

Year-End Tax Planning Tips



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This article provides a general overview of planning opportunities for reducing 2023 income taxes. We recommend you consult your tax advisor if you believe your situation may be impacted by unusual circumstances.

Maximize Pre-Tax Deductions

Determine if you are on track to have 2023 maximum amounts withheld from your paycheck for your retirement plan deferrals, HSA contributions, dependent care benefits, and other pre-tax options with your employer. If you are not going to maximize these, consider having additional amounts withheld from year-end bonuses, if possible. Also, consider increasing these amounts for 2024.

Capital Gains & Losses

If you have realized net capital gains during 2023, consider realizing capital losses before the end of the year to offset the gains. Remember that net long-term losses can offset net short-term capital gains, which otherwise would be taxed as ordinary income. Also, be aware of the “wash sale” rules if you are inclined to reinvest in a security you sell at a loss.

Bonus Depreciation & Section 179

Businesses should consider these tax breaks related to fixed asset acquisitions:

- *Special “bonus depreciation” allowance.* Beginning on January 1, 2023, bonus depreciation has begun to phase out by 20% each year over the next four years. Bonus depreciation will completely phase out by January 1, 2027, without any new legislation. For 2023, 80% of the cost of qualifying property (including used assets) is deductible if the property is placed in service by year end. This deduction can create or increase an existing business loss.
- *Section 179 depreciation deduction.* In 2023, individuals and business entities can elect to deduct up to \$1,160,000 of qualifying business property cost in the year the property is placed in service. The deduction is reduced dollar-for-dollar for qualifying property cost greater than \$2,890,000. This deduction is available only to the extent of positive business taxable income.

Self-Employed Retirement Plan

If you have self-employment income and do not have a retirement plan in place to shelter any of it, you may qualify to use a Simplified Employee Pension (SEP) plan. A SEP contribution deduction is allowed for 2023, even if the SEP is created and funded at any time up to the due date, including extensions, of your 2023 income tax return filed in 2024. Depending on the amount of self-employment income, you could fund (and deduct) up to \$66,000 for 2023.

Required Minimum Distributions (RMDs)

Individuals with traditional IRAs and most individuals with employer-sponsored qualified retirement plan accounts are required to take minimum annual distributions from the account upon reaching a certain age, most recently changed to 73. It may be beneficial to consider a qualified charitable distribution (QCD) before year-end. QCDs allow individuals to transfer up to \$100,000 to charity tax-free each year. In some situations, this may be more beneficial than making the donation in a traditional fashion. Also, for those over age 72, QCDs count towards the RMD for the year.

Charitable Contributions

Depending on your situation, it may be beneficial to accelerate planned 2024 charitable contributions into 2023 or to defer 2023 contributions into 2024 to bunch them into the same year for greater tax savings. The deduction limit on cash charitable donations is 60% of adjusted gross income for contributions made in 2023. Contributions of most non-cash assets remain limited to 30% of adjusted gross income. Consider making donations of long-term appreciated assets/securities directly to charities. By doing so, capital gains tax that would otherwise be paid if the security was sold is eliminated and the tax deduction is equivalent to the fair market value of the security.

Annual Gifting

You may give your children and others up to \$17,000 in 2023 without any gift tax consequences. Married couples can give up to \$34,000 free of gift taxes. This annual exclusion is calculated on a per donee basis and no carryover is allowed for the unused exclusion. Consider making year-end gifts to fully utilize this year's annual exclusion. Also, please note that payments made directly to a college for tuition and payments made directly to a health care provider for medical expenses do not count toward the annual limits.

Roth IRAs

With individual tax rates at the lowest levels in recent memory, consider conversion of IRAs to Roth IRAs. The current tax cost from a conversion done now may turn out to be a small price to pay for completely avoiding potentially higher future tax rates on the account's earnings. Also, consider making a backdoor Roth IRA contribution, if your current income level is too high to make a direct Roth IRA contribution. A backdoor Roth IRA contribution consists of making a nondeductible IRA contribution followed by a conversion of the contributed funds to a Roth IRA. The rules regarding this are very particular so please consult with your tax advisor regarding this strategy.

HSAs & FSAs

Health Savings Accounts (HSAs) and Flexible Savings Accounts (FSAs) are two separate tools, each helping convert your dollars spent on medical expenses from post-tax into pre-tax, potentially saving you over 40% of the cost. An HSA is a bank account set up to pay for medical expenses and must be paired with a high-deductible health plan. FSAs allow you to direct some of your wages into a pre-tax account, and your employer will reimburse you from the account for your documented medical expenses. Specific funding rules and limits apply to these accounts.

S Corporation & Partnership Losses

If your S Corporation generates a tax loss this year, consider whether you have enough basis in the stock (or in loans you have made to the corporation) to take the full loss. If you do not, additional investments should be considered. Similar considerations can arise in some situations with partnerships expecting tax losses.

Excess Business Loans

The Tax Cuts and Jobs Act (TCJA), passed in late 2017, introduced a limitation on business losses deductible by individuals and other non-corporate taxpayers (trusts and estates) against non-business income. Specifically, the TCJA disallowed net tax losses from active businesses in excess of \$250,000 (\$500,000 for joint filers), adjusted annually for inflation. For pass-through entities, this is calculated at the owner level, as tax-paying persons combine all business activities when determining overall net business income or loss. Disallowed losses are treated as net operating loss carryforwards to the following year. Under the TCJA, the excess business loss (EBL) limitation was effective for 2018 through 2025. The CARES Act retroactively postponed implementation of the EBL limitation until 2021. The EBL limitation for 2023, as adjusted for inflation, is \$289,000 (or \$578,000 for joint returns).

State & Local Taxes (SALT) Limitation

In 2023, the SALT limitation is \$10,000 for married filing joint taxpayers that itemize deductions. SALT deductions include real estate taxes, vehicle taxes, and income taxes paid during 2023. To bypass these limits, some states have enacted a SALT workaround. Kentucky and North Carolina both implemented this workaround in the 2022 tax year. The most common workaround involves a pass-through entity paying tax at the entity level. The tax payment will be treated as a deductible expense of the pass-through entity and the partner or shareholder will receive a credit for their share of taxes paid by the entity that can be claimed on the individual tax return. Please consult your tax advisor if you have ownership in pass-through entities and believe this election may be beneficial to you.

1099s

Third party payment processors (i.e., PayPal, Cash App, and Venmo) are required to issue 1099-Ks to individuals who receive over \$20,000 and have more than 200 transactions with the processor during the year. The processor may not know if the transaction is a personal transaction or a transaction for goods and services that is taxable. Please consult your tax advisor if you are unsure if income reported on a 1099-K is taxable or not.

Tax Credits

The Inflation Reduction Act of 2022 modified several credits related to energy efficiency. The energy efficient home improvement credit applies to the installation of energy efficient windows, doors, certain heating and cooling systems, and certain heat pumps. The residential clean energy credit is available for taxpayers who install qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, geothermal heat pump property and qualified battery storage technology. The Inflation Reduction Act also modified the clean vehicle credit. This credit applies to taxpayers who purchase certain electric and fuel cell vehicles. Finally, the Inflation Reduction Act added a new credit that applies to used clean vehicles purchased after December 31, 2022. Business entities may also benefit from these credits. These credits are complex so please consult with your tax advisor if you believe you may be eligible for one of these credits.