



YEO & YEO

CPAS & ADVISORS



2023 Year-end Tax Planning Guide

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INTRODUCTION

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 most small businesses and all but the highest income taxpayers, as will the bunching of deductible expenses into this year or next to avoid restrictions and maximize deductions.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all of them will apply to you, but you (or a family member) may benefit from many of them. We can narrow down specific actions when we meet to tailor a particular plan for you. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial.

Yeo & Yeo's year-end tax planning checklist of additional action items may help you save tax dollars if you act before year-end.

Visit yeoandyeo.com for additional tax planning resources including:

- Everyday Business Podcast
- Tax and Estate Planning Guides Online
- Tax Insights on Yeo & Yeo's Blog
- Tax Planning Calendars



Year-End Planning Businesses & Owners

The American Rescue Plan Act signed in March 2021 contained many tax provisions aimed at helping businesses deal with the pandemic and ongoing economic disruption. The Inflation Reduction Act passed in August 2022 contained new corporate taxes, green energy tax credits and other provisions that will also impact the 2023 and 2024 tax filings.

EMPLOYEE RETENTION CREDIT

The employee retention credit is a refundable payroll tax credit that may be claimed by eligible employers with qualifying payroll and associated decreases in revenue. Be aware that several ERC scam promotions are happening.

In October 2023, the IRS introduced a voluntary withdrawal procedure for any taxpayer with an ERC claim that has not yet received a refund to withdraw the submission and avoid any future repayment, penalties or interest. This procedure allows taxpayers that may have been misled or pressured by ERC marketers or promoters into filing claims that may be ineligible for the credit to withdraw and it will be treated as if the claim was never filed. Legitimate claims for 2020 can still be filed until April 2024. Claims for 2021 can be filed until April 2025. This is a very complex calculation. If you believe you may qualify for these credits or need to amend previous filings, please contact us to assist you in

determining if you can benefit from this program or need help in filing the amended returns.

BUSINESS MEALS

For 2023, the deduction has reverted to 50% for expenses paid for food or beverages provided by a restaurant for either dining in or taking out. The deduction available for meals or food not supplied by a restaurant is still 50%, the same as 2022.

PURCHASES OF PROPERTY AND EQUIPMENT

Businesses have opportunities to expense purchases in the year they are placed in service either using Section 179 expense depreciation or bonus depreciation. Under Section 179, businesses cannot spend more than \$2,890,000 on capital equipment during the tax year to qualify for the deduction which is capped at \$1,160,000 for 2023. If capital purchases exceed the \$2,890,000, the deduction will be reduced on a dollar-for-dollar basis. Bonus depreciation for new and used property will be 80% in 2023, 60% in 2024, 40% in 2025 and 20% in 2026, so 2023 might be the year to purchase large equipment to get a greater benefit from bonus depreciation if using that option.

QUALIFIED IMPROVEMENTS TO REAL PROPERTY

The bonus depreciation amount for certain improvements to the interior of commercial real estate is decreasing to 80% in 2023. If you have improved your business property, we can help you determine the best approach to expensing these costs.

RETIREMENT PLAN CONTRIBUTIONS

Making a contribution to a retirement plan can significantly reduce 2023 taxable income. In many cases, the contribution will not have to be paid until the due date of your 2023 income tax return. Let us assist you in determining if your plan is working to achieve your savings and tax goals.



S CORPORATION SHAREHOLDER MEDICAL PREMIUMS

If you are an S Corporation shareholder, be sure to properly report your medical premiums on your W-2 to maximize your deduction in 2023.

Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income.

For 2023, if taxable income exceeds \$364,200 for a married couple filing jointly and \$182,100 for single filers, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the business. The limitations are phased in; for example, the phase-in applies to joint filers with taxable income up to \$100,000 above the threshold, and to other filers with taxable income up to \$50,000 above their threshold.

Taxpayers may be able to salvage some or all of this deduction by deferring income or accelerating deductions to keep income under the dollar thresholds (or be subject to a smaller deduction phaseout) for 2023. Depending on their business model, taxpayers also may be able to increase the deduction by increasing W-2 wages before year-end. The rules are quite complex, so don't make a move in this area without consulting us.

Businesses may be able to **take advantage of the de minimis safe harbor election** (also known as the book-tax conformity election) **to expense the costs of lower-cost assets and materials and supplies**, assuming the costs aren't required to be capitalized under the UNICAP rules. To qualify for the election, the cost of a unit of property can't exceed \$5,000 if the taxpayer has an applicable financial statement (AFS, e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed \$2,500. Where the UNICAP rules aren't an issue, and where potentially increasing tax rates for 2023 aren't a concern, consider purchasing qualifying items before the end of 2023.



