As the last remnant of colored leaves falls from the trees, and the anticipation of a joyous holiday season grows, most of our clients have one thought on their mind – reducing their tax bill. Our annual tax planning letter will review some tried and true tax planning concepts and cover some of the changes taking place for the 2023 and 2024 tax years, and beyond. We will cover the following topics:

- Current tax brackets and key thresholds,
- General year-end tax planning considerations,
- Clean Vehicle Credit & Residential Energy Credits,
- Business registration requirements beginning January of 2024,
- What to expect when the Tax Cuts and Jobs Act sunsets

Starting point - 2023 Tax Brackets & Setting up online account with IRS

As a starting point it is best to take a look at 2023 tax brackets and those for 2024 which were recently published. These tables are provided at our Tax Services page of our website (https://www.ffgwealth.com/tax-services/) We have also provided updated retirement contribution limits and the updated annual gift exclusion limits for both 2023 and 2024.

We strongly recommend that you set up an online account with the IRS if you have not done so already. This will help ensure your returns have been filed and accepted, will allow you to check on refunds and will also allow you to verify that your withholding and estimated tax payments have been received and credited to the proper tax year. Go here to set up your on-line account: https://www.irs.gov/payments/your-online-account

Year-End Tax Planning

As we approach the end of the year here are some areas that should be reviewed:

- **Taxes Withheld/Estimated vs. Balance Due for 2023:** First and foremost, it is important to make sure that there have been ample taxes paid or withheld during 2023 to avoid any underpayment penalties. This is especially true considering that the interest rate for **underpayment penalty has increased to 8%.** Again, we refer you to the Tax Services page of our website (https://www.ffgwealth.com/tax-services/) to review the rules regarding estimated payment requirements. If you have concerns about exposure to underpayment penalties for 2023, we are available to prepare tax projections before year-end. We will need recent pay-stubs and realized income and gain/loss details on taxable brokerage accounts. We will also need background on any new or significantly different earnings sources in 2023 as compared to your 2022 tax return.

- **Fixed Income Investment Planning**: Fixed income has taken center stage in the investment world and also in tax planning. We will discuss tax loss harvesting below but we are finding that some of our clients have losses in their fixed income mutual funds and ETFs that are candidates for tax loss selling. The same is true of individual bonds that may have been purchased more than a year ago.

While we reviewed the differing tax treatment of the different fixed income investments in our previous tax newsletter, a refresher may be helpful. Here is a table of the tax treatment of various fixed income instruments:

	Federal	State
CDs/Corporate Bonds	Taxable	Taxable
Treasury Bills/Bonds/Notes	Taxable	Not Taxable
Munis - out of state	Not Taxable	Taxable
Munis - in state	Not Taxable	Not Taxable

It is important to keep these differing tax treatments in mind as investors seek to purchase bonds with the highest **after-tax** returns. For the accounts that we manage we are currently finding that US Treasuries are providing the best after-tax yield at the short end of the duration range but in-state Muni bonds are providing the superior after-tax yield once we go out beyond three years or so. However, things are changing fast in the once stable bond market.

- **Donor Advised Funds (DAF)**: We continue to favor setting up these accounts to manage almost all charitable giving for these reasons: (1) Funding a DAF with appreciated stock provides "tax-leveraged" charitable giving, (2) DAFs allow one to target the year of deduction when there is a max tax benefit, while retaining the timing control over ultimate distributions to charities, and (3) DAFs help organize charitable giving so deductions don't fall through the cracks and go unreported.

- **Tax Loss Harvesting:** When executed properly, the swapping out of investments which are in a loss position into similar, but not "<u>substantially identical</u>" positions, can help investors reduce their future capital gains without dismantling the composition of their portfolio or investment strategy. Due to the complex "Wash Sale" rules, we recommend discussing this strategy with our financial professionals to ensure these losses will be allowed for income tax purposes.

- **Health Saving Accounts (HSAs)**: These accounts, when combined with a high-deductible health plan, provide the Triple Crown of tax planning: tax deductible contributions going in, tax-free earnings while invested, tax free distributions coming out. Those clients with ample current cash flow are encouraged to maximize contributions to their HSA now and leave it in the HSA account untouched. The balance can continue to grow tax-free and can be taken out, also tax-free, years later for health needs after retirement.

- **529 Accounts**: Parents and grandparents should consider maximizing contributions to these accounts each year until the needed college funding is achieved. The income earned is completely tax-free if ultimately used on "qualified education expenses". Any funds not needed for the education of the original beneficiary can be transferred to another 529 beneficiary, including future generations within the family which can create a completely legitimate multi-decade tax sheltered investment vehicle. Also, the beneficiary is now able to convert up to $35,000 of the unused balance in a 529 account into a Roth IRA for their benefit.

- **Roth IRA Conversions**: If the taxpayer is in a low tax bracket in 2023 it may make sense to convert a portion of their regular IRA into a Roth. This is especially true during a time when the investment market has taken a bit of a hit. The long-term planning advantage grows if you are able to keep these accounts untouched for as long as possible. They are not subject to the RMD rules and many target the Roth IRAs as good assets to leave to their children since there is no future income tax implications for the beneficiary.

Clean Vehicle Credit & Residential Energy Credits

The Inflation Reduction Act of 2022 extended and expanded several Tax Code provisions related to green energy that were set to expire or were being phased out.

