TAX Updates and TAHR Insights

Consider preparing for the upcoming tax season by taking advantage of a few important end-of-year tax strategies.

1. Check your paycheck withholdings

An incorrect W-4 can result in an unexpected refund at tax time – or an unexpected tax bill. Beginning in 2020, the IRS eliminated the old system of withholding "allowances" and now allows employees to provide the specific amount by which they would like to increase or decrease their federal tax withholdings directly.

Use the **IRS Tax Withholding Estimator** to find out if you've been withholding the right amount or even to calculate your desired refund amount.
Take action: If you need to make adjustments, file a new Form W-4 at your workplace that includes the added (or subtracted) withholding amount provided by the Withholding Estimator.

Tip: This is a good time to confirm your state income tax withholding information (if applicable) as well.

2. Max out your retirement account contributions

Tax-advantaged retirement accounts (such as a traditional IRA or 401(k) plan) compound over time and are funded with pre-tax dollars. That makes them a great investment in your future. They're also helpful at tax time, since any contributions you make to these plans lower your taxable income.

For the 2023 tax year, the maximum allowable 401(k) contribution is $22,500, plus an additional $7,500 in catch-up contributions if you're 50+. The maximum allowable IRA contribution for the 2023 tax year is $6,500, plus an additional $1,000 in catch-up contributions if you're 50+.

If you have an HSA (health savings account), consider maxing out contributions to that account as well ($3,850 for individuals, $7,750 for families and an additional $1,000 for individuals age 55+).

Take action: Can't make the maximum contribution to your 401(k)? Try at least to contribute the amount your employer is willing to match. All 401(k) contributions must be made by December 31 for that calendar year. However, you have a few extra months to make contributions to IRAs and HSAs, up until the tax filing deadline in April.

3. Take any RMDs from traditional retirement accounts (if you're age 73 or older)

All employer-sponsored retirement plans, traditional IRAs and SEP and SIMPLE IRAs mandate required minimum distributions (RMDs) by April 1 that follows the year you turn 73. Thereafter, annual withdrawals must happen by December 31 to avoid the penalty.

RMDs are considered taxable income. If you don't take the RMD, you face a 25% excise tax on the amount you should have withdrawn based on your age, life expectancy, and beginning-of-year account balance.

Take action: Take your RMD by December 31. Once you turn 73, you must take your first withdrawal on or before April 1 the following year to avoid penalty.

If you don't need the cash flow and would prefer not to increase your taxable income, you may want to consider a Qualified Charitable Distribution (QCD), directly from your qualified account to a public charity. However, you won't get the charitable contribution itemized deduction. QCDs are limited to $100,000 per year. Different from rules governing RMDs, you can make a QCD gift as early as age 70 ½ if you're charitably inclined.

4. Consider a Roth IRA conversion

While eligibility to open and contribute to a Roth IRA is based on income level, you can convert some or all of the assets in a traditional IRA or workplace savings plan (e.g., 401(k)) to a Roth IRA. Roth IRAs can play a valuable role in your retirement portfolio; unlike traditional IRAs, Roth IRAs are not subject to income taxes at the time of withdrawal in retirement. This can give you more flexibility to manage your cash flow and future tax liability.

Converting qualified assets, such as 401(k) or traditional IRA assets, to Roth IRA assets is considered a taxable event during the

conversion year. Any pre-tax contributions and all earnings converted to the Roth IRA are added to the taxpayer's gross income and taxed as ordinary income.

Take action: Talk with your tax advisor or financial professional to determine if a Roth conversion is right for you. If you move forward with a conversion, try to manage the tax impact. One strategy is to convert amounts only to the level where you remain in your current tax bracket. You can utilize partial Roth IRA conversions over a period of years to manage the tax liability.

5. "Harvest" your investment losses to offset your gains
Tax-loss harvesting is a strategy by which you sell taxable* investment assets such as stocks, bonds and mutual funds at a loss to lower your tax liability. You can apply this loss against capital gains elsewhere in your portfolio, which reduces the capital gains tax you owe.

In a year when your capital losses outweigh gains, the IRS will let you apply up to $3,000 in losses against your other income, and to carry over the remaining losses to offset income in future years.

The goal of tax-loss harvesting is to potentially defer income taxes many years into the future — ideally until after you retire, when you'd likely be in a lower tax bracket. This process lets your portfolio grow and compound more quickly than it would if you had to take money from it to pay the taxes on its gains.

Take action: Tax-loss harvesting requires you to diligently track tax loss across a portfolio, as well as monitor market movements, since the chance for tax-loss harvesting can occur at any time. A financial professional can help you identify any losses you can use to offset any gains.

*Note: Tax-loss harvesting does not apply to tax-advantaged accounts such as traditional, Roth, and SEP IRAs, 401(k)s and 529 plans.

6. Think about "bunching" your itemized deductions
Certain expenses, such as the following, can be classified as "itemized" deductions:

- Medical and dental expenses
- Deductible taxes
- Qualified mortgage interest, including points for buyers
- Investment interest on net investment income

- Charitable contributions
- Casualty, disaster and theft losses

In order to itemize, your expenses in each category must be higher than a certain percentage of your adjusted gross income (AGI). For example, let's say you'd like to itemize your medical expenses. For the 2023 tax year, the threshold for itemizing medical expenses is 7.5% of your AGI. If your medical expenses total 5% of your AGI, it wouldn't be beneficial to itemize.

"Bunching" is a way to reach that minimum threshold. In this example, you could delay 2.5% of your expenses to the following year. And then you'd be more likely to reach the minimum 7.5% AGI that next tax season, allowing you to itemize.

Take action: If you've been waiting on certain medical and dental expenses or charitable contributions, you might want to group these expenses to take the most advantage of itemizing the deductions.

7. Spend any leftover funds in your flexible spending account (FSA)

FSAs are basically bank accounts for out-of-pocket healthcare costs. An FSA earmarks your pre-tax dollars for medical expenses, lowering your taxable income.

When you tell your employer how much of each paycheck to set aside for your FSA, remember you'll pay taxes on any funds still in the account on December 31*. Plus, you'll lose access to the money unless your employer allows a certain amount in rollovers for the next calendar year.

Take action: Schedule any last-minute check-ups and eye exams by December 31. Fill prescriptions for you and your family. Still carrying a balance? Stock up on items approved for FSA spending (e.g., contact lenses, eyeglasses, bandages).

Insight:

This month our focus is on Tax Planning. A solid Tax Planning strategy can reduce your overall tax liability and provide you with additional cash flow through tax savings. While some of these ideas may be complicated, the Professionals at TAHR services can assist with all your tax planning needs.

For guidance and solutions, please contact **Art Chianese, CPA** / EA at TAHR Services Inc or **schedule a free discovery call today**.