



## YOUR DAILY BOOKKEEPER, MONTHLY CFO, AND YEAR-ROUND CPA

November 3, 2023

Dear Client,

As the year draws to a close, it's an opportune time to strategize for your taxes. Below, we share essential tips and insights to help you easily navigate your year-end tax planning. We aim to help you optimize your financial position as we approach the end of 2023.

### YEAR-END TAX PLANNING

#### Individual Tax Planning:

##### Timing Your Deductions and Income:

- Prepay the January 2024 mortgage for interest deduction on acquisition debt up to \$750,000 (or \$1,000,000 for pre-Dec. 16, 2017 loans).
- Pay your upcoming property tax bill in December to claim the deduction if possible.
- Accelerate charitable donations or medical expenses to maximize deductions.
- Postpone income to the following year when it is beneficial to lower the current year's tax liability.

#### Investment Decisions:

##### Green Energy Incentive:

- Claim a 30% credit for expenses on solar panels, solar water heaters, geothermal heat pumps, and similar residential clean-energy installations.

### Electric Vehicle Tax Credit:

- Up to \$7,500 credit for new EVs; \$4,000 for used, with price caps at \$55,000 for sedans, and \$80,000 for vans/SUVs/trucks.
- Income limits apply \$300,000 for joint filers, \$225,000 for head of household, \$150,000 for singles for new EVs, and halved for used.
- From 2024, credit can be applied at purchase, directly reducing car prices.

### Short-term Home Rental:

- Income from renting your home for up to 14 days per year is tax-free and does not need to be reported.

### Donations & Gifts:

#### Maximizing Charitable Contributions:

- Donate appreciated stocks or mutual fund shares to avoid capital gains tax.
- Utilize the annual gift tax exclusion of \$17,000 per person without incurring gift tax.

### Education Funding & Estate Tax:

#### Tuition & 529 Plans:

- Direct tuition payments are nontaxable for the student and do not affect your \$17,000 gift exclusion. At the same time, contributions to a 529 plan can be tax-sheltered up to \$85,000 per beneficiary from gift tax.

#### Estate and Gift Tax Planning for 2023:

- The 2023 exemption is \$12.92 million; post-2025, it may revert to \$5 million plus inflation, pending political developments.
- Gifts made between 2018-2025 retain the benefit of the higher exemption, even if it decreases later, with certain strategy exceptions.
- 13 jurisdictions impose additional estate taxes; 6 have inheritance taxes, with Iowa phasing out by the end of 2024.

## Retirement Plans & IRAs:

### Required Minimum Distributions:

- Ensure you take the necessary distributions if you are 73 or older to avoid penalties.

### Charitable IRA Contributions:

- Individuals 70½+ can transfer up to \$100,000 tax-free from IRAs to charity annually, which is a tax-efficient way to meet RMD obligations and benefit your chosen nonprofits without increasing AGI.

### Maximize Contributions:

- Contribute up to \$22,500 to 401(k)s (\$30,000 if 50+) and \$6,500 to IRAs (\$7,500 if 50+) by December 31, 2023, with IRA contributions allowed until April 15, 2024.

### IRA to Roth Conversions:

- Consider converting traditional IRAs to Roths for tax-free future earnings, considering tax rates, future income expectations, and the potential for increased Medicare premiums.

### Health Savings Accounts (HSA) Considerations:

- Contributions are tax-deductible or made with pre-tax wages, with the 2023 limit at \$3,850 for self-only and \$7,750 for family coverage, increasing in 2024 to \$4,150 and \$8,300, plus an extra \$1,000 for those 55+.

## Investments: Tax-Saving Opportunities

### Capital Gains Tax Rates:

- Check if you qualify for the 0% rate on long-term gains and qualified dividends with taxable income below \$44,625 for singles, \$59,750 for head-of-household, or \$89,250 for joint filers.

### Higher Income Brackets:

- For incomes above the 0% threshold, long-term gains and dividends may be taxed at 15% or 20% rates, with the 20% rate applying to incomes over \$492,301 for singles and up to \$553,851 for joint filers.

