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To Our Clients and Friends:

2023 YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

As we approach the end of another year, we believe it's important to take a moment to review 2023 for year-end tax planning opportunities. Examining your 2023 tax situation before year-end could lead to tax savings when you file your tax returns in 2024. With that in mind, we have included our 2023 year-end income tax planning letter to assist you with this process. We've included selected traditional as well as selected new planning ideas for your consideration. If you have questions or want to discuss planning ideas not included in our letter, please call our firm.

Caution! The IRS continues to release guidance on various important tax provisions. We closely monitor new tax legislation and IRS releases. Please call our firm if you want an update on the latest tax legislation, IRS notifications, announcements, and guidance or **if you need additional information concerning any item discussed in this letter.**

Be Careful! We suggest you call our firm before implementing any tax planning technique discussed in this letter. You cannot properly evaluate a particular planning strategy without calculating your overall tax liability with and without that strategy. This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

RECOMMENDATION

Consider An Identity Protection PIN For Filing Tax Returns. An Identity Protection PIN (IP PIN) is a six-digit number that helps prevent the misuse of an individual's social security number on a fraudulent federal income tax return. Individuals are able to voluntarily opt into the IP PIN program as a proactive way to protect themselves from tax-related identity theft. Individuals who wish to receive an IP PIN must pass a rigorous identity verification process. In addition, spouses and dependents are eligible for an IP PIN if they can pass the identity proofing process. Individuals wishing to obtain an IP PIN should use the online "Get an IP PIN" tool. If an individual does not already have an account on IRS.gov, the individual must register to validate the individual's identity. Also, an IP PIN is valid for one calendar year. Therefore, an individual will be issued a new IP PIN each year. If you would like more information about IP PINs, please visit the IRS website at https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin.

POSSIBLE LEGISLATION BEFORE YEAR-END

Each year we work to provide you with our year-end planning letter in time to implement possible tax saving strategies before December 31st. As a result, it's possible Congress could pass new legislation between your receipt of this letter and year-end. As of the completion of this letter, it appears an omnibus spending package is the best chance for any provisions that may affect 2023 tax law. However, the Secure Act 2.0 segment of the Consolidated Appropriations Act, 2023 was passed on December 29, 2022, and has many provisions that are first effective in 2023. The following is a discussion of some of those provisions. Please contact our firm if you would like an update on possible legislation and how it could affect you.

HIGHLIGHTS OF PROVISIONS INCLUDED IN SECURE ACT 2.0 FIRST EFFECTIVE AFTER 12/29/22 (DATE OF ENACTMENT) OR AFTER 12/31/22

On Thursday, December 29, 2022, the President signed H.R. 2617, the "Consolidated Appropriations Act, 2023," providing appropriations for the Federal government's fiscal year ending September 30, 2023. In the following summary, we've listed a few provisions of the Secure Act 2.0 segment of the Consolidated Appropriations Act, 2023 that could impact your 2023 year-end planning.

Increase In Age For Required Minimum Distributions (RMDs). Required Minimum Distributions from IRAs and qualified plan accounts were generally required to begin no later than April 1st following the calendar year in which an individual reached age 72. The Secure Act 2.0 (The Act) provides that for an individual who **attains age 72 after December 31, 2022,** and **age 73 before January 1, 2033,** required minimum distributions from IRAs and qualified plan accounts are generally **required to begin no later than April 1st following the calendar year in which the individual attains age 73.** For an individual who **attains age 74 after December 31, 2032, the applicable age is 75. Planning Alert! Individuals who reach age 72 in 2023 will not have a Required Minimum Distribution for 2023.** An RMD will be required for **2024** and the required beginning date for that RMD is **April 1, 2025.**

Reduction In 50% Excise Tax For Failures To Take Required Minimum Distribution. Beginning with 2023, if the amount distributed from an employer plan or IRA is less than the calculated Required Minimum Distribution, the 50% penalty tax on the amount of the Required Minimum Distribution not distributed is reduced from 50% to 25%.

