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Certified Public Accountants • Business & Financial Advisors
90 Years and Still Counting

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November 30, 2023

Re: Year-End Tax and Financial Planning Letter for Individuals

Dear Valued Client,

As 2023 comes to an end, we recommend that you take a closer look at your tax and financial plans. While we have seen limited Federal tax legislation, this year has brought high inflation rates, several significant natural disasters, increased interest rates by the Federal Reserve, and a continued pandemic that significantly impacted your personal and financial situation. It will be beneficial for you to take the time now to look at your current tax strategies to make sure they are still meeting your needs, as well as taking any last-minute steps that could produce tax savings. We want to extend our assistance to you while you reassess the health of your tax and financial well-being.

As we approach year end, the following are some issues to consider; please note that this is not an extensive list.

Electric Vehicles

Don't forget about the tax credit for buying an EV; many new EVs qualify for a credit of up to $7,500 (up to $4,000 if buying a used EV). The manufacturer's suggested retail price can't exceed $55,000 for sedans and $80,000 for vans, SUVs, and pickup trucks. There is also an income limitation. Modified adjusted gross income can't exceed $300,000 for couples, $225,000 for head of household, or $150,000 for single filers of new EVs. The income limits for used EVs is half of that of new EVs.

Home Upgrades

The residential clean-energy property credit is for taxpayers who install alternative energy systems in their homes that rely on renewable energy sources (solar, wind, geothermal, fuel cell or battery). The credit is equal to 30% of the cost of materials and installation.

The smaller energy-efficient home improvement credit applies to insulation, boilers, HVAC systems, water heaters, exterior doors, windows, and other improvements that meet certain energy efficiency ratings. The credit used to have a $500 lifetime limitation, but it is now a general $1,200 aggregate yearly credit limit. If planning multiple upgrades, consider staggering them over multiple years.

Child Tax Credit

The 2023 child tax credit remains at $2,000 per qualifying dependent under the age of 17. The credit decreases if your modified adjusted gross income exceeds $400,000 if you file Married Filing Jointly or $200,000 for all other filers.

Charitable Contribution Deductions

Consider lumping multiple years of charitable contributions into one year to maximize tax benefits. In most cases, the amount of cash contributions you can deduct on Schedule A is limited to 60%. For charges made with credit cards, you can claim the write-off in the year you charged the expense.

Educator Expenses

Eligible educators can deduct up to $300 for 2023 expenses paid or incurred relating to books, supplies (other than nonathletic supplies for health and physical education courses), computer equipment, and any other equipment/supplementary materials used in the classroom.

Standard Deduction

For 2023, the standard deduction amount has been increased for all filers. Single or Married Filing Separately $13,850, Married Filing Jointly or Qualifying Surviving Spouse $27,700, Head of Household $20,800. Individuals who are 65 and older as well as those who are considered blind are entitled to an additional standard deduction, an additional $1,850 for Single or Head of Household individuals who are 65 and older or blind; $3,700 if 65 or older and blind; Married Filing Jointly or Married Filing Separately $1,500 per qualifying individual if 65 and older or blind, $3,000 per qualifying individual if 65 or older and blind.

401(k) and IRA Limit Increases

The contribution limit for employees who participate in 401(k), 403(b) and most 457 plans has increased to $23,000 for 2024. The limit on annual contributions to an IRA increased to $7,000 for 2024. The catch-up contribution limit for employees aged 50 and over who participate in qualified plans remains at $7,500 for 2024, and the catch-up limit on IRA contributions remains at $1,000 for 2024.

Required Minimum Distributions (RMDs)

RMDs are the minimum amount you must annually withdraw from your retirement accounts (e.g., 401(k) or IRA) if you meet certain criteria. Beginning in 2023, the SECURE 2.0 Act raised the age that you must begin taking RMDs to the age of 73. If you turned 73 in 2023, you will need to take your first RMD in 2023 or by April 1, 2024. RMDs are not required for Roth IRAs until the death of the owner; unless you inherit a Roth IRA from a non-spouse. The rules for inherited IRAs and RMDs continue to be complex and vary based on a number of factors, including account type, original account owner (including their age, date of death), and beneficiary. A qualified charitable distribution is allowed to be made directly to a charitable organization up to $100,000. A qualified charitable distribution allows a taxpayer to take the required distribution without having to include the amount in taxable income, while also donating to a good cause. Planning ahead to determine the tax consequences of RMDs is important, especially for those who are in their first year of RMDs.

Teleworking Arrangements

The pandemic resulted in a significant number of people working from home (i.e., teleworking). Such remote working arrangements could potentially have tax implications that should be considered by you and your employer.

Beware of Fraudulent Activity

Data security is important to our firm, and we make sure to take it seriously. We hope you do as well, and want to make you aware of the fraudulent activity that can put your data security at risk. Tax identity theft remains a significant concern and fraudsters are continuously refining and improving upon their techniques. Beware of the following:

- Receiving a notice or letter from the IRS regarding a tax return, tax bill or income that doesn’t apply to you.
- Getting an unsolicited email or another form of communication asking for your bank account number, other financial details, or personal information.
- Receiving a robocall, email, or text message insisting you must call back and settle your tax bill immediately.
- Third parties advising you to claim the Employee Retention Credit (ERC) when you may not actually qualify for the credit.

