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2023 Year-End Tax Planning for Individuals

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With rising interest rates, inflation and continuing market volatility, tax planning is as essential as ever for taxpayers looking to manage cash flow while paying the least amount of taxes possible over time. As we approach year end, now is the time for individuals, business owners and family offices to review their 2023 and 2024 tax situations and identify opportunities for reducing, deferring or accelerating their tax obligations.

The information contained within this article is based on federal laws and policies in effect as of the publication date. This article discusses tax planning for federal taxes. Applicable state and foreign taxes should also be considered. Taxpayers should consult with a trusted advisor when making tax and financial decisions regarding any of the items below.

INDIVIDUAL TAX PLANNING HIGHLIGHTS

2023 Federal Income Tax Rate Brackets

Tax Rate	Joint / Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
10%	$0 – $22,000	$0 – $11,000	$0 – $15,700	$0 – $11,000	$0 – $2,900
12%	$22,001 – $89,450	$11,001 – $44,725	$15,701 – $59,850	$11,001 – $44,725	–
22%	$89,451 – $190,750	$44,726 – $95,375	$59,851 – $95,350	$44,726 – $95,375	–
24%	$190,751 – $364,200	$95,376 – $182,100	$95,351 – $182,100	$95,376 – $182,100	$2,901 – $10,550
32%	$364,201 – $462,500	$182,101 – $231,250	$182,101 – $231,250	$182,101 – $231,250	–
35%	$462,501 – $693,750	$231,251 – $578,125	$231,251 – $578,100	$231,251 – $346,875	$10,551 – $14,450
37%	Over $693,750	Over $578,125	Over $578,100	Over $346,875	Over $14,450

2024 Federal Income Tax Rate Brackets

Tax Rate	Joint / Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
10%	$0 – $23,200	$0 – $11,600	$0 – $16,550	$0 – $11,600	$0 – $3,100
12%	$23,201 – $94,300	$11,601 – $47,150	$16,551 – 63,100	$11,601 – $47,150	–
22%	$94,301 – $201,050	$47,151 – $100,525	$63,101 – $100,500	$47,151 – $100,525	–
24%	$201,051 – $383,900	$100,526 – $191,950	$100,501 – $191,950	$100,526 – $191,950	$3,101 – $11,150
32%	$383,901 – $487,450	$191,951 – $243,725	$191,951 – $243,700	$191,951 – $243,725	–
35%	$487,451 – $731,200	$243,726 – $609,350	$243,701 – $609,350	$243,726 – $365,600	$11,151 – $15,200
37%	Over $731,200	Over $609,350	Over $609,350	Over $365,600	Over $15,200

TIMING OF INCOME AND DEDUCTIONS

Taxpayers should consider whether they can minimize their tax bills by shifting income or deductions between 2023 and 2024. Ideally, income should be received in the year with the lower marginal tax rate, and deductible expenses should be paid in the year with the higher marginal tax rate. If the marginal tax rate is the same in both years, deferring income from 2023 to 2024 will produce a one-year tax deferral, and accelerating deductions from 2024 to 2023 will lower the 2023 income tax liability.

Actions to consider that may result in a reduction or deferral of taxes include:

- ☐ Delaying closing capital gain transactions until after year end or structuring 2023 transactions as installment sales so that gain is deferred past 2023 (also see **Long Term Capital Gains**, to the right).
- ☐ Considering whether to trigger capital losses before the end of 2023 to offset 2023 capital gains.
- ☐ Delaying interest or dividend payments from closely held corporations to individual business-owner taxpayers.
- ☐ Deferring commission income by closing sales in early 2024 instead of late 2023.
- ☐ Accelerating deductions for expenses such as mortgage interest and charitable donations (including donations of appreciated property) into 2023 (subject to AGI limitations).
- ☐ Evaluating whether non-business bad debts are worthless by the end of 2023 and should be recognized as a short-term capital loss.
- ☐ Shifting investments to municipal bonds or investments that do not pay dividends to reduce taxable income in future years.

On the other hand, taxpayers that will be in a higher tax bracket in 2024 may want to consider potential ways to move taxable income from 2024 into 2023, such that the taxable income is taxed at a lower tax rate. Current year actions to consider that could reduce 2024 taxes include:

- ☐ Accelerating capital gains into 2023 or deferring capital losses until 2024.
- ☐ Electing out of the installment sale method for 2023 installment sales.
- ☐ Deferring deductions such as large charitable contributions to 2024.

LONG-TERM CAPITAL GAINS

The long-term capital gains rates for 2023 and 2024 are shown below. The tax brackets refer to the taxpayer's taxable income. Capital gains also may be subject to the 3.8% Net Investment Income Tax.

