

Year-End Tax Planning

As we approach the end of 2023, it is the perfect time to review financial objectives to ensure they are aligned with current and future financial commitments. While there hasn't been significant tax legislation in 2023, several critical provisions from 2022 will influence the upcoming tax year. Here's a comprehensive guide to help you navigate and prepare for year-end tax planning:

Inflation Reduction Act Benefits

- The Inflation Reduction Act introduced new or enhanced tax credits and deductions for individuals and businesses.
- For homeowners, the Energy Efficient Home Improvement Credit now offers a \$1,200 annual credit, making it accessible to many.
- An extended Clean Vehicle Credit and the new Previously Owned Clean Vehicle Credit aim to boost electric vehicle sales.

Clean Energy Credits for Businesses

- Businesses can capitalize on 16 new or expanded clean energy credits and deductions, focusing on the resulting clean energy produced, rather than the source.

SECURE 2.0 and Retirement Planning

- SECURE 2.0, enacted in December 2022, extended the age for required minimum distributions to 73 for 2023 and reduced penalties for failing to make these distributions.
- Consider potential changes in the distribution period for inherited IRAs.

SALT Deduction Limit

- Even if Congress doesn't eliminate the limit on state and local tax deductions, many states permit full deductions if paid by a pass-through entity.
- Each state statute differs, so be cautious when seeking deductions.

Employee Retention Credit

- The IRS has imposed a moratorium on processing further claims for this credit until at least December 31, 2023, due to an overwhelming number of claims.

1099 Reporting

- The IRS recently announced delay in Form 1099-K reporting threshold for third-party platform payments for 2023; plans for a threshold of \$5,000 in 2024 to phase in implementation.
- We encourage you to notify processors of personal transactions.

Tax Loss Harvesting

- This strategy remains effective for year-end tax planning.
- Be aware of wash sale rules to avoid capital loss deduction losses.
- Mutual fund investors should watch out for year-end capital gain distributions.

Digital Assets

- The IRS is focused on underreported digital asset income.
- Ensure accurate reporting of digital asset transactions, considering the IRS's stance that digital assets are property.

Remaining Lifetime Exemption

- In 2023, the federal estate, gift, and GST exemptions are \$12.92 million, with projections of \$13.61 million in 2024.
- The exemption is set to halve on January 1, 2026, so any unutilized amount will be lost.
- Utilize the annual exclusion, as a married couple could gift \$34,000 annually per donee without gift tax implications.

Unified Credit and Annual Exclusion

- Concerned about the declining unified credit, consider making gifts in 2023, 2024, and 2025. These gifts won't be clawed back if the unified credit is eventually reduced.
- We encourage you to utilize your annual exclusion early in the year, which allows individuals to gift up to \$17,000 (expected to rise to \$18,000 in 2024) without gift tax implications. For married couples, this means gifting \$34,000 annually per recipient.

Future Tax Rate Changes

- The favorable income tax rates are set to expire in 2026, with the highest individual rate rising from 37% to 39.6%.
- When coupled with the expiration of the 20% qualified business income deduction, this may result in a 10% tax rate increase for some individuals operating businesses.
- The corporate tax rate, however, remains at 21%, prompting a potential reevaluation of operating structures in 2026.
- Bonus depreciation will gradually decrease over the upcoming years, with rates of 60% in 2024, 40% in 2025, 20% in 2026, and will be completely phased out starting in 2027.

Your Wellspring advisor will work with you to navigate the complexities of the evolving tax landscape by identifying opportunities for tax savings and ensuring financial strategies align with the current regulatory environment. As always, please do not hesitate to contact us with any questions regarding your unique financial situation.

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