A corporation (other than a large corporation) that anticipates a small net operating loss (NOL) for 2023 (and substantial net income in 2024) may find it worthwhile to **accelerate just enough of its 2023 income** (or to defer just enough of its 2023 deductions) **to create a small amount of net income for 2023**. This allows the corporation to base its 2024 estimated tax installments on the relatively small amount of income shown on its 2023 return, rather than having to pay estimated taxes based on 100% of its much larger 2024 taxable income.

Year-end bonuses can be timed for maximum tax effect by both cash- and accrual-basis employers. Cash-basis employers deduct bonuses in the year paid, so they can time the payment for maximum tax effect. Accrual-basis employers deduct bonuses in the accrual year when all events related to them are established with reasonable certainty. However, the bonus must be paid within 2.5 months after the end of the employer's tax year for the deduction to be allowed in the earlier accrual year. Accrual employers looking to defer deductions to a higher-taxed future year should consider changing their bonus plans before year-end to set the payment date later than the 2.5-month window or change the bonus plan's terms to make the bonus amount not determinable at year-end.

Sometimes the **disposition of a passive activity can be timed to make best use of its freed-up suspended losses**. Where reduction of 2023 income is desired, consider disposing of a passive activity before year-end to take the suspended losses against 2023 income.

For Partnerships and S Corporations, the new filings released in 2022 (Schedules K-2 and K-3) will continue to be required.

PREPARING FOR THE CORPORATE TRANSPARENCY ACT BENEFICIAL OWNERSHIP INFORMATION REPORTING

Beginning January 1, 2024, any entities created by filing a document with a secretary of state (Corporations, LLC, etc.) will be required to file information regarding their beneficial owners to FinCEN, the Financial Crimes Enforcement Network. A beneficial owner is any person who controls at least 25% of ownership interest or has substantial control over the entity. Existing entities will have until January 1, 2025, to file with FinCEN, while new entities formed in 2024 will have 90 days from their creation. There are both civil and criminal penalties for not filing on time. The information to be reported for individuals includes: legal name, date of birth, current address, and an image of an identification document such as a driver's license. Individuals can create a FinCEN Identifier, which stores all their required information and lets the business use the individual's ID number instead. Several special rules and updates will come out about the FinCEN reporting. If you believe you are required to file with FinCEN, please contact us to assist you in determining the best way to file.



Year-End Planning Individuals

CHILD TAX CREDITS

The refundable amount of child tax credits has changed for 2023. The amount of the credit is \$2,000 per child under the age of 17 and only \$1,600 of that amount is refundable.

CHILD AND DEPENDENT CARE CREDIT

In 2023, the credit is non-refundable and the maximum credit percentage remains 35%. The credit is allowed for up to \$3,000 in expenses for one child/dependent and \$6,000 for more than one, so the maximum credit for 2023 is \$1,050 for one child/dependent and \$2,100 if you have more than one.

1099-K FORMS

In November 2023, the IRS delayed the reduced reporting threshold for third-party platform payments such as PayPal and Venmo. For 2023, the limits will remain at \$20,000 or 200 transactions for 1099-K reporting. The IRS indicated that 2024 will be a planning phase in the reporting, with a projected threshold of \$5,000.

If you receive a 1099-K in error, you should contact the payer to correct it. If that is not possible, then you should report the income on Schedule 1 as other income and the corresponding correction as an Other Adjustment to income. Be sure to review your third-party payer accounts for their designation as personal or business in order to allow for correct reporting in the future.

EDUCATOR EXPENSE

For the 2023 tax year, teachers and other educators who buy their own books, supplies and other materials used in the classroom can deduct up to \$300 of these out-of-pocket expenses.

RESIDENTIAL CLEAN ENERGY CREDIT

In 2023, the credit is 30% of the cost to install qualifying temperature control systems for your home that use solar, wind, geothermal, or fuel cell power. The credit does not apply to biomass furnaces and water heaters.

CLEAN VEHICLE CREDIT

Beginning in 2023, you can claim a credit up to \$7,500 for new electric vehicles (EV) and up to \$4,000 for used EVs purchased in 2023 if the EV meets certain requirements. These credits are available for personal and business use, and are nonrefundable. If you are over the income limit for the credit, and claim the credit when you purchase the vehicle, you will be required to pay the credit back on your 2023 tax return. To qualify, the vehicle must meet certain assembly and sourcing requirements. To help determine if a vehicle satisfies this requirement, the U.S. Department of Energy has a general list of vehicles with final assembly in North America on its website. However, before buying a new electric vehicle, check the National Highway Traffic Safety Administration's VIN number decoder to make sure the exact vehicle you intend to purchase qualifies for the new credit. There are other requirements that could trip up EV buyers in 2023 and disallow the credit as well. It is a very complicated credit with many specific requirements, so contact us if you are thinking of buying an electric vehicle or have questions regarding a vehicle already purchased.



REQUIRED MINIMUM DISTRIBUTIONS (RMD)

In 2023, you must take a distribution if you are age 73 by the end of the year. Missing an RMD will result in significant penalties. If you are required to take an RMD, be sure this is done before the end of 2023. If you are at least age 70 1/2, you can make the distribution directly from your IRA to a qualified charity. If you do this, it satisfies your RMD and you do not have to include the RMD in your taxable income.

