Dear Client**,**

As the end of the year is fast approaching, you should consider any last-minute strategies that might help reduce your 2023 tax bill. While there was no significant new legislation in 2023 affecting individual taxes, situations do change from year to year, thus requiring a fresh look at how to approach year-end tax planning. The following are strategies that may benefit you and that we should discuss before December 31.

How to Report Online Marketplace Sales

How you report online sales on your taxes will depend on the type and amount of sales and the nature of your business.

- Business owners should include 1099-K sales in their revenue calculations. If you have an existing business, you may already be including these sales in your regular accounting.
- **Hobby sellers should report their sales on Schedule 1, Form 1040, Line 21 of your personal income tax return.**

Starting in 2023 the threshold for transaction volume changes to $600, meaning many more online sellers will receive 1099-K forms going forward. Regardless of if you receive a 1099-K, you should report your taxable online sales to the IRS. If in doubt (in any year), please consult with us.

Bunching Deductions into 2023

As you may know, TCJA significantly increased the standard deduction for all taxpayers. This means, that many individuals who previously received a tax benefit by itemizing deductions no longer is because taking the standard deduction is more advantageous. For 2023, the standard deduction is $12,950 for single taxpayers, $25,900 for married taxpayers filing a joint return.

In addition, there is a $10,000 limitation ($5,000 in the case of married taxpayers filing separately) on the combined amount of state income taxes and property taxes that may be deducted when itemizing. Unfortunately, this $10,000 limitation applies to single as well as married taxpayers and is not indexed for inflation.

If the total of your itemized deductions in 2023 will be close to your standard deduction amount, alternating between bunching itemized deductions into 2024 and taking the standard deduction in 2023 (or vice versa) could provide a net-tax benefit over the two-year period. For example, if you give a certain amount to charities each year, and if it's financially feasible, you might consider doubling up this year on your contributions rather than spreading the contributions over a two-year period. If these amounts, along with your mortgage interest and medical expenses exceed your standard deduction, then you should double up on the expenses this year and take the standard deduction next year.

Medical Expenses and Health Savings Accounts

For 2023, your medical expenses are only deductible as an itemized deduction to the extent they exceed 7 ½ percent of your adjusted gross income. Depending on what your taxable income is expected to be in 2023 and 2024, and whether itemizing deductions would be advantageous for you in either year, you may want to accelerate any optional medical expenses into 2023 or defer them until 2023. The right approach depends on your income for each year, expected medical expenses, as well as your other itemized deductions.

Mortgage Interest Deduction

You can deduct home mortgage interest on the first $750,000 ($375,000 if married filing separately) of indebtedness. However, higher limitations ($1 million ($500,000 if married filing separately)) apply if you are deduction mortgage interest from indebtedness incurred before December 16, 2017.

You can potentially deduct interest paid on home equity indebtedness, but only if you used the debt to buy, build, or substantially improve your home. Thus, for example, interest on a home equity loan used to build an addition to your existing home is typically deductible, while interest on the same loan used to pay personal living expenses, such as credit card debts, is not.

Education-Related Deductions and Credits

Tax-free distributions from a qualified tuition program of up to $10,000 are now allowed for elementary or secondary school tuition. In addition, if your modified adjusted gross income level is below certain thresholds, the following are available for 2023:

- an exclusion from income for education savings bond interest;

- a deduction for student loan interest; and
- a lifetime learning credit of up to $2,000 for tuition and fees paid for the enrollment or attendance of yourself, your spouse, or your dependents for courses of instruction at an eligible educational institution.

Charitable Contribution Deductions

As a result of the increase in the standard deduction, some taxpayers are no longer getting a benefit from itemizing their deductions, such as charitable contributions, as they once were. However, as noted above, you can still help charities and get a tax benefit if you contribute enough to get over the standard deduction amount or bunch itemized deductions that would otherwise be spread over multiple years into one year.

You can reap a larger tax benefit by donating appreciated assets, such as stock, to a charity. Generally, the higher the appreciated value of an asset, the bigger the potential value of the tax benefit. Donating appreciated assets not only entitles you to a charitable contribution deduction but you also avoid the capital gains tax that would otherwise be due if you sold the stock. For example, if you own stock with a fair market value of $1,000 that was purchased for $250 and your capital gains tax rate is 15 percent, the capital gains tax would be $113 ($750 gain x 15%). If you donate that stock instead of selling it, and are in the 24 percent tax bracket, you get an ordinary income deduction worth $240 ($1,000 FMV x 24%). You also save $150 in capital gains tax that you would otherwise pay if you sold the stock. Thus, the after-tax cost of the gift of appreciated stock is $647 ($1,000 - $240 - $113) compared to the after tax cost of a donation of $1,000 cash which would be $760 ($1,000 - $240). However, it's important to also keep in mind that tax deductions for appreciated property are limited to 50 percent of your adjusted gross income.

Retirement Planning

By investing in a qualified retirement plan you'll not only receive a current tax deduction, thereby reducing current year income tax, but you can sock away money for your retirement years. If your employer has a 401(k) plan and you are under age 50, you can defer up to $25,500 of income into that plan. Catch-up contributions of $7,500 are allowed if you are 50 or over.

If you have a SIMPLE IRA, the maximum pre-tax contribution for 2023 is $15,500. That amount increases to $19,000 if you are 50 or older.

If certain requirements are met, contributions to an individual retirement account (IRA) may be deductible. If you are under 50, the maximum contribution amount for 2023 is $6,500. If you are 50 or older, the maximum contribution amount is $7,500. Contributions exceeding the maximum amount are subject to a 6 percent excise tax. Even if you are not eligible to deduct contributions, contributing after-tax money to an IRA may be advantageous because it will allow you to later convert that traditional IRA to a Roth IRA. Qualified withdrawals from a Roth IRA, including earnings, are free of tax, while earnings on a traditional IRA are taxable when withdrawn.

If you already have a traditional IRA, we should evaluate whether it is appropriate to convert it to a Roth IRA this year. You'll have to pay tax on the amount converted as ordinary income, but subsequent earnings will be free of tax and the decrease in tax rates that are effective this year makes such a conversion less costly than it would have been in previous years. Of course, this option only makes sense if the tax rates when the money is withdrawn from the Roth IRA are anticipated to be higher than the tax rates when the traditional IRA is converted. And if you have a traditional 401(k), 403(b), or 457 plan that includes after-tax contributions, you can generally rollover these after-tax amounts to a Roth IRA with no tax consequences. A rollover of a SIMPLE 401(k) into a Roth IRA may also be available. As with all tax rules, there are qualifications that apply to these rollovers that we should discuss before any actions are taken.

Foreign Bank Account Reporting

The IRS has become increasingly aggressive at tracking down individuals who have not reported foreign bank accounts. If you have an interest in a foreign bank account, it must be disclosed; failure to do so carries stiff penalties. You must file a Report of Foreign Bank and Financial Accounts (FBAR) if: (1) you are a U.S. resident or a person doing business in the United States; (2) you had one or more financial accounts that exceeded $10,000 during the calendar year; (3) the financial account was in a foreign country; and (4) you had a financial interest in the account or signatory or other authority over the foreign financial account. If you are unclear about the requirements or think they could possibly apply to you, please let us know at your earliest convenience.

Should you have any questions concerning your 2023 taxes, please call us to discuss your tax situation or to estimate your tax liability for the year.

Sincerely,
Cooper & Associates, AC