Norwalk Business Service, Inc.

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*****Year-End Tax Planning*****

Dear Client:

Our office will be closed the week after Christmas and will re-open January 2nd. We will be available for tax return appointments starting January 25, 2024. Contact us before then if you have any questions about tax planning steps you can take or if you would like to make an appointment.

Our office does not expect lawmakers to pass any tax changes before the year-end because of current political divisions. Whether or not tax increases become effective next year, the standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results for all but the highest income taxpayers, as will the bunching of deductible expenses into this year or next to avoid restrictions and maximize deductions.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all of them will apply to you, but you (or a family member) may benefit from many of them. We can narrow down specific actions when we meet to tailor a particular plan for you. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial.

The items below are just some of the year-end steps that can be taken to save taxes:

- Higher-income individuals must be wary of the 3.8% surtax on certain unearned income. The surtax is 3.8% of the income above $250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case.
- Postpone income until 2024 and accelerate deductions into 2023 if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2023 that are phased out over varying levels of AGI. These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may actually pay to accelerate income into 2023. For example, that may be the case for a person who will have a more favorable filing status this year than next (e.g., head of household versus individual filing status), or who expects to be in a higher tax bracket next year.
- Long-term capital gain from sales of assets held for over one year is taxed at 0%, 15% or 20%, depending on the taxpayer's taxable income. If you hold long-term appreciated-in-value assets, consider selling enough of them to generate long-term capital gains that can be sheltered by the 0% rate. The 0% rate generally applies to net long-term capital gain to the extent that, when added to regular taxable income, it is not more than the maximum zero rate amount (e.g., $89,250 for a married couple). For example, if you had $5,000 of long-term capital gains you took earlier this year that qualifies for the zero rate then try not to sell assets yielding a capital loss before year-end, because the first $5,000 of those losses will offset $5,000 of capital gain that is already tax-free.

- *Capital Gains and Losses*. Taxpayers with unrecognized capital losses should consider recognizing those losses this year to offset capital gains that would otherwise be subject to the 15% or 20% long-term capital gains tax rate. Capital losses can also offset up to $3,000 of ordinary income if capital losses exceed capital gains by at least that amount. Recognizing capital losses to offset capital gains can also reduce the amount of income subject to the 3.8% surtax. Losses from crypto currency can offset gains from other capital assets (and vice versa)
- Sometimes the disposition of a passive activity can be timed to make best use of its freed-up suspended losses. Where reduction of 2023 income is desired, consider disposing of a passive activity before year-end to take the suspended losses against 2023 income. If possible 2024 top rate increases are a concern, holding off on disposing of the activity until 2024 might save more in future taxes.
- *Increasing contributions to 401(k) plans, SIMPLE pension plans, Keogh plans*. Some individuals may be able to reduce AGI by increasing contributions to retirement plans such as 401(k) plans, SIMPLE pension plans, and Keogh plans to their maximum amount.

  401k, 403b and 457 contribution limits for 2023 are 22,500 (30,000 for those 50+)

  Simple Limits are 15,500 (19,000 for participants 50+)

  Solo 401k limits are 66,000 (73,500 for participants 50+)
- *Making IRA contributions.* Taxpayers have until the tax return filing deadline next April to make IRA contributions for 2023. Unlike Keogh plans, which must be in existence by year-end, IRAs can be set up when the contribution is made next year. Taxpayers might want to make IRA contributions earlier rather than later to maximize tax-deferred income on the contributed amount. Traditional IRAs are subject to limitations.