New Exceptions From 10% Penalty Tax For Certain "Early Distributions" From Retirement Accounts. A 6% excise tax is imposed on "excess contributions" to an IRA. To avoid the 6% excise tax on an excess contribution, the excess contribution and any net earnings allocable to the excess contribution must be distributed from the IRA on or before the due date of a participant's tax return (including extensions). If the excess contribution plus any earnings is distributed by the due date of the return (including extensions) the contribution amount distributed is treated as not contributed, and therefore is not subject to the 10% penalty tax. However, there was no specific exception from the 10% penalty for the earnings distributed. **Note!** The Act provides that the earnings distributed along with the excess IRA contribution are not subject to the 10% penalty tax. In addition: **1) Distributions** made to a plan participant on or after the date such participant has been certified by a physician as having a **terminal illness** (i.e., an illness or physical condition which can reasonably be expected to result in death in 84 months or less after the date of the certification) will not be subject to the additional 10% tax on early distributions, and **2) Public safety employees** may take distributions from a governmental plan on or after reaching age **50 or 25 years of service** under the plan, whichever is earlier, without a 10% penalty tax.

<u>Deductions For Charitable Conservation Easements Substantially Restricted.</u> The Act provides that a contribution of a conservation easement by a partnership, S corporation, or other pass-through entity is generally not deductible if the contribution exceeds 2.5 times the sum of each owner's basis in the partnership allocable to the portion of the real property with respect to which the contribution is made. This disallowance provision **does not apply if substantially all the partnership interests are held,** directly or indirectly, **by an individual and members of the individual's family.** In addition, there is an **exception for** contributions to preserve buildings which are **certified historic structures.**

<u>HIGHLIGHTS OF PROVISIONS INCLUDED IN THE INFLATION REDUCTION ACT OF 2022</u>

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022. The following is a summary of selected provisions included in the Inflation Reduction Act that could impact your 2023 tax planning.

<u>Credit For Energy Efficient Residential Property Improvements.</u> The Inflation Reduction Act provides an increased 30% credit generally with an **annual $1,200 limitation** for qualified energy efficient residential property improvements beginning in 2023 and before 2032.The credit is only allowed for property used as a residence. The credit for a tax year equals **30%** of the sum of: **1)** the amount paid or incurred by the taxpayer for qualified **Energy Efficiency Improvements installed during that year, 2)** the amount of the **Residential Energy Property Expenditures paid or incurred** by the taxpayer during that year, and **3)** amounts paid or incurred during the year for home energy audits of the taxpayer's principal residence. The maximum credit for home energy audits is **$150. <u>Tax Tip!</u>** A 30% credit up to a **maximum credit of $2,000** is allowed for qualifying heat pumps, heat pump water heaters and biomass stoves and boilers.

<u>Residential Clean Energy Credit.</u> After 2022, taxpayers are allowed a 30% credit for: **1)** solar electric property expenditures (solar panels); **2)** solar water heating property expenditures (solar water heaters); **3)** fuel cell property expenditures; **4)** small wind energy property expenditures (wind turbines); **5)** geothermal heat pump property expenditures; and **6)** battery storage technology expenditures. The credit applies to property installed in connection with a dwelling located in the United States and used as a residence by the taxpayer. The residence is not required to be taxpayer's "principal residence" except for fuel cell property.

<u>Note!</u> Please see the IRS website at <u>Frequently asked questions about energy efficient home improvements and residential clean energy property credits (irs.gov)</u> for additional information concerning these 2023 energy credits.

<u>Credits For Buying Electric Vehicles Placed In Service During 2023.</u> Taxpayers may qualify for **a credit of up to $7,500** for taking possession of a qualified new electric vehicle during 2023. To qualify for the New Clean Vehicle Credit, the vehicle must be a qualified electric vehicle (EV) or a qualified fuel cell vehicle. Because of the complexity for determining whether a vehicle qualifies for the credit and determining the amount of the credit, we suggest using the IRS website to determine whether an EV acquired during 2023 qualifies for the new clean vehicle credit and the amount of the credit. The relevant web address is <u>Federal Tax Credits for Plug-in Electric and Fuel Cell Electric Vehicles Purchased in 2023 or After (fueleconomy.gov)</u>. At the website you will need to enter: **1)** whether the vehicle was placed in service after April 17, 2023 or before April 18, 2023; **2)** the model year; **3)** the make of the vehicle (e.g., Chevrolet, Ford, Toyota); **4)** the model (e.g., Bolt, Mustang Mach-E); and **5)** whether the vehicle is all electric or a plug-in hybrid vehicle.

