Year-End Tax Tips: 5 Smart Strategies for 2023, 3 Important Changes for 2024

December 14, 2023

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Opportunity knocks this time of year to do last-minute tax planning to lessen your income and estate tax bill for 2023. Here are some ideas:

1. **Gifting:** An easy way to reduce your net worth tax-free is to make annual exclusion gifts. Each taxpayer can make a gift to any person in 2023 of $17,000 without reducing the taxpayer's lifetime gift and estate tax exemption of $12,920,000. A married couple can make gifts of $34,000 to any person without reducing their lifetime gift and estate tax exemption of $12,920,000 per spouse or $25,840,000 for a married couple (as long as they are both U.S. citizens). For example, a married couple with two children can reduce their net worth by $68,000 in 2023 without reducing their lifetime gift and estate tax exemption. In 2024, the lifetime exemption increases to $13,610,000 per person or $27,220,000 per married couple (See the discussion below). Making cash gifts is always easier than making gifts of stock or real estate. If you make gifts of hard-to-value assets, such as real estate and non-publicly traded stock, it is important to obtain a recent appraisal to support the value of the gift in the event you are audited by the Internal Revenue Service.

2. **Charitable Contributions:** If you don't take the Standard Deduction, making charitable contributions before year-end may reduce your 2023 tax bill. You should first compare whether itemizing your deductions reduces your tax liability more than taking the standard deduction. Charitable contributions of property or money of $250 or more require a contemporaneous written acknowledgment by the donee. Charitable contributions of property of more than $500, but not in excess of $5,000, require additional information (i.e. Form 8283) when submitting the donor's income tax return. Charitable contributions of property in excess of $5,000 require a qualified appraisal unless the charitable contribution consists of publicly traded exchange funds, stocks, bonds, or mutual funds. The IRS and the Courts strictly enforce these rules. Substantial compliance is not sufficient and may result in the charitable contribution deduction being disallowed. Many well-intended charitable contributors have lost their entire charitable contribution deduction for transfers failing to comply with these rules. It should be noted that these are independent requirements and satisfying one does not satisfy the other. A failure to satisfy all requirements may lead to the denial of the entire charitable contribution deduction. When a qualified appraisal is required for charitable contributions of certain property in excess of $5,000, the contents of the qualified appraisal, and who can make a qualified appraisal, are important. Hard-to-value assets such as cryptocurrency can require the appraiser to have special expertise in the subject matter. The rules can be confusing; thus, you should check with your tax preparer as to what is required.

   Some additional thoughts:

- A special rule permits taxpayers who are at least 70.5 years of age to make direct transfers of up to $100,000 from their Individual Retirement Account (IRA) to a "Qualified Charitable Organization" and exclude the amount from the donor's federal gross income. It is important to note that the amount excluded from income cannot be taken as a charitable deduction on the donor's federal income tax return. The amount excluded does count toward any Required Minimum Distribution of the donor. A married couple can double this direct transfer to charity if each meets the requirements for this special rule. Please note that certain charities, such as donor-advised funds and private foundations, do not qualify for this special rule. By utilizing this special rule, a donor can make a charitable contribution and not recognize gross income from the distribution. Further, the donor can also take the Standard Deduction. Please be aware that, depending upon state law, a taxpayer may not be able to claim this exclusion for state income tax purposes. Taxpayers should therefore confer with their income tax preparer before utilizing this strategy.

- As in **All** cases when making charitable contributions, verify that the charity qualifies for the planned charitable contribution.

3. **Loss Harvesting**: "Loss Harvesting" is an excellent way to lower your 2023 tax bill if you have capital gains this year and hold stocks or other capital assets such as cryptocurrency that have declined in value. For example, suppose you have $100,000 in capital gains in 2023 and you are holding stocks that have declined in value of $100,000. You can sell the loss stocks before the new year and offset the $100,000 gain. If your combined state and federal effective tax rate on capital gains is 30%, you can save $30,000 through loss harvesting. Some thoughts to consider when employing the Loss Harvesting Strategy:

- You cannot acquire or reacquire the stock or securities sold for a loss within 30 days before the sale date or 30 days after the sale date, or the loss will not be allowed. This is called the "Wash Sale Rule." It should be noted, the Wash Sale Rule does not apply to cryptocurrency.

- Under the Wash Sale Rule you cannot acquire substantially identical stock or securities within 30 days before or after the sale of the loss stock, but you can acquire other stock that has a strong correlation to the loss stock sold. For example, if you sell Stock A for a loss, you can purchase at any time Stock B, even if Stock B and Stock A move closely in the same direction.

4. **Estimated Taxes:** If you had a large increase in income this year, you should have your tax preparer determine if your withholding and/or estimated tax payments are sufficient to take the increase of income into account, or penalties for insufficient taxes paid may be imposed. The general rule to avoid estimated tax penalties is to pay in before the required date the lesser of 90% of the 2023 tax liability, or 110% of the 2022 tax liability. Your tax preparer can assist you with this determination. If you think it may apply to you, you should address this before the end of the year (if increasing your withholding) or by January 15, 2024 (if increasing or making an estimated tax payment).

5. **Required Minimum Distributions:** If you haven't already taken all of your Required Minimum Distributions from your retirement plan or IRA, make sure you do take the RMD before the end of the year to avoid the imposition of a 25% penalty.

Looking ahead to 2024. It's not too early.

6. **Increases in the "Annual Gift Exclusion":** Each person can make a gift to any number of people and not reduce the donor's lifetime gift and estate tax exemption if certain rules are observed. The maximum amount of the annual exclusion gift in 2024 is $18,000 per person, a $1,000 increase over $17,000 for 2023. This amount can be doubled for a married couple. As stated earlier, gifting can be an effective way to reduce a taxpayer's potential estate tax by reducing the taxpayer's assets. By way of example, in 2024, a married couple with three children, who each have three children of their own, can gift $18,000 to each of their children and grandchildren and reduce their assets by $324,000. If the married couple is subject to the Federal Estate Tax when the second of them dies, their Federal Estate Tax will be reduced by $129,600. Gifting can be done annually.

7. **Increases in the Lifetime Gift and Estate Tax Exemption:** The lifetime gift and estate tax exemption will increase $690,000 in 2024, for each person. For a married couple, the increase is $1,380,000. For taxpayers who have previously exhausted their lifetime exclusion, this 2024 increase permits taxpayers to make additional gifts in 2024. The current exemption is expected to sunset after 2025, so it is advisable to make any gifts before the end of 2025.

8. **Retirement Contributions Made in 2024 That Count for 2023:** Contributions (but not distributions) to both traditional and Roth IRAs for 2023 can be made up to the tax filing deadline for 2023 income tax returns (generally April 15, 2024). This is also true for Health Savings Accounts.

An Additional Thought: Many people executed wills, revocable trusts, living wills, and powers of attorney years ago when they had small children. These documents may have become inefficient and obsolete and should be reviewed and possibly revised considering all the changes that have occurred in the tax law over the years. A good New Year's resolution is to update and modernize your documents.