA Distributions –** If you have obtained the age of 59½ and have a retirement account, consider taking taxable withdrawals before year-end. You may also want to consider making a Roth IRA rollover distribution.

2023 Tax Planning Opportunities — Individuals (Continued)

- [ ] Review Your Investment Portfolio – Consider timing the sale of assets to have offsetting capital gains and losses. If you have any realized gains in your portfolio, consider harvesting losses to offset these capital gains. Consider selling investments with gains if you have a net capital loss greater than $3,000 (maximum deductible). These gains will be sheltered from tax by the loss. Control taxable income to less than $89,250 (married filing joint) to take advantage of the zero capital gains tax rate. Be sure to consult your portfolio advisor, as these steps should only be taken if the results align with your overall investment plan.
- [ ] Even though planning for itemized deductions is made complex by factors such as AGI levels, AMT, filing status, and the increased standard deduction ($13,850 for single filers, $27,700 for married filers filing jointly, and $20,800 for heads of household), being familiar with the following concepts will help you navigate some of this complexity and maximize your itemized deduction.
    - **Deduction in Year Paid –** An expense is deductible in the year it was paid. Medical expenses and charitable contributions paid with a credit card before year-end will generate a tax deduction in the current year even if the credit card bill is not paid until next year.
    - **Donor-Advised Fund –** Interested in making a significant charitable contribution before year-end but unsure what charity you want to donate to? Consider establishing a donor-advised fund. Money contributed to the fund can be deducted in the current year and you can decide later which charity or charities will receive the funds.
    - **Bunching Itemized Deductions –** If your itemized deductions are consistently near the standard deduction, perhaps slightly below or above, consider postponing current year deductible expenses (e.g., charitable contributions) until next year to "bunch" your itemized deductions. Analyze your position from year to year to itemize your bunched itemized deductions in years of high income.
- [ ] If you are considering purchasing a new vehicle before year-end, consider the Clean Vehicle Credit available for new and used plug-in electric and fuel cell motor vehicles. The maximum credit allowed for purchasing a new, clean vehicle is $7,500. The maximum credit allowed for purchasing a used clean vehicle is $4,000. The vehicle must meet certain criteria to qualify for this credit and be delivered to you in 2023.
- [ ] Consider donating appreciated stock. You will receive a charitable contribution for the full fair market value and will avoid the capital gain on the sale. Different deduction rules may apply to donations of cars, boats, and airplanes.
- [ ] If you are 70½ or older by the end of 2023 and have traditional IRAs, consider making a qualified charitable distribution (QCD) directly from your IRA. Such distributions, up to $100,000 per year, are made directly to charities (excluding donor-advised funds) from your IRA. If you file taxes jointly, your spouse can also make a QCD from his or her own IRA within the same tax year for up to $100,000. The contribution amount is neither included in your gross income nor deductible as an itemized deduction.
- [ ] Maximize your retirement plan contributions to 401(k)s and IRAs. Maximizing pre-tax retirement contributions is generally a good tax-saving strategy.
- [ ] Required minimum distributions (RMDs) are the minimum amount you must annually withdraw from your retirement accounts (401(k) or IRA) if you meet certain criteria. If you turned 72 in 2022, you must take your first RMD by April 1, 2023, and another one by the end of 2023. Due to a change to the RMD age, if you turn 72 in 2023, you will not have to take an RMD until 2024 (when you turn 73), and the first must be taken by April 1, 2025.
- [ ] Consider converting your traditional IRA to a Roth IRA if you anticipate lower income in the current year. The advantage of a Roth IRA is that future income distributions will not be taxed. The drawback to the conversion is that the amount transferred is subject to tax now. Conversions to a Roth IRA make sense if you anticipate paying higher taxes in the future if you have several years before, you might tap into the Roth IRA, which gives you a chance to recoup the tax you paid at conversion, and if you will not need the income during retirement and would like to pass it on to your beneficiaries. Also, consider Roth IRA conversions before the lower tax rates passed in 2017 expire at the end of 2025 when rates could increase unless Congress acts.
- [ ] Take advantage of still available estate planning opportunities – make gifts sheltered by the annual gift tax exclusion before year-end and save gift and estate taxes. The exclusion applies to gifts of up to $17,000 made in 2023 to each of an unlimited number of individuals. Married couples can make joint gifts up to $34,000 per done. You cannot carry over unused exclusions from one year to the next, so do not pass up this year's opportunity. Consider transferring income-earning property to family members in lower-income tax brackets. Also, maximize contributions to a Section 529 Plan, which allows each beneficiary the equivalent of five years of gifts ($85,000). Make direct payments to providers for medical expenses and schools for qualified tuition expenditures. Such payments are not capped and can be made in addition to the annual exclusion gifts.