<u>Clean Vehicle Credit For Previously Owned Vehicles Placed In Service After 2022 And Before 2033.</u> Individuals are allowed a credit equal to the **lesser of $4,000 or 30% of the sales price** for used EVs placed in service during 2023. The used EV must be purchased in a **"qualified sale"** which is: **1)** a sale by a dealer licensed to sell vehicles in a state, D.C., Puerto Rico or other U.S. possession, an Indian tribal government, or any Alaska Native Corporation; **2)** for **$25,000 or less** (including delivery charges, but not taxes & fees); and **3)** the **first sale since August 16, 2022, to a "qualified buyer"** (an **individua**l who purchases the vehicle for use and not for resale, who cannot be claimed as a dependent by another taxpayer, and has not been allowed a credit for a previously owned clean vehicle during the three-year period ending on the date of sale). There are additional requirements for the used EV to qualify for the credit. However, if the above requirements are met, an individual can use the following IRS website to determine if the vehicle qualifies for the credit <u>Federal Tax Credits for Pre-owned Plug-in Electric and Fuel Cell Vehicles (fueleconomy.gov)</u>.

CONSIDER RECENT CHANGES TO IRAS AND QUALIFIED RETIREMENT PLANS

Secure Act Imposes A New 10-Year Pay-Out Requirement. Effective for **individuals dying after 2019,** the Secure Act generally requires a decedent's entire remaining IRA or qualified account balance to be distributed to a named beneficiary, other than an "eligible designated beneficiary", **by December 31 of the 10th year following** the year of the decedent's death. This required 10-year payout does not apply if the named beneficiary is an "eligible designated beneficiary" which includes the decedent's spouse, or an individual with a qualified disability, who is chronically ill, or is no more than 10 years younger than the decedent. If the named beneficiary is a child under age 21, the 10-year pay-out requirement does not kick in until the child reaches age 21. On February 23, 2022, the IRS issued proposed regulations interpreting this new 10-year rule for beneficiaries that are not "eligible designated beneficiaries." The proposed regulations proposed to require beneficiaries of a decedent dying **on or after the decedent's required beginning date** (April 1st following age 72 or following age 73 for those turning 72 after 2022) to begin required minimum distributions (RMDs) in the calendar year following the year of the decedent's death and also required any remaining account balance of that beneficiary to be distributed to the beneficiary by the end of the 10th calendar year following the year of the decedent's death. However, the proposed regulations allowed beneficiaries who were not "eligible beneficiaries" of a decedent dying **before the decedent's required beginning date** to take distributions in any manner as long as the entire account balance of the beneficiary was distributed by the end of the 10th calendar year following the year of the decedent's death. Most believed a beneficiary that was not an "eligible designated beneficiary" was not required to take a distribution prior to the 10th calendar year following the decedent's death whether the decedent died before or after the decedent's required beginning date. Even the IRS's own publication seemed to say that was the case. The interpretation in the proposed regulations meant that non-eligible beneficiaries of a decedent who died in 2020 or 2021 after the decedent's required beginning date would have a 50% penalty if RMDs were not made in 2021 for beneficiaries of decedents dying in 2020 and in 2022 for decedents dying in 2021. **New Development!** In July of this year, the IRS released **Notice 2023-54** which **says the proposed RMD regs will not be effective any earlier than 2024. Notice 2023-54 taken together with a notice issued by the IRS in 2022 generally provide** that beneficiaries of account owners in IRAs or defined contribution plans that are not "Eligible Designated Beneficiaries" and who are not taking lifetime distributions will not be penalized for failing to take RMDs in 2021, 2022, or 2023 where the account owner or "Eligible Designated Beneficiary" died in 2020, 2021, or 2022 after the employee or account owner's required beginning date and the beneficiary would be subject to the 10-year rule under the proposed regs.

