

Year-End Tax Planning 2023

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Andre Williams:

Hello, and welcome to Barnes Dennig Ask the Experts. I'm Andre Williams, a tax senior here at Barnes Dennig. And today, I have the pleasure of speaking with Mark Hamad about year-end tax planning strategies. Mark.

Mark Hamad:

Hey. Hey, Andre. Happy to be here.

Andre Williams:

Good stuff. So Mark, as you know, the tax world moves very rapidly, and I'm sure there's quite a few changes upcoming. Is there anything that we should be aware of for 2023?

Mark Hamad:

Well, as you've experienced firsthand, the past five, six years have been a rollercoaster ride in the tax world. We had the new TCJA, so the Tax Cuts and Jobs Act of 2017. Just recently, in the past two to three years, we've had changes with COVID. Coming up on year-end, really not a whole lot in the way of tax law changes for 2023, which is a welcome relief.

Andre Williams:

Absolutely.

Mark Hamad:

There are, however, a couple changes on the individual front with the passage of the Inflation Reduction Act. It's around energy credits. So there's two types of home energy credits, so the first is the Residential Clean Energy Credit, so think bigger home improvements, so solar panels, geothermal heat pumps. Essentially, if you install an alternate energy system within your home that relies on renewable energy, you may qualify for a 30% credit on those energy improvements.



And then second, we have, it's a smaller credit, it's called the Energy Efficient Home Improvement Credit. That's going to impact a lot more taxpayers than the first. This is on smaller energy home improvements, so think insulation, adding insulation to your house, a new AC unit, windows, doors, home energy audits. We've had this credit before. It was a \$500 lifetime credit. Starting this year, it's going to be a \$1200 annual credit. So a lot of taxpayers were previously capped at a \$500 lifetime credit. Fast-forward to '23, it's a \$1200 annual credit, so a lot more taxpayers will get the benefit of this deduction or this credit.

And then lastly on the energy side, we have the new electric vehicle credit. So if you're in the market for a new EV, you have up to \$7500 on a new EV, \$4000 credit on any used EV, so certainly a nice little credit to help reduce your overall tax liability at year-end if you're in the market for a new car.

Andre Williams:

Well, that's very helpful, very insightful. And we're here coming up on mid-December now, and so we'll soon be approaching the new year. Is there anything I should be doing now to prepare for next year?

Mark Hamad:

Well, I always stress on year-end tax planning, you want to take a multi-year approach, so you don't just want to look at December, but you want to look: Where's your income going to be in one to two years, or even five years out, or 10 years out? Tax planning is all about utilizing deductions in the most tax-efficient manner, so within the correct tax year. So if you're in a lower tax bracket this year, maybe you don't pull deductions into this year. Maybe you'll leave them for next year in the higher income tax year. And really, first and foremost, tax 101, you need to know: Are you taking the standard deduction or are you doing the itemized? That's going to really change your tax strategy one way or the other.

But really, coming up on year-end, if you can accelerate deductions end of this year and defer income into next year, that's obviously the biggest tax play that you can do. And some examples of that, you can prepay your January mortgage in December, which would allow an additional month of interest expense this year. If you had a lot of medical bills this year, you could make sure you prepay those medical bills in December. Again, get that additional deduction this year. And then really, the biggest lever to pull deductions from year to year is charitable deductions. So we always talk to clients about charitable bunching, so taking one, two, maybe three years' worth of charitable contributions and pulling them into one tax year. So you're still giving the same amount of cash to charity, but what you're doing is you're pulling deductions into one tax year, taking advantage of the large itemized deduction year one. And then maybe you take advantage of the higher standard deductions in year two and three.

Andre Williams:

There's a lot of things to consider. Right?



Mark Hamad:

Yeah.

Andre Williams:

A lot of opportunities, lot of things that can make the next year very successful. So is there anything else that we should consider?

Mark Hamad:

Well, I mentioned it earlier. The TCJA, the Tax Cuts and Jobs Act of 2017, many of those provisions will expire come 2025. Some of the bigger items on the individual front around the estate world are lifetime exclusions. So currently, if your assets, if your net worth is under \$14 million, you would essentially pay no estate taxes. That lifetime exclusion is set to be cut in half starting after 2025, so starting 1/2/26. Currently, it's at \$14 million. That'll be cut in half to approximately \$7 million starting in 2026, so a lot more taxpayers will have taxable estates. So what can you do now estate planning wise to pull assets out of your estate to plan for that?

Also, on the individual front, increase in tax brackets. So the top rate's 37% right now. That top tax bracket will jump to 39.6%. And then really, our business owners, so there's a QBI deduction or a Qualified Business Income deduction that allows business owners a 20% deduction on business income. Essentially, the top rate for business owners is 29.6% at the individual level because of this QBI deduction. With the increase in tax rates, essentially business owners will be taxed an additional 10%, jumping to the highest tax bracket of 39.6%.

Andre Williams:

Well, clearly based on our discussion today, there are plenty of planning opportunities and I appreciate you taking the time today, Mark, to discuss those. Subscribe to Barnes Dennig to stay up-to-date on the recent tax law changes.