TCJA = Tax Cuts and Jobs Act (2017)
SECURE = Setting Every Community Up for Retirement Enhancement Act (2019)
CARES = Coronavirus, Aid, Relief, and Economic Security Act (2020)
TCDTRA = Taxpayer Certainty and Disaster Tax Relief Act (2020)
IRA = Inflation Reduction Act (2022)

2023 TAX PLANNING TIPS

Last minute strategies to reduce your 2023 tax bill

RETIREMENT CONTRIBUTION PLANNING:

- **IRA:** Remember to plan your cash flow to make an IRA contribution by April 15, 2024. The maximum 2023 IRA contribution is $6,500 ($7,000 in 2024). If you are age 50 or older by December 31, 2023, the maximum amount is $7,500. There are no age limits for contributions to either traditional or Roth IRA's. Roth IRA contributions are restricted to adjusted gross income phaseout amounts, with complete phaseout at $153,000 for single taxpayers and $228,000 for married taxpayers. IRA plans can be set up as late as April 15, 2024. If you are not eligible for a deductible IRA or Roth contribution due to income limitation, you can make a non-deductible IRA contribution and then (ideally) an immediate Roth conversion. Depending on the other IRA's you own, there may be reduced or no tax consequences. Contact us for specific details.

- **401K:** The maximum 2023 contribution to your 401K is $22,500 ($23,000 in 2024). If you are age 50 or older by December 31, 2023, and your plan has been amended to allow it, the maximum amount is $30,000 ($30,500 in 2024).

- **SEP:** The maximum 2023 SEP contribution is $66,000 ($69,000 in 2024). You have until the due date of your tax returns, including extensions, in which to make the 2023 contribution and to set up the plan. **Beginning in 2023, SEP and SIMPLE IRAs can now accept Roth contributions**. This is a great option for those of you who have little or no regular income tax liability, but still owe self-employment tax from positive business income. You can now create a SEP/SIMPLE Roth and benefit from tax-free distributions in retirement.

- **All retirement plan contributions:** Due to the complexity on limitations for contributions, we recommend that you consider waiting to make contributions until we have determined the allowable amount based on your actual tax return OR contact us to discuss an appropriate amount before you make the contribution. [You must have "earned income" to qualify for any type of IRA contribution.]

- **Roth IRA rollover:** There is no adjusted gross income limitation that restricts the rollover of a regular IRA into a Roth IRA. Funds rolled over from a regular IRA to a Roth IRA will be taxed under the regular IRA distribution rules, but no penalties will apply. A Roth conversion can no longer be recharacterized (enacted with the TCJA). This means that any type of plan converted to a Roth IRA (including a traditional IRA, SEP, SIMPLE, 401(k) or 403(b)) cannot be undone or reversed.

- **IRA One-Rollover-Per-Year Rule:** You are allowed only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own. This applies to all IRAs including SEP and SIMPLE IRAs and traditional or Roth IRAs. Transfers that are not limited include trustee-to-trustee transfers between IRAs and rollovers from traditional IRAs to Roth IRAs.

- **Required minimum distribution (RMD):** RMD's are required for 2023. The mandatory age to begin taking RMD's is increased from age 72 to:
  - Age 73 for those who turn age 72 after 2022 (taxpayers born in 1951 through 1958); and
  - Age 75 for those who turn age 74 after 2032 (taxpayers born after 1958).

- **Tax-free distributions for charity:** Taxpayers over age 70 ½ can exclude IRA distributions from their gross income if the distribution is donated to a qualified charity (up to $100,000 for 2023) as a direct transfer from an IRA account. The $100,000 limit will be adjusted for inflation beginning in 2024. The inflation adjusted limit for 2024 is $105,000. Even though the SECURE Act increased the RMD age, qualified charitable distributions are allowed starting at age 70 ½.

Standard deduction

The standard deduction remains high ($27,700 in 2023). Additionally, the $10,000 SALT (state/local/property taxes) cap remains under current law despite many attempts for a repeal. The combination of these two factors has resulted in substantially more taxpayers claiming the higher standard deduction. Deductible expenses such as medical expenses or charitable contributions may not have an impact on your federal tax returns for 2023 and beyond. Many states, including California, did not conform to these changes which resulted in itemizing for state only. However, the record keeping involved may not be worth itemizing for your state alone.