HIGHLIGHTS OF TRADITIONAL YEAR-END TAX PLANNING

In the following discussion we include traditional year-end tax planning strategies that allow you to accelerate your deductions into 2023, while deferring your income into 2024. **Planning Alert!** Individuals who have a significant drop in income during 2023 may decide the opposite strategy is more advisable and accelerate income into 2023 (to be taxed at lower rates) and defer deductions into 2024 (to be taken against income that is expected to be taxed at higher rates).

Tax Benefits Of Above-The-Line Deductions. Traditional year-end planning includes accelerating deductible expenses into the current tax year. So-called **"above-the-line"** deductions reduce both your "adjusted gross income" and your "modified adjusted gross income", while **"itemized"** deductions (i.e., below-the-line deductions) do **not** reduce either adjusted gross income or modified adjusted gross income. Deductions that reduce your adjusted gross income (or modified adjusted gross income) can generate multiple tax benefits by reducing your taxable income and allowing you to be taxed in a lower tax bracket and potentially freeing up other deductions (and tax credits) that phase out as your adjusted gross income (or modified adjusted gross income) increases. If you think that you could benefit from accelerating ***above-the-line*** deductions into 2023, consider the following:

- **Possible Above-The-Line Deductions.** **Above-the-line** deductions include: Military Moving Expenses; Qualifying Alimony Payments (if the divorce or separation instrument was **executed before 2019);** Deductions for IRA or Health Savings Account (HSA) Contributions; Certain Business Expenses; and, Student Loan Interest. **Note! For 2018 through 2025,** the deduction for **moving expenses** has been suspended for most individuals. **Planning Alert!** Generally, active members of the Armed Forces who move pursuant to a military order because of a permanent change of station may still deduct un-reimbursed qualified moving expenses as above-the-line deductions and may exclude the employer reimbursements of those moving expenses from income. In addition, **effective for "Divorce or Separation Instruments" executed after 2018,** the **deduction for alimony payments**

has been repealed altogether. The good news, however, is that these alimony payments **are no longer taxable to the recipient.** Alimony paid under a divorce instrument **executed before 2019** will generally be grandfathered under the previous rules. **Planning Alert!** If you are currently paying or receiving alimony pursuant to a divorce or separation instrument executed before 2019, the tax treatment of the alimony payments does not change. That is, if your alimony payments were deductible before 2019, they should continue to be deductible (and includible in the recipient's income).

- **Accelerating Above-The-Line Deductions.** As a cash method taxpayer, you can generally accelerate a 2024 deduction into 2023 by *"paying"* the deductible item in 2023. *"Payment"* typically occurs in 2023 if, **before the end of 2023: 1)** A check is delivered to the post office, **2)** Your electronic payment is debited to your account, or **3)** An item is charged on a *third-party credit card* (e.g., Visa, MasterCard, Discover, American Express). **Caution!** If you post-date the check to 2024 or if your check is rejected, no payment has been made in 2023 even if the check is delivered in 2023. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payments are not deductible in 2023.

Itemized Deductions. Although **itemized** deductions (i.e., below-the-line deductions) do **not** reduce your adjusted gross income or modified adjusted gross income, they still may provide valuable tax savings. **Starting in 2018 and through 2025,** recent legislation substantially increased the Standard Deduction. For 2023, the Standard Deduction is: **Joint Return - $27,700; Single - $13,850;** and **Head-of-Household - $20,800.** Recent legislation also made changes to the following itemized deductions:

- **Charitable Contributions. Starting in 2018** (with no sunset date), a charitable contribution deduction is not allowed for contributions made to colleges and universities in exchange for the contributor's right to purchase tickets or seating at an athletic event (prior law allowed the taxpayer to deduct 80% as a charitable contribution). **Planning Alert!** If you think your itemized deductions this year could likely exceed your Standard Deduction ($27,700 if filing jointly, $13,850 if filing single and $20,800 if filing head of household) and you want to accelerate your charitable deduction into 2023, please note that a charitable contribution deduction is allowed for 2023 if the check is **"mailed" on or before December 31, 2023,** or the contribution is made by a credit card charge in 2023. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay the note or pledge. In addition, if you are considering a significant 2023 contribution to a qualified charity (e.g., church, synagogue, or college), it will generally save you taxes if you contribute *appreciated* long-term capital gain property, rather than selling the property and contributing the cash proceeds to the charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, Bitcoin, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. If instead you intend to use "*loss"* stocks to fund a charitable contribution, you should sell the stock first and then contribute the cash proceeds. This will allow you to deduct the capital loss from the sale, while preserving your charitable contribution deduction.