- The Clean Vehicle Credit, formerly known as the Plug-in Electric Vehicle Credit, provides a credit in the range of $3,750 to $7,500 on the purchase of a new qualified plug-in EV or fuel cell electric vehicle and $4,000 for a used vehicle. Dealerships will offer the credit at the time of purchase for taxpayers with adjusted gross income (AGI) below $300,000 for joint filers, $225,000 for Head of household filers and $150,000 for all others. Since receiving the credit in this manner is an advanced payment on a federal income tax credit, you should be aware that if your income ends up exceeding these thresholds, you will be required to repay the credit on your personal income tax return. We recommend visiting the IRS website for details on vehicle requirements and credit amount for your delivery date. Here is the website link: https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after

- The Residential Clean Energy Credit, which is the incentive for solar and wind installations, will be 30% from 2023 through 2032, after which a phase-down is scheduled to begin. Starting in 2023, this credit will also apply to battery storage technology with a capacity of at least 3 kilowatt hours. As a reminder, this credit is no longer available for biomass furnaces and water heaters.

- The Energy Efficient Home Improvement Credit is available from 2023 through 2032 with new requirements and enhancements taking effect. Most notably, the prior $500 *onetime* credit has been replaced with a $1,200 per year credit. Lesser annual limits are placed on specific types of improvements such as exterior doors ($250 per door, $500 total), exterior windows ($600), and heat pumps ($2,000, not limited by the $1,200 annual limit). Certain biomass furnaces and water heaters will qualify for the incentive, but no credit will be available for roof improvements.

New Reporting Requirements for Most New & Existing Businesses

Starting January 1st, 2024, most businesses will be required to report information about their beneficial owners to the Treasury Department through the Financial Crimes Enforcement Network (FinCEN). This requirement comes from the Corporate Transparency Act of 2021. Generally, any entity which is formed by filing a document with a secretary of state or similar office is considered a “Reporting Entity” and will be required to disclose information regarding the individuals who control the entity. Entities existing prior to January 1st, 2024 will have until the end of 2024 to report owner information, while newly formed entities must report the information within 90 days of formation. FinCEN has provided a list of organizations which would be exempt from reporting but expects most Reporting Entities to be small businesses. Penalties for non-compliance may result in a civil penalty of as much as $500 per day and criminal penalties of up to $10,000 and/or imprisonment of up to two years.

Planning for the End of Provisions of the 2017 Tax Cuts & Jobs Act

In 2017 the Tax Cuts and Jobs Act (TCJA) was passed but for the purpose of budget scoring it contained a sunset provision. Assuming congress doesn’t extend TCJA, many provisions of this act will expire at the end of 2025. With the tendency of time to continue to march on, and the tendency of Congress to not do anything, it is important to keep an eye on the potential upcoming changes. Most notable being:

- **Estate Tax:** The most significant possible change is a reduction in the estate tax exemption from its current level of $12.92M to approximately $7M per person. We plan to cover this, and other estate planning, topics in detail in an upcoming newsletter.
- **State & Local Taxes (SALT) Deductions:** The TCJA limited the deductible amount of SALT *(mainly state income and county real estate taxes)* to a measly $10k. This limitation is set to end after 2025.

- **Limitations to Charitable Cash Donations:** The deduction for charitable cash donations has always been limited to a percentage of adjusted gross income. The TCJA increased this percentage from 50% to 60%. The 50% threshold becomes effective again on January 1st, 2026.
- **Mortgage Interest:** Deductible mortgage interest was limited by the TCJA to the first $750k of indebtedness. This limit will increase back to $1M of indebtedness in 2026.
- **Miscellaneous Itemized Deductions:** Examples include employee business expenses including home office, Advisor & Tax Prep fees etc. It still must exceed 2% of AGI before there is a tax benefit.
- **Standard Deduction and Personal Exemptions:** Part of the hit taxpayers felt from the TCJA's limitations on the above itemized deductions was softened by doubling the standard deduction. The Standard deduction will be cut in half starting with 2026. It's not all bad though; the personal exemption of $4,050 for each taxpayer and dependent, which was eliminated by the TCJA, will be revived in 2026.
- **Child Tax Credit:** The TCJA doubled the Child Tax Credit from $1,000 to $2,000 and bumped up the income level at which point the credit begins phasing out. The credit is expected to revert back to pre-TCJA levels.
- **Qualified Business Income (QBI) Deduction:** This provision of the TCJA offered a 20% deduction on income from qualified trades or businesses. The GOP & Trump claimed the deduction would help put sole proprietorships, partnerships, and S-Corporations on par with the decreased corporate tax rate. However, they often failed to mention that this provision would end in 2026, while the corporate rate cut was made permanent.
- **100% Bonus Depreciation Phasing-out:** Since September 27, 2017, a full and immediate deduction of 100% of most business property placed in service could be claimed as "Bonus Depreciation". This deduction begins phasing out starting in 2023 with a full phase out by 2027.
- **Individual Tax Brackets:** The top rate is set to go back up to 39.6%. Cap Gains brackets will be retied to income tax brackets.

This memo is not intended to be comprehensive. Rather, we issue it to provide an overview of a variety of tax planning considerations. We stand ready to answer any questions and discuss how these items may apply to your particular situation.

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Cooper & Vogelheim | Fiduciary Financial Group