  IRA and Roth contribution limits for 2023 are 6,500 (7,500 for those 50+)
- It may be advantageous to try to arrange with your employer to defer, until early 2024, a bonus that may be coming your way. This might cut as well as defer your tax
- Short on cash? Credit card payments are deductible when the credit card purchase is made, not when the bill is paid later.
- Individuals who turn 73 this year have until April 1 of 2024 to take their first RMD but may want to take it by the end of 2023 to avoid having to double up on RMDs in 2024.
- If you are age 70 1/2 or older by the end of 2023, and especially if you are unable to itemize your deductions, consider making 2023 charitable donations via qualified charitable distributions (QCD) from your traditional IRAs. These distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040.
- Consider increasing the amount you set aside for next year in your employer's FSA if you set aside too little for this year and anticipate similar medical costs next year.
- If you become eligible in December of 2023 to make HSA contributions, you can make a full year's worth of deductible HSA contributions for 2023.

The Inflation Reduction Act modified many of the energy credits available to individual taxpayers:

- *Annual Limitation in lieu of lifetime limitation.* The Act also repeals the lifetime credit limitation and instead limits the allowable credit to $1,200 per taxpayer per year. In addition, there are annual limits of $600 for credits with respect to residential energy property expenditures, windows, and skylights and $250 for any exterior door ($500 total for all exterior doors). Notwithstanding these limitations, a $2,000 annual limit applies with respect to amounts paid or incurred for specific heat pumps, heat pump water heaters, and biomass stoves and boilers. Home energy audits can qualify for up to $150 in energy credits. Our office will not be able to determine whether an improvement qualifies without proof from the vendor or manufacturer.

- *Solar Panel Credit.* Solar Panel costs (including labor, piping and solar system batteries) qualify for a 30% credit. This credit applies to a principal residence or a second residence.
- Only costs that are associated with the solar system qualify. If you are replacing a roof, only the costs that exceed a normal roof replacement would qualify for the credit.
- *New Clean Vehicle Credit.* Before the enactment of the Act, you could claim a credit for each new qualified plug-in electric drive motor vehicle (NQPEDMV) placed in service during the tax year. The Act, among other things, retitles the NQPEDMV credit as the Clean Vehicle Credit and eliminates the limitation on the number of vehicles eligible for the credit. Also, final assembly of the vehicle must take place in North America. No credit is allowed if the lesser of your modified adjusted gross income for the year of purchase or the preceding year exceeds $300,000 for a joint return or surviving spouse, $225,000 for a head of household, or $150,000 for others. In addition, no credit is allowed if the manufacturer's suggested retail price for the vehicle is more than $55,000 ($80,000 for pickups, vans, or SUVs). The credit's calculation is changing. The rules are complicated, but they place more emphasis on where the battery components (and critical minerals used in the battery) are sourced. The dealer and the manufacturer will provide the needed information for the credit amount the vehicle qualifies for. We will not have that information. A copy of the bill of sale will be mandatory to prepare your tax return along with your dealer/manufacturer verification.
- *Credit for Previously-Owned Clean Vehicles.* A qualified buyer who acquires and places in service a previously-owned clean vehicle after 2022 is allowed an income tax credit equal to the lesser of $4,000 or 30% of the vehicle's sale price. No credit is allowed if the lesser of your modified adjusted gross income for the year of purchase or the preceding year exceeds $150,000 for a joint return or surviving spouse, $112,500 for a head of household, or $75,000 for others. In addition, the maximum price per vehicle is $25,000.

Year-End Tax-Planning Moves for Businesses & Business Owners

- Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2023, if taxable income exceeds $364,200 for a married couple filing jointly, the deduction may be limited if the taxpayer is engaged in a service-type trade or business.
- For tax years beginning in 2023, the expensing limit is $1,160,000, and the ceiling of equipment purchased is $2,890,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for commercial non-residential interior improvements to a building (but not for its enlargement), elevators or escalators, or the internal structural framework, for roofs, and for HVAC, fire protection, alarm, and security systems.
- Businesses also can claim an 80% bonus first year depreciation deduction for machinery and equipment bought used (with some exceptions) or new if purchased and placed in service this year, and for qualified non-residential improvement property, described above as related to the expensing deduction. 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

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

Very truly yours,

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