- **Casualty Losses. From 2018 through 2025,** the itemized deduction for personal casualty losses and theft losses has been suspended. However, personal casualty losses attributable to a Federally declared disaster continue to be deductible. **Planning Alert!** Personal casualty losses generally continue to be deductible to the extent the taxpayer has personal casualty "gains" for the same year. In addition, casualty losses with respect to property held in a trade or business or for investment are still allowed. **Alert!** The IRS has announced that individuals living in, and businesses located in the counties designated as "covered disaster areas" in Florida, South Carolina, and Georgia because of Hurricane Idalia now have until February 15, 2024, to file returns and to make certain payments **due during the period beginning August 27, 2023, for Florida, August 29, 2023, for South Carolina, and August 30, 2023, for Georgia, and ending February 15, 2024.** If you live or have a businesses located in FL, SC or GA, please go to the following website https://www.irs.gov/newsroom/tax-relief-in-disaster-situations for more information. This website also provides a listing of all federal disaster areas for 2023 and the due date for returns of taxpayers located in those disaster areas.

- **Medical Expense Deductions.** If you think your itemized deductions this year could likely exceed your standard deduction of $27,700 if filing jointly ($13,850 if single), but you do not expect your itemized deductions to exceed your Standard Deduction next year, you could save taxes in the long run by accelerating elective medical expenses (e.g., braces, new eyeglasses, etc.) into 2023. **Planning Alert!** For 2023, you are allowed to take a medical expense itemized deduction only to the extent your aggregate medical expenses exceed 7.5% of your AGI.

- **$10,000 Cap On State And Local Taxes. From 2018 through 2025,** your aggregate itemized deduction for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) is **limited to $10,000** ($5,000 for married individuals filing separately). Foreign real property taxes are not deductible at all unless the taxes are paid in connection with a business or in an activity for the production of income. You are still allowed a full deduction (i.e., an above-the-line deduction) for state, local, and foreign **property** or **sales** taxes paid or incurred in carrying on your **trade or business** (e.g., your Schedule C, Schedule E, or Schedule F operations).

- **Limitations On The Deduction For Interest Paid On Home Mortgage "Acquisition Indebtedness."** The Tax Cuts And Jobs Act (TCJA) reduced the dollar cap for **Acquisition Indebtedness incurred after December 15, 2017, from $1,000,000 to $750,000** ($375,000 for married filing separately) for **2018 through 2025.** Generally, any Acquisition Indebtedness incurred on or before December 15, 2017, is "grandfathered" and will still carry the $1,000,000 cap. **Planning Alert!** If you think your itemized deductions this year could likely exceed your *Standard Deduction*, paying your January 2024 qualifying home mortgage payment **before 2024** should shift the deduction on the interest portion of that payment **into 2023.**

Postponing Taxable Income May Save Taxes. Generally, deferring taxable income from 2023 to 2024 may also reduce your income taxes, particularly if your effective income tax rate for 2024 will be lower than your effective income tax rate for 2023. Moreover, deferring income from 2023 to 2024 may provide you with the same tax benefits listed previously when you accelerate deductions into 2023 (i.e., Freeing up other deductions and tax credits that phase out as your adjusted gross income or modified adjusted gross income increases; Reducing your modified adjusted gross income below the income thresholds for the 3.8% Net Investment Income Tax; Reducing your household income to a level that allows a "refundable" Premium Tax Credit; or, Reducing your taxable income to a level that maximizes the 20% 199A Deduction). **Planning Alert!** The deferral of income could cause your 2023 taxable income to fall below the thresholds for the highest 37% tax bracket (i.e., $693,750 for joint returns; $578,125 if single). Also, if you have income subject to the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral reduces your 2023 modified adjusted gross income below the thresholds for the 3.8% NIIT (i.e., $250,000 for married filing joint, $125,000 for married filing separate, and $200,000 for all others), you may avoid this additional 3.8% tax on your investment income. In addition, if you reduce your modified adjusted gross income below the NIIT thresholds above, you may not be subject to the additional Medicare tax of 0.9%. If you are a self-employed individual using the cash method of accounting, consider delaying year-end billings to defer income until 2024. **Planning Alert!** If you have already received the check in 2023, deferring the deposit of the check does not defer the income. Also, you *may not* want to defer billing if you believe this will increase your risk of not getting paid.