2023 Tax Planning Opportunities — Business Owners

- ☐ Manage taxable income to take advantage of the 20% Qualified Business Income (QBI) deduction. For 2023, if taxable income does not exceed $364,200 (Joint Filers and Surviving Spouses) or $182,100 (all other taxpayers), the deduction is generally the lesser of 20% of QBI or 20% of taxable income. Limitations may apply if taxable income exceeds these thresholds. The deduction may be reduced or eliminated if you are engaged in a specified service trade or business (e.g., law, accounting, or health). If your business is not considered a specified service business and you exceed the income thresholds. In that case, your QBI deduction may be limited by the amount of W-2 wages and/or the unadjusted basis of qualified property (e.g., machinery and equipment) held by the trade or business.
- ☐ Consider changing the cash method of accounting. To qualify, a business must, among other things, satisfy a gross receipts test. This test is satisfied if average annual gross receipts do not exceed $29 million during a three-year testing period. Cash method taxpayers may find it easier to shift income as a tax-planning strategy.
- ☐ Accelerate Deductions – Consider charging expenses on a credit card, as the deduction will be allowed in 2023 even if the bill is not paid until 2024.
- ☐ Consider making expenditures that qualify for the business property expensing option. For 2023, the expensing limit is $1,160,000, and the investment ceiling limit (at which point a phase-out begins) is $2,890,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. This expensing opportunity is available for qualified improvement property (generally, any interior improvement to a building, but not for enlargement of a building, elevators or escalators, or the internal structural framework), roofs, nonresidential HVAC, fire protection and alarm systems, and security systems. The expensing deduction is not prorated for the time that the asset is in service during the year. Thus, property acquired and placed in service in the last days of 2023 will result in a full expensing deduction for the year. These deductions are further limited by net income from the business for the year. When deciding whether to deduct these expenditures right away, one should also consider state implications. Not all states allow these deductions; taking the present deduction could negatively impact your state tax liabilities.
- ☐ Businesses may claim a bonus depreciation deduction for new or used machinery and equipment (with some exceptions) if purchased and placed in service this year. The 80% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 80% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2023. Note that eligibility limits may exist for certain auto dealerships with floor plan financing and some real estate ventures. Further, some states, such as Illinois, do not conform to the treatment of the federal bonus depreciation. The bonus depreciation rate will decrease to 60% for property placed in service in 2024.
- ☐ As in previous years, businesses can deduct repair and maintenance expenses if they elect the de minimis safe harbor election. To qualify for the election, the cost of a unit of property cannot exceed $5,000 if the taxpayer has applicable financial statements or $2,500 without applicable financial statements. Consider purchasing qualifying items before the end of 2023 and ensure that the purchase invoice clearly states the quantity and per unit cost if multiple items are bought.
- ☐ Businesses can establish and fund a profit-sharing plan up through the extended due date of the 2023 corporate tax return. This allows a tax deduction to the company and jump-starts individual retirement savings.
- ☐ Pass-through Entity Tax (PTET) Workaround – The Tax Cuts and Jobs Act of 2017 limited the individual taxpayer deduction for state and local tax (SALT) payments to $10,000. This limitation has impacted owners of pass-through entities, who typically pay the state tax obligation on their pass-through income. Approximately 30 states have enacted legislation to allow pass-through entity owners to make an election to pay state income taxes at the entity level that individual owners would typically pay. State taxes paid by the business would be deducted as an ordinary business expense for federal tax purposes and pass-through to the owner, bypassing the $10,000 SALT limitation. Legislation varies by state, requiring its own election, due dates, forms, and estimates.
- ☐ Single-member LLC owners that are disregarded entities for tax purposes and are in a PTET state (as described above) may want to consider adding a non-voting member (even if their share/ownership is a nominal amount, i.e., 0.1%) so that the LLC is now a partnership. It can take advantage of the SALT limitation workaround. Caution: there must be a business purpose for this change.
- ☐ Many provisions in the Tax Cuts and Jobs Act of 2017 that changed corporate and individual tax provisions are set to expire by the end of 2025 unless Congress acts. This includes, but is not limited to, reduced tax rates, an increased lifetime gift and estate tax exclusion, and the Qualified Business Income Deduction. We recommend meeting with us to discuss how these changes may impact on your future tax and estate planning.

These are just a handful of year-end tax-planning strategies that could help lower your 2023 tax liability. Schedule a meeting with us so we can help you to optimize your tax savings and tailor a personalized tax planning strategy specific to your needs. While this article has focused on tips for 2023, it is not too early to begin thinking about steps to take for 2024. The month of December is usually when employers distribute 2023 paperwork, so:

- Estimate your 2023 out-of-pocket medical expenses and childcare expenses to contribute pre-tax income to your FSA (flexible spending accounts);
- Plan your 401(k) contribution, aiming to contribute, at a minimum, the amount required to receive your employer's match; and
- If you have a qualified HDHP (high deductible health plan), maximize contributions to your HSA (health savings account).

Do not hesitate to contact us if you have any questions about year-end tax planning or need further assistance.

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