Year-End Tax Saving Tips

Consider the following before 2023 comes to an end:

Lower Your Taxable Income:

Employees still have time to increase pre-tax deductions (e.g. 401(k), 403(b), etc.) from their paycheck (unless already maxed).

Self-employed folks can lower their taxable income too by making business purchases or contributing to a retirement plan. Ask for help if you need year-end tax planning, as the retirement plan rules are more complex for self-employed folks.

Why consider this? Not only can it reduce tax, but there are credits and surtaxes that are sensitive to income levels. Each income threshold is calculated differently and there are other qualifiers, so ask for help if you need assurances. With that in mind, here are some examples:

Do you have kids in college or pay tuition for yourself? The American Opportunity Credit (first four years of college) and Lifetime Learning Credit (for other degree programs including grad school) begins to phase out at an income of $80,000 (single/HH) and $160,000 (MFJ).

Do you own a business? The QBI deduction begins to phase out for many business owners starting at a taxable income of $182,100 (single/HH/MFS) and $364,200 (MFJ).

Do you have a modest income? The Earned Income Credit phases out at varying income levels between $17,640 (single with no qualifying children) and $63,698(Married with 3+ children).

Do you have a larger income? The phase-out of the Child Tax Credit begins at $200,000 (single) and $400,000 (married). Medicare and investment surtaxes begin at $200,000 (single) or $250,000 (married).

Do you put money in a Roth IRA? Contributions to a Roth IRA begin to phase-out at $138,000 (single) or $218,000 (married filing jointly).

Do you own rental property? Your ability to deduct most rental losses incurred during the current tax year phases out between $100,000 and $150,000 of income.

Are you paying student loans? Your ability to deduct the interest begins to phase out at $75,000 (single) and $155,000 (MFJ).

Do you buy ACA health insurance on healthcare.gov (or state run exchange)? Your premium contribution is limited to 8.5% of household income. As such, lower incomes might result in a higher Premium Tax Credit.

Charity:

Nearly 90% of taxpayers will not itemize this year. If that's you, consider the following charity strategies:

- **Volunteer**. The value of your time was never a tax deduction, so you're not missing out on anything.
- **Plan ahead for a QCD:** Qualified Charitable Distributions (QCD) from an IRA are allowed for taxpayers over age $70^{1/2}$. The contribution must be made directly from the IRA to the charity. Seniors that use this strategy can take the deduction even if they don't itemize.

Selling investments?

If your taxable income is likely to fall below $44,625 (single) or $89,250 (MFJ) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds.

Conversely, it might be wise to check your portfolio for losses. You can offset up to $3,000 of other income with capital losses. If you want to repurchase the stock, consider waiting at least 31 days to avoid a wash-sale (which would disallow the loss).

If you are planning on deducting worthless stock, note that it's not deductible until it's completely worthless.

Roth conversions:

The deadline to convert funds from a traditional IRA to a Roth IRA is 12/31/23. Unlike Roth contributions, conversions are allowed regardless of income. Remember, the amount converted is taxable income. Also remember that you can't undo Roth conversions at a later date.

Health insurance:

If you choose a health plan that is compatible with **Health Savings Accounts (HSA)** you should start funding your HSA right away. That's because medical expenses do not count as "qualified" for tax free distributions if they occur before the HSA was funded (this tip mostly matters for folks starting an HSA for the first time).

The maximum amount you can shelter for tax year 2023 is $3,850 (single coverage) or $7,750 (family coverage). Taxpayers age 55+ can contribute an additional $1000. You should contribute the maximum if you can afford to. That's because HSAs have three tax benefits;

1. Contributions are a tax deduction.
2. Qualified medical distributions are tax free.
3. You can invest the funds and reimburse yourself for qualified medical expenses after the account has grown in value (remember to save your medical receipts).

Employee fringe benefits:

Aside from HSAs, look into other pre-tax spending options that your employer offers such as; insurance, daycare, commuting, parking, education, etc.

Looking Ahead To 2024?

Tax year 2024 will bring more changes. Here are some:

Unused funds from older (15+ years old) **529 Plans** can be used for the beneficiary's annual Roth IRA contribution, even if their income exceeds the Roth contribution limit. The rollover must be direct (trustee to trustee) and cannot exceed the annual Roth contribution limit. There's also a $35,000 lifetime max limit.

Retirement plans will see plenty of changes too:

- **Victims of domestic abuse** will be allowed limited penalty free distributions.
- Small ($1000 max) penalty free distributions will be allowed for **emergencies.**
- Required Distributions from employer sponsored **Roth plans** will be eliminated.
- Age 50+ **catch-up contribution amounts** to IRAs will be indexed for inflation.
- **Student loan payments** will qualify for employer's matching contribution to a retirement plan (if offered by employer).
- **Emergency savings accounts** with limited account balance ($2500 max) will be allowed (if offered by employer).

Delayed: The IRS has delayed the implementation of a new rule. Beginning in 2026, age 50+ **catch-up contributions** for higher income ($145,000+) employees must go into Roth accounts (Congress originally wanted this to begin in 2024).