DEDUCTION AND CREDIT PLANNING:

- **Medical expenses:** The 7.5% medical expense threshold has been made permanent for all taxpayers by the TCDTRA. Expenses must be paid or charged on a credit card by December 31, 2023 to be eligible.

- **Charitable contributions:** Charitable contributions are only deductible for taxpayers that itemize in 2023. Be sure to ask for receipts to substantiate all amounts for both non-cash donations and cash donations. Cash donations can also be substantiated by canceled checks or bank statements that verify the charity's name, date and amount. Donations charged on a credit card by December 31, 2023 are eligible as a deduction for 2023, even if you don't pay the credit card balance until 2024. Charitable contributions have varied limitations based on your adjusted gross income. Any amounts not eligible due to these limitations can be carried forward for five years. Any donation deduction amount for cars, boats and airplanes of more than $500 **requires** your tax return to include a statement from the charity identifying the vehicle and stating the amount for which it was sold. Be sure to obtain these statements from the charity and include them with your organizer package.

- **Health savings accounts:** Health Savings Account (HSA) contribution limits for 2023 are $3,850 if single ($4,150 in 2024) or $7,750 for a family ($8,300 in 2024). For taxpayers aged 55 or older, the limits are $4,850 if single and an additional $1,000 for each qualifying spouse for a family plan.

- **Taxes:** State taxes are deductible on your federal tax return. State estimated income tax payments and property taxes that are due in 2024 can be paid in 2023. *CAUTION*: If you are subject to AMT (alternative minimum tax), there is no tax benefit by prepaying these taxes in 2023. Additionally, TCJA limits the total deduction of state and local income taxes, property taxes and personal property taxes to a combined total of $10,000. For many taxpayers, there is no longer an advantage to pre-paying your state income or county property taxes. NOTE - For rental property owners, there is NO limit to the amount of property taxes that can be deducted as a rental expense (however, overall rental losses could still be limited based on passive loss rules).

Deduction "bunching"

By applying a "bunching strategy", taxpayers can accelerate or defer their discretionary medical expenses and/or charitable contributions into the tax year where it might actually create a tax benefit. For example, if you know that you will be able to itemize in 2023 but not in 2024, it would be more beneficial to do two years' worth of charitable contributions in 2023, instead of spreading out the donations over the two years.

- **Mortgage interest:** Mortgage interest is deductible to the extent the proceeds were used to acquire, construct, or improve your personal residence(s) to a maximum principal amount of $750,000 ($1,000,000 for California and for debts acquired prior to December 15, 2017). Interest paid on home equity loans for which the proceeds were **not** used to acquire, construct, or improve your personal residence is no longer deductible after the passage of the TCJA, even if the loan was acquired prior to December 15, 2017. Previously, you were allowed to deduct interest on a home equity loan up to $100,000 regardless of what the proceeds were used for (this is still allowed for California). Refinancing a mortgage and taking cash proceeds may impact the amount of interest that is deductible. Mortgage insurance premiums are not deductible.

- **Miscellaneous itemized deductions:** Continuing through at least 2025, there is no deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2% of your adjusted gross income. This category included tax preparation costs, investment/broker fees, union dues, unreimbursed employee expenses and safety deposit boxes. For taxpayers that incur high broker fees, consider discussing alternative options with your broker. For taxpayers with unreimbursed employee business expenses, consider discussing reimbursement options with your employer.

- **Residential Clean Energy Credit (solar):** The Inflation Reduction Act of 2022 extended this credit through 2035. The full 30% credit is available for eligible property placed in service through 2032. Please refer to the separate sheet on the Inflation Reduction Act for more details.

- **Energy Efficient Home Improvement Credit:** The Inflation Reduction Act of 2022 also extended this credit. Please see the separate sheet.

- **Clean Vehicle Credit:** The Inflation Reduction Act of 2022 made significant changes to the purchase of a clean vehicle, including:
  - enacting income limitations on claiming the credit,
  - repealing the 200,000 manufacturer limit, and
  - previously owned vehicles are now potentially eligible for the credit.

