CPAs | Consultants

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Dear Client:

As we close the chapter on 2023, it is appropriate to consider tax strategies including those strategies impacted by the passage of new or updated tax laws. For 2023, the Inflation Reduction Act of 2022 and the Secure 2.0 Act may impact taxpayer planning decisions.

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. If tax increases are signed into law, however, the highest income taxpayers may find that the opposite strategies produce better results: Pulling income into 2023 to be taxed at currently lower rates, and deferring deductible expenses until 2023, when they can be taken to offset what would be higher-taxed income. This will require careful evaluation of all relevant factors.

We have compiled a list of actions based on current tax laws that may be advantageous. Not all considerations will apply to each taxpayer. Please consider the following:

- New tax credits for EVs. If you are looking to buy a new car this year, remember that the Inflation Reduction Act has introduced various credits for buying both new and used electric vehicles.

- 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 (i.e., $89,250 for a married couple; estimated to be $94,050 in 2024). These recommendations should also be discussed with your financial advisor in consideration of your overall financial investment plans.

- 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 2022 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.

- If you believe a Roth IRA is better for you than a traditional IRA, consider converting traditional-IRA money invested in any underperforming stocks (or mutual funds) into a Roth IRA in 2023 if eligible to do so. Keep in mind that the conversion will increase your income for 2023, possibly reducing tax breaks subject to phaseout at higher AGI levels. This may be desirable, however, for those potentially subject to higher tax rates under pending legislation. We recommend seeking guidance from your financial advisor prior to implementing this strategy.

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- It will be beneficial for many taxpayers to utilize the standard deduction amounts that apply for 2023 ($27,700 for joint filers, $13,850 for singles and for marrieds filing separately, $20,800 for heads of household), and because many itemized deductions have been reduced (such as the $10,000 deduction limit on state and local taxes) or abolished (such as the miscellaneous itemized deduction and the deduction for non-disaster related personal casualty losses). You can still itemize medical expenses that exceed 7.5% of your AGI, state and local taxes up to $10,000, your charitable contributions, plus mortgage interest deductions on a restricted amount of debt, but these deductions won't save taxes unless they total more than your standard deduction.

- Some taxpayers may be able to work around these deduction restrictions by applying a bunching strategy to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, a taxpayer who will be able to itemize deductions this year but not next will benefit by making two years' worth of charitable contributions this year.

- New rules for required minimum distributions (RMDs) from an IRA or 401(k) plan (or other employer sponsored retirement plan). In general, an IRA owner must take their first RMD for the year in which they reach age 72 (73 if they reach age 72 after December 31, 2022). However, they can delay taking their first RMD until April 1 of the following year. Those who reach age 72 in 2022 must take their first RMD by April 1, 2023, and the second RMD by December 31, 2023. If they reach age 72 in 2023, their first RMD for 2024 (the year they reach 73) is due by April 1, 2025.

- If you are age 70½ 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 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. However, you are still entitled to claim the entire standard deduction. (The qualified charitable distribution amount is reduced by any deductible contributions to an IRA made for any year in which you were age 70½ or older, unless it reduced a previous qualified charitable distribution exclusion.)

- Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may save gift and estate taxes. The exclusion applies to gifts of up to $17,000 made in 2023 to each of an unlimited number of individuals. You can't carry over unused exclusions to another year. These transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

Very truly yours,

ROBINSON, FARMER, COX ASSOCIATES