TAX PLANNING FOR INVESTMENT INCOME (INCLUDING CAPITAL GAINS AND NIIT)

Planning With The 3.8% Net Investment Income Tax (3.8% NIIT). The **3.8% Net Investment Income Tax (3.8% NIIT)** applies to the Net Investment Income of higher-income individuals. This tax applies to individuals with modified adjusted gross income exceeding the following **thresholds: $250,000 for married filing jointly; $200,000 if single; and $125,000 if married filing separately.** The 3.8% NIIT is imposed upon **the lesser of** an individual's: **1)** Modified adjusted gross income in excess of the **threshold,** or **2)** Net investment income. The 3.8% NIIT not only applies to traditional types of investment income (i.e., interest, dividends, annuities, royalties, and capital gains), it also applies to "business" income that is taxed to a "passive" owner unless the passive income is subject to S/E taxes. If you believe that the 3.8% NIIT may apply to you, call our office so we can discuss possible steps we can take before year-end to help reduce your NIIT exposure.

Traditional Year-End Planning With Capital Gains And Losses. Generally, net capital gains (both short-term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual filing a joint return with taxable income for 2023 of **$553,850 or more ($492,300 or more if single)** paying Federal income tax on **net long-term capital gains** at a **23.8%** rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). In addition, an individual's **net short-term capital gains** could be taxed as high as **40.8%** (i.e., 37% plus 3.8%), for Federal income tax purposes. Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities continue to be as important as ever. The following are time-tested, year-end tax planning ideas for sales of capital assets. **Caution!** Always consider the **economics of a sale or exchange first! Note!** For individuals filing a **joint return** with 2023 taxable income **less than $89,250 (less than $44,625 if single),** their long-term capital gains and qualified dividends are taxed at a **zero percent rate.** The zero percent rate for long-term capital gains and qualified dividends is particularly important to lower-income retirees who rely largely on investment portfolios that generate dividends and long-term capital gains. **Planning Alert!** If you have substantial capital loss carryforwards coming into 2023, consider selling enough appreciated securities **before the end of 2023** to decrease your net capital loss to $3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your net capital loss (in excess of $3,000) to offset your short-term capital gain, while preserving favorable long-term capital gain treatment for later years.

SELECTED MISCELLANEOUS YEAR-END PLANNING CONSIDERATIONS

Contributing The Maximum Amount To Your Traditional IRA. As your income rises and your marginal tax rate increases, deductible IRA contributions generally become more valuable. Also, making your deductible contribution to the plan as early as possible generally increases your retirement benefits. As you evaluate how much you should contribute to your IRA, consider the following limitations. If you are married, even if your spouse has no earnings, you can generally deduct in the aggregate up to **$13,000 ($15,000 if you are both at least age 50 by the end of the year)** for contributions to you and your spouse's traditional IRAs. You and your spouse must have *combined earned income* at least equal to the total contributions. However, no more than **$6,500 ($7,500 if at least age 50)** may be contributed to either your IRA account or your spouse's IRA account for 2023. If you are an active participant in your employer's retirement plan during 2023, your IRA deduction is reduced ratably as your adjusted gross income increases from **$116,000 to $136,000** on a joint return **($73,000 to $83,000** on a single return). However, if you file a joint return with your spouse and your spouse is an active participant in his or her employer's plan and you are not an active participant in a plan, your IRA deduction is reduced as the adjusted gross income on your joint return goes from **$218,000 to $228,000. Caution!** Every dollar you contribute to a deductible IRA reduces your allowable contribution to a nondeductible Roth IRA. The sum of your contributions for the year to your Roth IRA and to your traditional IRA may not exceed the $6,500/$7,500 limits discussed above. For 2023, your ability to contribute to a Roth IRA is phased out ratably as your adjusted gross income increases from **$218,000 to $228,000** on a joint return or from **$138,000 to $153,000** if you are single. **Planning Alert!** Unlike the rule for traditional IRA contributions, the amount you may contribute to a Roth IRA is reduced if your adjusted gross income falls within these phase-out ranges regardless of whether you or your spouse is a participant in another retirement plan. In addition, contributions to a Roth IRA are not deductible. **Planning Alert!** You have until **April 15, 2024,** to make a 2023 traditional IRA contribution.