### Net Investment Income Tax (NIIT):

- Consider strategies to avoid the 3.8% NIIT, which affects higher-income earners over \$200,000 for singles and \$250,000 for joint filers.

### Capital Losses:

- Utilize capital losses to offset gains, with the ability to carry forward excess losses for future tax years.

### Tax Loss Harvesting:

- Consider selling underperforming investments to realize losses that can offset gains.

### Wash-Sale Rule:

- Remember the wash-sale rule when selling securities at a loss, avoiding the purchase of identical securities 30 days before or after the sale to maintain the loss deduction.

### Crypto Transactions:

- Crypto sales at a loss are not subject to the wash-sale rule, allowing for potential immediate repurchase.

### Disaster Loss Tax Deductions:

- Deduct unreimbursed personal casualty losses on Schedule A with Form 4684, limited to the lesser of property's adjusted basis or decrease in value, minus insurance recoveries.

### REITs and PTPs:

- Investing in REITs or PTPs may yield a 20% deduction on qualified income, offering a substantial tax advantage.

## Withholding & Estimated Taxes:

### Preventing Penalties:

- To avoid underpayment penalties, ensure sufficient tax withholding or prepayments of at least 90% of your 2023 tax bill or 100% of your 2022 liability (110% if AGI was over \$150,000).
- Increase withholding on IRA distributions if needed to cover your anticipated tax liability.

## Business Tax Considerations:

### First-Year Bonus Depreciation:

- Businesses can deduct 80% of the cost of new and used qualifying assets purchased and placed in service by December 31, 2023, with the rate decreasing annually through 2026.

### Business Vehicle Depreciation:

- For cars first used in 2023, bonus depreciation allows a first-year cap of \$20,200, with subsequent years at \$19,500 and \$11,700, then \$6,960; without bonus depreciation, the cap is \$12,200.

### Heavy SUV and Truck Expensing:

- Heavy SUVs over 6,000 pounds qualify for up to \$28,900 immediate expensing, plus 80% bonus depreciation on the remaining cost, and large trucks can be expensed up to 100% within business income limits.

## Pass-Through Deduction:

### 20% Qualified Business Income Deduction:

- Self-employed individuals and pass-through entity owners can deduct 20% of their business income, with limits applying to those with taxable incomes over \$364,200 for joint filers and \$182,100 for others.

### Income Threshold Strategies:

- To remain below the income threshold for the deduction, consider adjusting deductions and income timing.

## Gig Workers and Rental Income:

- Gig economy workers and certain rental income earners may also qualify for this deduction.

## ACTIONABLE STEPS FOR THE REMAINDER OF 2023:

1. Plan for any significant purchases or business investments before year-end.
2. Adjust your tax withholdings and/or make estimated tax payments to avoid potential penalties.
3. Maximize charitable donations, possibly by donating appreciated securities.
4. Contribute the maximum to retirement accounts like 401(k)s and IRAs by December 31.
5. Consider a Roth IRA conversion, evaluating the impact on taxes and Medicare premiums.
6. Sell underperforming investments to realize losses and offset any capital gains.
7. Claim the 30% residential clean-energy credit for eligible installations made this year.
8. Evaluate eligibility for the electric vehicle tax credit before making a purchase.
9. Take advantage of the 20% deduction for qualified business income if applicable.
10. Document and prepare to deduct unreimbursed disaster-related losses on taxes.

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## Contact Us:

Should you have any inquiries, require assistance, or wish to schedule a consultation, our dedicated team is just a phone call or email away. Please feel free to reach out to us using the following contact information:



+1 813-322-3936



skfinancial.com



sk@skfinancial.com



Remember, our team at SK Financial CPA is here to assist you through every step of your tax planning process. Please do not hesitate to reach out for personalized advice tailored to your unique financial situation.

Thank you for trusting us with your financial needs.

Yours truly,

**Shams Khan CPA, CFP**

**SK Financial CPA**