  Please see separate sheet for more details. California offers a rebate that you must apply for online at https://cleanvehiclerebate.org.

BUSINESS EXPENSE PLANNING:

- **Health insurance premiums:** As a self-employed person, you are allowed to deduct 100% of health insurance premiums paid for yourself, your spouse, and your dependents to the extent of your earned income. This also includes dental and vision insurance, plus limited amounts for long-term care insurance. It does not include disability or life insurance. **Health insurance paid for shareholders of an S-corporation must be reported on the shareholder's W-2 to be deductible.**

- **Depreciation:**
  - *"Section 179 deduction":* Equipment purchases are eligible for a "Section 179 deduction" of up to $1,160,000 for 2023. The equipment must be "placed in service" by December 31, 2023. Note that purchasing too much equipment (over $2,890,000) will restrict your total "Section 179 deduction".
  - *Bonus depreciation*: Bonus depreciation is 80% for eligible property placed in service by December 31, 2023. The rate drops to 60% for 2024 and an additional 20% for each year thereafter. Qualified improvement property is eligible for bonus depreciation, excluding building enlargement, structural framework, and other miscellaneous improvements.

INVESTMENT PLANNING:

- **Capital gains and losses:** Income that results from sales of stock, investment property, and rental property (above depreciation recapture) is considered capital. Long-term gains result from sales that have been held over one year. The federal income tax rate on long-term capital gains is limited to 20% in 2023 (see chart next page for brackets). The Medicare surtax of 3.8% on investment income for taxpayers with income exceeding certain thresholds is also still in effect. **Losses are deductible to the extent of gains plus $3,000.** Any excess loss is carried over to subsequent years for an unlimited amount of time. *CAUTION*: If you are subject to AMT (alternative minimum tax), the capital gains tax rate benefit may be partially offset by an increased AMT liability amount.

2023 Long-Term Capital Gains Tax Brackets

TAX BRACKET/RATE	SINGLE	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD
0%	$0 - $44,625	$0 - $89,250	$0 - $59,750
15%	$44,625 - $492,300	$89,251 - $553,850	$59,751 - $523,750
20%	$492,301+	$553,851+	$523,751+

- **Sale of home:** When selling your principal residence, you may exclude up to $500,000 of capital gain if married or $250,000 of capital gain if single. A sale of a home in 2023 (and beyond) could trigger an increased capital gain rate and the 3.8% Medicare surtax if there is a taxable gain. Since there is no exclusion for the sale of a second home, vacation home, or rental property, the entire capital gain could be subject to these higher rates for sales in 2023 and beyond.

- **Gifts:** Amounts transferred up to $17,000 per person per year in 2023 are considered exempt from gift reporting and taxation. Amounts given above this amount require the "giver" to file a gift tax return and either elect to use part of their "life-time exclusion" or to pay a gift tax. This gift tax return is due April 15, 2024 or October 15, 2024 if an extension is filed. There are no requirements for the recipient of the gift. The 2024 limit is $18,000.

- **Social security:** Up to 85% of social security benefits may be taxable depending on your modified adjusted gross income. For one-time events you should take into consideration the year of receipt. Please call us for an individualized analysis.

- **Net operating loss (NOL):** A net operating loss occurs if certain non-personal income and expenses create a negative amount. The TCJA repealed the net operating loss carryback (with limited exceptions), but it is still allowed to be carried forward indefinitely (the 20-year expiration only applies to California). NOL's can only offset 80% of the taxpayer's taxable income (100% for California).

ALTERNATIVE MINIMUM TAX:

- Some of the standard year-end planning ideas will not reduce tax liability if you are subject to the alternative minimum tax (AMT) because different rules apply. Because of the complexity of the AMT, we recommend a personalized analysis (tax projection) of your AMT exposure.

HEALTHCARE MANDATE:

- California continues to impose a health care mandate. The maximum penalty for California residents who do not have minimum essential health coverage for 2023 is $900 per adult 18 years or older and $450 per dependent child, up to an annual maximum of $2,700. The penalties will be calculated and reported on your 2023 California tax return. There is no such mandate or penalties on your federal return.

2023 Standard Mileage Rates

- Business: 65.5 cents per mile
- Charitable: 14 cents per mile
- Medical: 22 cents per mile