Make sure you are continuously taking steps to keep your personal financial information safe. If you have questions or concerns about your data security, let us know.

Digital Assets

Digital assets remain part of the present financial world and continue to be treated as property. There are many different types of digital assets, including virtual currencies/cryptocurrencies, stablecoins, and non-fungible tokens (NFTs). Transactions such as the sale or exchange of digital assets are required to be reported on your tax return. Virtual currency/cryptocurrency transactions beginning on or after January 1, 2023 will be required to be reported on Form 1099-B (same as stocks and bonds),with transactions greater than $10,000 reported on Form 8300. Taxpayers will have to indicate whether they received or sold, exchanged, gifted, or otherwise disposed of a digital asset or financial interest in a digital asset in 2023.

Third-Party Payment Organizations Include Many Popular Payment Apps and Online Marketplaces

The Form 1099-K could be sent to anyone who's using payment apps or online marketplaces to accept payments for selling goods or providing services. This includes people with side hustles, small businesses, crafters and other sole proprietors. However, it could also include casual sellers who sold personal items such as clothing, furniture and other household objects that they paid more than they sold them for. For 2023 and prior years, payment apps and online marketplaces are only required to send out Forms 1099-K to taxpayers who receive over $20,000 and have over 200 transactions. However, beginning in 2024, the IRS plans for a threshold of $5,000 to phase in reporting requirements.

Pennsylvania Property Tax/Rent Rebate Program

For 2023, the maximum standard rebate is increasing from $650 to $1,000, and the income cap for both renters and homeowners will be made equal and increase to $45,000 a year. The program is applicable to Pennsylvanians age 65 and older, widows and widowers age 50 and older, and people with disabilities age 18 and older.

Additional Tax and Retirement Planning Considerations

At *least* once a year, we recommend that you review your retirement situation. You should make the most of tax-advantaged retirement saving options, such as traditional IRAs, Roth IRAs and company retirement plans. Taking advantage of health savings accounts (HSAs) can also help you reduce your taxes and save for your future.

The following are additional tax and financial planning items to discuss with us:

- Major changes in your life (marriages or divorces, births or deaths in the family, job or employment changes including retirement, new business ventures and significant expenditures such as real estate purchases, college tuition payments, etc.) that could have a tax effect.
- Tax benefits related to using capital losses to offset realized gains — and move any gains to the lowest tax brackets, if possible.
- Appropriate planning for estate and gift tax purposes. There is an annual exclusion for gifts ($17,000 per donee, $34,000 for married couples in 2023, and $18,000 per donee, $36,000 for married couples in 2024) to help save on potential future estate taxes.
- Without congressional action, the federal estate exemption will be reduced to approximately $7,000,000 per individual (pending inflation adjustments) at the end of 2025 as a result of “sunset” provisions in the Tax Cuts and Jobs Act (currently $12.92 Million).
- Section 529 plans to help save for education and potentially receive income tax benefits. Section 529 plans can also now be used to pay up to $10,000 of student loans, however, the interest paid using this method cannot be used towards the student loan interest deduction.
- Updates needed to insurance policies or beneficiary designations.
- Tax consequences of converting traditional IRAs to Roth IRAs.
- Potential 0% federal rate on long-term capital gains. If your taxable income is not greater than $89,250 married filing joint, $59,750 head of household, or $44,625 for all others in 2023, you may want to consider selling appreciated securities held for more than one year. Until taxable income exceeds the thresholds above, long-term capital gains are taxed at a 0% federal rate.
- As discussed above, qualified charitable distributions directly out of your IRA can be made if you are age 70½ or older. You can make cash donations totaling up to $100,000 per individual IRA owner per year to IRS-approved charities directly from your IRA ($200,000 per year maximum on a joint return if both spouses make Qualified Charitable Distributions [QCDs] of $100,000). QCDs are not treated as taxable distributions, and you receive no itemized deduction for the contribution. QCDs have many potential tax benefits such as reducing your Adjusted Gross Income (which may decrease the phase-out of other tax benefits and reduce the amount of your Social Security benefits that are taxable), receiving a state tax benefit where you otherwise would not, and effectively allowing you to deduct charitable contributions and claim the standard deduction on the same return. If you decide to make a QCD, be sure to transfer the funds directly from your IRA to the charity.
- Withholding, estimated tax payments, and liquidity needs going forward. Please note that the last quarterly payments for 2023 are due on January 16, 2024.

Importance of Year-End Planning

There may be strategies such as deferral or acceleration of income, prepayment or deferral of expenses, etc., that can help you improve your financial position and result in tax savings.

We are here for any questions you may have, including working towards retirement, getting answers to your tax and financial planning questions, or what tax changes might mean for you. As always, planning ahead can help you minimize your tax bill and position you for greater success with less surprises come 2024.

As legislation continues to evolve, we will contact you to discuss how changes impact your tax and financial plan.

Your 2023 individual tax return is due on April 15, 2024, but we encourage you to get your tax information to us as soon as it becomes available to you.

Sincerely,

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