If You Are 70½ Or Older By December 31st, Consider A Qualified Charitable Distribution (QCD). A Qualified Charitable Distribution (QCD) allows a donation to a charitable organization of up to $100,000 from a traditional IRA. These contributions are excluded from income and count toward your RMD for 2023. **Caution!** These contributions are not deductible as itemized deductions. However, if you normally take the standard deduction, a QCD could be even more beneficial since the distribution will be excluded from your income.

IRS Increases Standard Mileage Rates Effective January 1, 2023. The standard mileage deduction rate for your deductible **business miles** was increased from 62.5 cents per mile to **65.5 cents per mile** effective January 1, 2023. The **charitable mileage rate is still 14.0 cents per mile** and the rate for **medical and moving mileage remained at 22.0** cents per mile for 2023. **Note! For 2018 through 2025,** the deduction for **moving expenses is not allowed except for active members of the Armed Forces** who move pursuant to a military order because of a permanent change of station. **Planning Alert!** Be sure to keep proper records for business, medical/moving, and charitable mileage for use as a possible deduction for 2023.

The 20% 199A Deduction For Qualified Business Income. Don't overlook the **20% Deduction** under **Section 199A (20% 199A Deduction)** with respect to **"Qualified Business Income," "Qualified REIT Dividends,"** and **"Publicly-Traded Partnership Income."** The 20% 199A deduction does not reduce your adjusted gross income or impact your calculation of self-employment tax. Instead, the deduction simply reduces your taxable income (regardless of whether you itemized deductions or claim the standard deduction). In other words, the 20% 199A Deduction is allowed ***in addition to*** your itemized deductions or your standard deduction. **Note!** The 20% 199A Deduction **expires after 2025!** It is not feasible to provide a thorough discussion of the 20% 199A Deduction with respect to **Qualified Business Income (QBI)** in this letter. However, if you own an interest in a business as a sole proprietor, an S corporation shareholder, or a partner in a partnership, you are a very good candidate for the 20% 199A Deduction. If you want more information on the 20% 199A Deduction, please call our firm and we will be glad to provide you with more details.

Gift And Estate Tax Planning. For 2023, a donor can **gift $17,000** to each donee. It is not a taxable gift to the donor and gifts are not included in the recipient's income. That exclusion amount will **go to $18,000**

in 2024. Each taxpayer's amount of unified credit if **used against gift tax or estate tax is $12,920,000 for 2023 and is scheduled to go to $13,610,000 in 2024.** **<u>Planning Alert!</u>** Using the annual gift tax exclusion (i.e., $17,000 for 2023) is an effective tool to move assets out of your estate without creating any gift tax or using any of your unified credit amount.

<u>Use The IRS Tax Withholding Estimator To Avoid Surprises.</u> As you get to the end of 2023, it's a good idea to revisit your withholding and estimated tax payments to avoid an unexpected tax bill which could include penalties and interest. The IRS encourages taxpayers to use its Tax Withholding Estimator at https://www.irs.gov/individuals/tax-withholding-estimator to ensure they have the correct amount of taxes paid-in before December 31st. **<u>Planning Alert!</u>** It is especially important to review your withholding if you have had a significant event occur during 2023 such as a job change or loss, additional income stream, marriage, divorce, etc. If you believe your tax liability has been affected because of a significant event, and you have questions, **please call our firm** so we can discuss.

<u>FINAL COMMENTS</u>

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **<u>Note!</u>** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

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