Long-Term Capital Gains

Long-Term Capital Gains Tax Rate	Joint / Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
0%	$0 – $89,250	$0 – $44,625	$0 – $59,750	$0 – $44,625	$0 – $3,000
15%	$89,251 – $553,850	$44,626 – $492,300	$59,751 – $523,050	$44,626 – $276,900	$3,001 – $14,650
20%	Over $553,850	Over $492,300	Over $523,050	Over $276,900	Over $14,650

2024 Long-Term Capital Gains Rate Brackets

Long-Term Capital Gains Tax Rate	Joint / Surviving Spouse	Single	Head of Household	Married Filing Separately	Estates & Trusts
0%	$0 – $94,050	$0 – $47,025	$0 – $63,000	$0 – $47,025	$0 – $3,150
15%	$94,051 – $583,750	$47,026 – $518,900	$63,001 – $551,350	$47,026 – $291,850	$3,151 – $15,450
20%	Over $583,750	Over $518,900	Over $551,350	Over $291,850	Over $15,450

Long-term capital gains (and qualified dividends) are subject to a lower tax rate than other types of income. Investors should consider the following when planning for capital gains:

- ☐ Holding capital assets for more than a year (more than three years for assets attributable to carried interests) so that the gain upon disposition qualifies for the lower long-term capital gains rate.
- ☐ Considering long-term deferral strategies for capital gains such as reinvesting capital gains into designated qualified opportunity zones.
- ☐ Investing in, and holding, "qualified small business stock" for at least five years.
- ☐ Donating appreciated property to a qualified charity to avoid long term capital gains tax (also see **Charitable Contributions**, below).

NET INVESTMENT INCOME TAX

An additional 3.8% net investment income tax (NIIT) applies on net investment income above certain thresholds. Net investment income does not apply to income derived in the ordinary course of a trade or business in which the taxpayer materially participates. Similarly, gain on the disposition of trade or business assets attributable to an activity in which the taxpayer materially participates is not subject to the NIIT.

In conjunction with other tax planning strategies that are being implemented to reduce income tax or capital gains tax, impacted taxpayers may want to consider deferring net investment income for the year.

SOCIAL SECURITY TAX

The Old-Age, Survivors, and Disability Insurance (OASDI) program is funded by contributions from employees and employers through FICA tax. The FICA tax rate for both employees and employers is 6.2% of the employee's gross pay, but only on wages up to $160,200 for 2023 and $168,600 for 2024. Self-employed persons pay a similar tax, called SECA (or self-employment tax), based on 12.4% of the net income of their businesses.

Employers, employees, and self-employed persons also pay a tax for Medicare/Medicaid hospitalization insurance (HI), which is part of the FICA tax, but is not capped by the OASDI wage base. The HI payroll tax is 2.9%, which applies to earned income only. Self-employed persons pay the full amount, while employers and employees each pay 1.45%. An extra 0.9% Medicare (HI) payroll tax must be paid by individual taxpayers on earned income that is above certain adjusted gross income (AGI) thresholds, i.e., $200,000 for individuals, $250,000 for married couples filing jointly and $125,000 for married couples filing separately. However, employers do not pay this extra tax.

LONG-TERM CARE INSURANCE AND SERVICES

Premiums an individual pays on a qualified long-term care insurance policy are deductible as a medical expense. The maximum deduction amount is determined by an individual's age. The following table sets forth the deductible limits for 2023 and the estimated deductible limits for 2024 (the limitations are per person, not per return):

Age	Deduction Limitation 2023	Deduction Limitation 2024
40 or under	$480	$470
Over 40 but not over 50	$890	$880
Over 50 but not over 60	$1,790	$1,760
Over 60 but not over 70	$4,770	$4,710
Over 70	$5,960	$5,880

RETIREMENT PLAN CONTRIBUTIONS

Individuals may want to maximize their annual contributions to qualified retirement plans and Individual Retirement Accounts (IRAs).

