



TRAPHAGEN
CPAs & WEALTH ADVISORS



Year-End Tax Planning Strategies for Individuals & Businesses

To Our Clients and Friends:

As the months continue to fly by, we have come to that time again! The end of the year is approaching which means it is a good time to think about things you can do to help reduce your federal and state tax bills. In developing a year-end tax plan, aside from tried-and-true tax planning strategies used every year, one must also consider recently passed legislation. The SECURE 2.0 Act brought many updates to the U.S. retirement system. Also, the Inflation Reduction Act boosted a number of energy tax credits for 2023.

With this background in mind, we have compiled a list of actions based on current tax rules and economic conditions that will save you tax dollars before this year ends. Not all actions will apply to your particular situation; but you (or a family member) will likely benefit from many of them.

Using our tax strategies, you can effectively:

- Reduce current year tax
- Defer current year tax
- Reduce future year's tax
- Maximize savings from allowable deductions
- Maximize tax credits
- Minimize Capital Gains
- Minimize tax on net investment income

- Avoid penalties for underpayment of estimated taxes

Generally, for tax planning, you want to defer income and accelerate deductions if you expect to be in the same or a lower tax bracket in 2024. However, if you expect to be in a higher tax bracket in 2024, you will want to accelerate income into 2023 (taxed at a lower rate) and defer deductions until 2024 when they will yield a bigger tax benefit.

Our strategies below are based on the concept of deferring income and accelerating deductions.

Year-end Planning Moves for Individuals

Tax Planning Strategies:

- Defer taxable income (which includes accelerating deductions). If you have appreciated business or investment property that you are thinking of selling, wait until 2024 to close the sale.
- Use recognized capital losses this year (or have capital loss carryovers from previous years) to shelter any 2023 capital gains realized before year end.
- Before year end, realize capital losses on stocks that have declined in value while substantially preserving your investment position. This also can shelter realized capital gains.
- Keep in mind that virtual currency (also known as cryptocurrency or crypto) such as Bitcoin is treated as property for federal tax purposes. So, you can generate a capital loss (assuming you held the crypto as an investment) by selling before year-end if it is now worth less than you paid for it.
- Bunch itemized deductions such as charitable contributions, taxes on property held for investment/trade or business, state and local taxes (up to \$10,000) and home mortgage interest, if close to exceeding the standard deduction. This would also include medical expenses such as elective medical procedures, dental work, and routine physicals.
- Charitable giving. Contribute to charity directly from your IRA (RMD) or use a donor-advised fund to make a charitable contribution. Also, donate appreciated assets, including appreciated stocks, that were held for over a year which can allow you to deduct the full fair market value of the donated asset while avoiding the tax if you had sold the asset and donated the cash to the charity.
- Take advantage of the annual gift tax exclusion. For 2023, you can make annual exclusion gifts up to \$17,000 per donee, with no limit on the number of donees. If you are married, you and your spouse can elect to gift split, so that a gift either of you makes is considered to be made one half by each spouse.
- The Inflation Reduction Act resulted in a number of energy credits being improved for 2023. As an example, the energy efficient home improvement credit replaced the nonbusiness energy property credit for 2023. It provides a credit of 30% of the costs of all eligible home improvements (such as roofs, insulation, windows, doors, air conditioners, water heater, heat pumps, etc.) made during the year, up to a \$1,200 annual limit—rather than a \$500 lifetime maximum under prior law. Also, the

residential clean energy property credit allows a 30% credit for expenditures on certain solar, fuel cell, wind, geothermal and battery storage property, subject to applicable kilowatt restrictions.

Year-end Planning Moves for Small Businesses

Tax Planning Strategies:

- Maximize retirement plan contributions. If you are self-employed and set up a SEP-IRA, you can contribute up to 20% of your self-employment earnings, with a maximum contribution of \$66,000 for 2023. If you're employed by your own corporation, up to 25% of your salary can be contributed, with a maximum contribution of \$66,000. Other small business retirement plan options include 401(k) plans, defined benefit pension plans, and SIMPLE-IRA plans.
- Review for pass thru entity tax which allows a federal deduction for state taxes (not limited to \$10,000)
- Bonus depreciation -Consider making expenditures that qualify for 80% first-year bonus depreciation. The bonus depreciation rate is scheduled to drop from the current 80% deduction to 60% of the cost of qualified property placed in service after 2023.
- Section 179 - Consider making expenditures that qualify for the business property expensing option under Section 179. For 2023, the maximum Section 179 deduction is \$1,160,000. The deduction begins to phase-out when the cost of Section 179-eligible property placed in service during the year exceeds \$2,890,000.
- Change to deductions for business meals. In 2022, the cost of food and beverages provided by a restaurant were 100% deductible. In 2023, the deduction for business meals is limited to 50%.
- If you own an interest in a Partnership, LLC or S Corporation, you may need to increase your basis in the entity so you can deduct a loss from it for this year.
- Postpone income and accelerate deductions this year if you expect to be in the same or a lower tax bracket next year. Cash method taxpayers can defer billing clients until January 2024 and pay your bills before year-end.
- Accelerate income and defer deductions if you expect to be in a higher tax bracket next year.
- Consider employing your children in the business which can allow a current tax deduction for your business while allowing your children to contribute to a Roth IRA.
- Maximize the 20% deduction for business pass through income in 2023.
- Review and consider changing current accounting method and/or entity structure.

This alert only covers some of the year-end tax planning moves that could potentially benefit you, your family, and your business. Please contact us if you have questions, want more information, or would like us to help in designing a year-end planning package that delivers the best tax results for you.

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