RETIREMENT PLAN CONTRIBUTIONS

Have you maximized your employer retirement plan contributions for 2023? For a 401(k), an employee can defer up to \$22,500 into the plan. If you are at least 50 you can add an additional \$6,500. Note that for 2024, an additional \$500 contribution will be allowed for a maximum of \$23,000. Making these contributions can reduce your 2023 taxable income and potentially increase your benefit if your employer has a matching program.

IRA CONTRIBUTIONS

For 2023, taxpayers can contribute up to \$6,500 into an IRA. If you are 50 or older that limit is \$7,500. There are several types of IRA accounts and eligibility depends on many other factors. The contributions for 2023 must be made on or before April 15, 2024.

CRYPTOCURRENCY

Virtual currency transactions are becoming more common. The IRS is ramping up enforcement in this area. The sale or exchange of virtual currency is a taxable transaction. Additionally, using virtual currency to pay for goods or services has tax impact. If you have engaged in virtual currency transactions, contact us to determine the records you will need and the tax impact of the activities.

Higher-income individuals must be wary of the 3.8% surtax on certain unearned income. The surtax is 3.8% of the lesser of: 1) net investment income (NII), or 2) the excess of MAGI over a threshold amount (\$250,000 for joint filers or surviving spouses, \$125,000 for a married individual filing a separate return, and \$200,000 in any other case). As year-end nears, the approach taken to minimize or eliminate the 3.8% surtax will depend on the taxpayer's estimated MAGI and NII for the year. Some taxpayers should consider ways to minimize (e.g., through deferral) additional NII for the balance of the year, others should try to reduce MAGI other than NII, and some individuals will need to consider ways to minimize both NII and other types of MAGI. An important exception is that NII does not include distributions from IRAs or most other retirement plans.

The 0.9% additional Medicare tax also may require higher-income earners to take year-end action. It applies to individuals whose employment wages and self-employment income total more than an amount equal to the NIIT thresholds, above. Employers must withhold the additional Medicare tax from wages in excess of \$200,000 regardless of filing status or other income. Self-employed persons must take it into account in figuring estimated tax. There could be situations where an employee may need to have more withheld toward the end of the year to cover the tax. This would be the case, for example, if an employee earns less than \$200,000 from multiple employers but more than that amount in total. Such an employee would owe the additional Medicare tax, but nothing would have been withheld by any employer.



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 (e.g., \$83,350 for a married couple; estimated to be \$89,250 in 2024). If, say, \$5,000 of long-term capital gains you took earlier this year qualifies for the zero rate, then try not to sell assets yielding a capital loss before year-end, because the first \$5,000 of those losses will offset \$5,000 of capital gain that is already tax-free.

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 2023 that are phased out over varying levels of AGI.

If you believe a Roth IRA is better for you than a traditional IRA, consider converting traditional-IRA money invested in any beaten-down 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.

It may be advantageous to try to arrange with your employer to defer, until early 2024, a bonus that may be coming your way. This might cut as well as defer your tax. Again, considerations may be different for the highest income individuals.

Many taxpayers won't want to itemize because of the high basic 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 or abolished, including the \$10,000 limit on state and local taxes; miscellaneous itemized deductions; and 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.



Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2023 deductions even if you don't pay your credit card bill until after the end of the year.

If you expect to owe state and local income taxes when you file your return next year and you will be itemizing in 2023, consider asking your employer to increase withholding of state and local taxes (or make estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2023. But this strategy is not good to the extent it causes your 2023 state and local tax payments to exceed \$10,000.

Consider increasing the amount you set aside for next year in your employer's FSA if you set aside too little for this year and anticipate similar medical costs next year.

If you become eligible in December 2023 to make HSA contributions, **you can make a full year's worth of deductible HSA contributions for 2023.** The family contribution limit is \$7,750, the self-only limit is \$3,850 and the annual "catch-up" contribution amount for individuals age 55 or older will remain at \$1,000.

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.

If you were in a federally declared disaster area, and you suffered uninsured or unreimbursed disaster related losses, keep in mind you can choose to claim them on either on the return for the year the loss occurred (in this instance, the 2023 return normally filed next year), or on the return for the prior year (2022), generating a quicker refund.

If you were in a federally declared disaster area, you may want to settle an insurance or damage claim in 2023 to maximize your casualty loss deduction this year.



Tax Resources

Our tax planning and management CPAs develop tax strategies to maximize tax savings. Contact a Yeo & Yeo professional for information on how the changing laws impact you. Regularly visit Yeo & Yeo's Tax Resource Center to help you better manage your personal and business taxes. Everyday tax resources include an IRS withholding calculator, tax calendars, an estate planning guide, and links to useful websites. There's much more:

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- **Financial Calculators**
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