- ☐ The maximum amount of elective contributions that an employee can make in 2023 to a 401(k) or 403(b) plan is $22,500 ($30,000 if age 50 or over and the plan allows "catch up" contributions). For 2024, these limits are $23,000 and $30,500, respectively.
- ☐ The SECURE Act permits a penalty-free withdrawal of up to $5,000 from traditional IRAs and qualified retirement plans for qualifying expenses related to the birth or adoption of a child after December 31, 2019. The $5,000 distribution limit is per individual, so a married couple could each receive $5,000.
- ☐ Under the SECURE Act, individuals are now able to contribute to their traditional IRAs in or after the year in which they turn 70½.
- ☐ Beginning in 2023, the SECURE Act 2.0 raised the age that a taxpayer must begin taking required minimum distributions (RMDs) to age 73. If the individual reaches age 72 in 2023, the required beginning date for the first RMD is April 1, 2025, for 2024. If the taxpayer reaches age 73 in 2023, the taxpayer was 72 in 2022 and subject to the age 72 RMD rule in effect for 2022. If the taxpayer reached age 72 in 2022, the first RMD was due April 1, 2023, and the second RMD is due December 31, 2023.
- ☐ Individuals age 70½ or older can donate up to $100,000 to a qualified charity directly from a taxable IRA.
- ☐ The SECURE Act generally requires that designated beneficiaries of persons who died after December 31, 2019, take inherited plan benefits over a 10-year period. Eligible designated beneficiaries (i.e., surviving spouses, minor children of the plan participant, disabled and chronically ill beneficiaries and beneficiaries who are less than 10 years younger than the plan participant) are not limited to the 10-year payout rule. Special rules apply to certain trusts.
- ☐ Under proposed Treasury Regulations (issued February 2022) that address required minimum distributions from inherited retirement plans of persons who died after December 31, 2019, and after their required beginning date, designated and non-designated beneficiaries will be required to take annual distributions, whether subject to a ten-year period or otherwise.
- ☐ Small businesses can contribute the lesser of (i) 25% of employees' salaries or (ii) an annual maximum set by the IRS each year to a Simplified Employee Pension (SEP) plan by the extended due date of the employer's federal income tax return for the year that the contribution is made. The maximum SEP contribution for 2023 is $66,000. The maximum SEP contribution for 2024 is $69,000. The calculation of the 25% limit for self-employed individuals is based on net self-employment income, which is calculated after the reduction in income from the SEP contribution (as well as for other things, such as self-employment taxes).

FOREIGN EARNED INCOME EXCLUSION

The foreign earned income exclusion is $120,000 in 2023 and increases to $126,500 in 2024.

ALTERNATIVE MINIMUM TAX

A taxpayer must pay either the regular income tax or the alternative minimum tax (AMT), whichever is higher. The established AMT exemption amounts for 2023 are $81,300 for unmarried individuals and individuals claiming head of household status, $126,500 for married individuals filing jointly and surviving spouses, $63,250 for married individuals filing separately and $28,400 for estates and trusts. The AMT exemption amounts for 2024 are $85,700 for unmarried individuals and individuals claiming head of household status, $133,300 for married individuals filing jointly and surviving spouses, $66,650 for married individuals filing separately and $29,900 for estates and trusts.

KIDDIE TAX

The unearned income of a child is taxed at the parents' tax rates if those rates are higher than the child's tax rate.

LIMITATION ON DEDUCTIONS OF STATE AND LOCAL TAXES (SALT LIMITATION)

For individual taxpayers who itemize their deductions, the Tax Cuts and Jobs Act introduced a $10,000 limit on deductions of state and local taxes paid during the year ($5,000 for married individuals filing separately). The limitation applies to taxable years beginning on or after December 31, 2017, and before January 1, 2026. Various states have enacted new rules that allow owners of pass-through entities to avoid the SALT deduction limitation in certain cases.

CHARITABLE CONTRIBUTIONS

Cash contributions made to qualifying charitable organizations, including donor advised funds, in 2023 and 2024 will be subject to a 60% AGI limitation. The limitations for cash contributions continue to be 30% of AGI for contributions to non-operating private foundations.

Tax planning around charitable contributions may include:

- ☐ Creating and funding a private foundation, donor advised fund or charitable remainder trust.
- ☐ Donating appreciated property to a qualified charity to avoid long term capital gains tax.

ESTATE AND GIFT TAXES

For gifts made in 2023, the gift tax annual exclusion is $17,000 and for 2024 is $18,000. For 2023, the unified estate and gift tax exemption and generation-skipping transfer tax exemption is $12,920,000 per person. For 2024, the unified estate and gift tax exemption and generation-skipping transfer tax exemption is $13,610,000. All outright gifts to a spouse who is a U.S. citizen are free of federal gift tax. However, for 2023 and 2024, only the first $175,000 and $185,000, respectively, of gifts to a non-U.S. citizen spouse is excluded from the total amount of taxable gifts for the year.

Tax planning strategies may include:

- ☐ Making annual exclusion gifts.
- ☐ Making larger gifts to the next generation, either outright or in trust.
- ☐ Creating a Spousal Lifetime Access Trust (SLAT) or a Grantor Retained Annuity Trust (GRAT) or selling assets to an Intentionally Defective Grantor Trust (IDGT).

NET OPERATING LOSSES AND EXCESS BUSINESS LOSS LIMITATION

Net operating losses (NOLs) generated in 2023 are limited to 80% of taxable income and are not permitted to be carried back. Any unused NOLs are carried forward subject to the 80% of taxable income limitation in carryforward years.

A non-corporate taxpayer may deduct net business losses of up to $289,000 ($578,000 for joint filers) in 2023. The limitation is $305,000 ($610,000 for joint filers) for 2024. A disallowed excess business loss (EBL) is treated as an NOL carryforward in the subsequent year, subject to the NOL rules. With the passage of the Inflation Reduction Act, the EBL limitation has been extended through the end of 2028.

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