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FINANCIAL CONCIERGE

Tax Planning Ideas

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As we approach year-end, it is a good time to evaluate your current tax situation. Following are several tax planning opportunities and reminders you may wish to discuss with your tax advisor.

> Year-end is always a good time to evaluate your current tax situation, with an eye toward future changes.

Energy Credits

If you have made energy improvements to your home in 2023, be sure to take advantage of available tax credits. Items like exterior doors, windows, central air conditioners, water heaters and furnaces may qualify for federal tax credits of 30% of the cost, up to an annual limit of $1,200.

And, if you have acquired an electric vehicle in 2023, it may qualify for a federal credit up to $7,500 and a Colorado credit up to $5,000. There are income limits in order to claim the federal credit and there are also several restrictions on the vehicles that will qualify – check the US Department of Energy website at www.fueleconomy.gov to see credit amounts for specific vehicle models.

If you have installed an electric vehicle charger at your home, you may be able to claim an additional federal tax credit of up to $1,000.

Compare Itemized Deduction and Standard Deduction

Each year, you may deduct the larger of your itemized deductions (taxes, mortgage interest, charitable contributions, etc.) or the appropriate standard deduction based on your age and filing status. If the total of your itemized deductions is close to the standard deduction amount, you may consider bunching itemized deductions into one year and then taking the standard deduction the next year. One way of doing this is to make your charitable contributions in the years that you plan to itemize rather than giving equally each year.

Colorado residents with income over $300,000 will be subject to a limitation on standard and itemized deductions in calculating their state tax liability for 2023. Single filers will be limited to $12,000 and joint filers will be limited to $16,000.

Give Strategically to Charity

For taxpayers who itemize their deductions, there may be an advantage to donating appreciated stock to charity. The value of the donation for the tax deduction is based on the fair market value of the donated shares. For stocks with a low tax basis, this technique allows the taxpayer to not only have the advantage of a larger deduction but also to avoid capital gains tax.

Taxpayers may also want to consider making donations to a donor advised fund. This technique allows you to contribute cash or appreciated securities to a charitable fund and receive a current year tax deduction for the donation. The transfer to the donor advised fund is an irrevocable donation for charitable purposes; you as the donor may direct the fund's holdings to be transferred to qualified charities of your choice, either in the current year or in future years.

If you have an IRA and are taking Required Minimum Distributions (RMDs), you may want to consider making a charitable donation directly from your IRA. This technique, called a Qualified Charitable Distribution (QCD), allows for all or a portion of your RMD (up to $100,000) to be transferred directly to a qualified charity. Rather than reporting the income from the IRA withdrawal and a subsequent deduction for a contribution to charity, the QCD is excluded from your income altogether. In addition to the income tax benefit, you also reduce your modified adjusted gross income used for determining Medicare premiums.

Make Your Retirement Contributions

Every year, you should think about what retirement contributions you may be eligible to make. Take advantage of deferrals offered through your employer's 401(k) plan. If you are self-employed, consider whether an IRA, SEP IRA, or individual 401(k) is an option for your retirement funding. You may also be eligible to make contributions to an IRA or Roth IRA.

Take Advantage of Low Tax Brackets

It is always a good idea to review your expected tax bracket and think about tax planning opportunities. If you are expecting to be in a lower tax bracket in the current year, you might consider taking an IRA distribution or converting funds from your traditional IRA to a Roth IRA. On the other hand, if you think you'll be in a lower tax bracket next year, you should consider deferring income until 2024 where possible.

Max Out Your Gifts

You and your spouse are each allowed to gift up to $17,000 per recipient annually for 2023, without using any of your lifetime gift and estate exemption. In addition to the $17,000 cap, you may also make health care and education payments directly to the provider.

Look Ahead to 2024 Changes

The IRS announced increases to a number of tax thresholds and limitations, beginning in 2024:

- IRA contributions for 2024 will be limited to $7,000 for those up to age 50 and $8,000 for those over age 50.
- Health savings account contributions will be limited to $4,150 for an individual and $8,300 for families, with an additional $1,000 contribution for individuals over age 55.
- Participants in 401(k) plans may defer up to $23,000 of their salary, with an additional $7,500 deferral allowed for those over age 50. The Secure 2.0 Act had stated that the catch-up contribution would not be tax-deferred and instead would need to be deposited into a Roth account; however the IRS announced recently that this change will be delayed until 2026.
- The annual gift exclusion will be increased to $18,000 per recipient.
- The estate exemption will be raised to $13.61 million per person.

Retirees who are receiving Social Security benefits are expected to receive a cost-of-living adjustment of 3.2%.

The Bottom Line

Consult with your tax professional if you think the above opportunities or others may apply to you. For GHPIA clients who would like more information, our Financial Concierge team can help coordinate a discussion with your tax professional.

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