Year-end tax and financial planning for individuals

As we wrap up 2023, it's important to take a closer look at your tax and financial plans and discuss steps to reduce taxes and help you save for your future. We're here to help explain tax and financial planning opportunities. Please contact us to discuss your situation so we can develop a customized plan. In the meantime, here's a look at some issues impacting individuals to consider as we approach year-end.

Charitable contribution planning

If you are planning to donate to a charity, it's likely better to make your contribution before the end of the year to potentially save on taxes. There are many tax planning strategies we can discuss with you about charitable giving.

- Consider donating appreciated property (such as securities, real estate or artwork) that have been held for more than one year, rather than cash. Note that an appraisal may be needed for certain property.
- Opening and funding a donor advised fund (DAF) is appealing to many as it allows for a tax-deductible gift in the current year and the ability to dole out those funds to charities over multiple years. Not only do you get a deduction for the FMV of your appreciated stock, but you save on taxes by not recognizing the capital gains on appreciation.
- Qualified charitable distributions (QCDs) are another option for certain older taxpayers who don't typically itemize on their tax returns. If you have a required minimum distribution (RMD) from your retirement accounts, this could be a great strategy for you.

Note that it's important to have adequate documentation of all donations, including a letter from the charity for donations of $250 or more.

Required minimum distributions (RMDs)

You cannot keep retirement funds in your account indefinitely. RMDs are the minimum amount you must annually withdraw from your retirement accounts once you reach a certain age (generally age 73). Failure to do so can result in significant penalties. There are also opportunities to roll retirement funds to a qualified charity to satisfy the RMD without incurring taxes.

Digital assets and virtual currency

Digital assets are defined under the U.S. income tax rules as any digital representation of value that may function as a medium of exchange, a unit of account and/or a store of value. Digital assets may include virtual currencies such as Bitcoin and Ether, Stablecoins such as Tether and USD Coin (USDC) and non-fungible tokens (NFTs).

The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services or holding such currencies as an investment, generally have tax impacts — and the IRS continues to increase its scrutiny in this area.

Energy tax credits

From electric vehicles to solar panels, “going green” continues to provide tax incentives. The Inflation Reduction Act of 2022 included new and newly expanded tax credits for solar panels, electric vehicles (EV) and energy-efficient home improvements. The rules are complex but there is still time for these credits to be beneficial in the current year. The most notable change to the EV credits is the requirement that the vehicle has final assembly in North America. If you are planning an EV purchase, please reach out as the list of qualifying vehicles and eligibility for the tax credits has changed significantly.

Beneficial ownership interest (BOI) reporting

The Corporate Transparency Act (CTA) requires the disclosure of the beneficial ownership information of certain entities to the Financial Crimes Enforcement Network (FinCEN) starting in 2024. This is not a tax filing requirement, but an online report to be completed if applicable to FinCEN. There are severe penalties for businesses who willingly do not comply with the requirements.

Additional tax and financial planning considerations

We recommend you review your retirement plans at least annually. That includes making the most of tax-advantaged retirement saving options, such as traditional individual retirement accounts (IRAs), Roth IRAs and company retirement plans. It’s also advisable to take advantage of health savings accounts (HSAs) that can help you reduce your taxes and save for medical-related expenses.

Here are a few more tax and financial planning items to discuss with us:

- **Life changes** — Let us know about any major changes in your life such as marriages or divorces, births or deaths in the family, job or employment changes, starting a business and significant expenditures (real estate purchases, college tuition payments, etc.).
- **Capital gains/losses** — Consider tax benefits related to using capital losses to offset realized gains — and move any gains to the lowest tax brackets, if possible. Also, consider selling portfolio investments that are underperforming before the end of the year. Net capital losses can offset up to $3,000 of the current year's ordinary income. The unused excess net capital loss can be carried forward to use in subsequent years.
- **Estate and gift tax planning** — Let's make sure you're appropriately planning for estate and gift tax purposes. There is an annual exclusion for gifts ($17,000 per donee in 2023, $34,000 for married couples) to help save on potential future estate taxes. Review lifetime gift and generation skipping transfer (GST) opportunities to use additional exclusions and exemption amounts.
- **State and local taxes** — Remote working arrangements or moving your residency could potentially have tax implications to consider.
- **Education planning** — Save for education with Sec. 529 plans. There can be income tax benefits to do so, and there have been changes with the way these funds can be used.
- **Roth IRA conversions** — Evaluate the benefits of converting your traditional IRA to a Roth IRA to lock in lower tax rates on some of your pre-tax retirement accounts.
- **Estimated tax payments** — With underpayment interest rates being on the rise (currently at 8% for federal), let's review withholding and estimated tax payments and assess any liquidity needs.

Year-end planning equals fewer surprises

Whether it's working toward a tax-optimized retirement or getting answers to your tax and financial planning questions, we're here for you. Please contact our office to set up your year-end review. As always, planning ahead can help you minimize your tax bill and position you for greater success.