

2023
TAX YEAR

Tax Planning Tips for Individuals



Featuring our **Tax Prep Checklist** plus avoid common red flags to save you time and money.



Visit: PasquesiPartners.com

Mark your calendars – 2024 Tax Due Dates

January 16, 2024

 2023 Q4 Estimated Tax Payments Due

April 15, 2024

 Individual Tax Returns Due

 Trust and Estate Tax Returns Due

 2024 Q1 Estimated Tax Payment Due

Quick Tips

Are you an independent contractor? Set aside a percentage of your income for tax payments.

Avoid penalties for underpayment of estimated taxes – pay on time!

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Top Tax Planning Tips for Individuals

PasquesiPartners provides formal tax planning services to our individual tax clients. We work with you to develop strategies that can help save you time and money - from taking stock of spending habits at year-end to working with you throughout the year.

Income: Business Revenue, Salaries & Wages

Qualified Business Income Deduction

Section 199 A allows eligible taxpayers to deduct UP TO 20% of certain business income from domestic businesses operated as sole proprietorships or through partnerships, S-Corps, trusts, and estates.

Are enough taxes withheld from your paycheck?

Check your tax withholding on your paychecks, pensions, retirement distributions, and other income received. Alert your employer if adjustments need to be made. Illinois residents with children or dependents Illinois residents with children can deduct up to \$10,000, per parent (\$20,000 if married), to the Bright Start 529 plan and it is 100% tax deductible on your Illinois state return.

Year-end Bonus

If you receive a year-end bonus, make sure the amount of tax being withheld aligns with your individual effective tax rate. Most companies will default to a different rate, which could be lower than your effective tax rate on your personal return, resulting in a "year-end tax surprise".

Medicare and Earned Income

Remember – 0.9% Medicare surtax on earned income – it starts in joint filers with earnings over \$250,000 and \$200,000 for single filers. Employers must begin to withhold the tax from paychecks in the period when wages exceed \$200,000, regardless of the employee's marital status. Here is the problem that two wage earners run into: 0.9% Medicare Tax can lead to under-withholding for a couple if each earns under \$200,000, but their combined wages is in excess of \$250,000.



The #1 issue that we see on individual returns is an incorrect number of allowances claimed by individuals when they completed FORM W-4 for payroll. Working couples should claim zero allowances on their W-4.

Use the free IRS.gov tool to check your tax withholding at: <https://www.irs.gov/individuals/tax-withholding-estimator>

Investments and Dividends

Opportunity Zone Program

This program allows taxpayers to defer capital gains from the sale or exchange of business or personal property, including stocks, by investing the proceeds in opportunity funds to help low-income communities. To take advantage of this program, you have 180 days from the date of the sale to invest all or part of the gain proceeds in a qualified opportunity fund.

Do you have long-term capital gains and qualified dividends?

You might be eligible for a 0% tax rate on these transactions. To qualify, your taxable income cannot exceed \$44,625 for single or \$89,250 for joint filers in 2023. For example, if you had \$5,000 of long-term capital gains and your taxable income was \$75,000 (filing a joint tax return), the \$5,000 would be taxed at 0%. Proceed with caution: 0% rate gains and dividends increase adjusted gross income, which can cause more of your Social Security benefits to be taxed. Your state income tax bill may increase; many states tax gains as ordinary income.

Tax Loss Harvesting: Do you own any investments that are in a loss position or that are poor performers?

You can sell those investments at a loss. Tax loss harvesting will off set any gains in investments you sold this year. Or, you can roll forward unused losses to future years. If you sold investments at a loss and the losses were more than the gains, you may use up to \$3,000 of the remaining losses to off set other types of income such as your salary, income from your business, and distributions from your IRA.

Beware of the Wash-Sale Rule

This rule applies to Tax Loss Harvesting and prohibits a capital loss write-off on the sale of securities if you purchase substantially identical securities up to 30 days before or after the sale. If you sell crypto, the wash-sale rule doesn't apply.

Lower your tax expense with capital loss carry forwards from prior years

Take a look at your investment portfolio for gains and consider selling these investments. Losses from prior years can off set those gains to help decrease your tax expense.

3.8% surtax on Net Investment Income

Net investment income might include taxable interest, dividends, capital gains, passive rents, annuities, royalties, and other monies received. If your Adjusted Gross Income (AGI) is over \$200,000 (single) \$250,000 (married), you could owe tax. Tax is due on the lower of net income from investments or the excess of modified AGI over thresholds. Purchasing municipal bonds is one way to limit this surtax. Tax-free interest is exempt from the 3.8% tax and doesn't affect the owner's AGI.

Consider timing of mutual funds purchases

Are you considering buying a mutual fund in the next month? Be very careful. If the fund pays a dividend after you buy it, then you owe tax on it this year. You're better off buying the fund after it pays its dividend.

Healthcare

Health related deductions and spending rules

If you itemize your deductions, you can deduct the mileage rate for medical and dental purposes at 22 cents per mile. Do you have a health flex spending account? Check what type of plan your employer established - you may need to spend all funds by December 31.

Medical Expenses

Remember, if you itemized your deductions vs. taking the standard deduction, the medical expenses you incur needs to exceed 7.5% of your AGI to get any deduction. For example, if your AGI is \$500,000, you need at least \$37,500 of medical expenses. This might save you trying to track down receipts in 2023.

Retirement Funds

Max out 2023 401(k) and IRA contributions

Deadline to make 401(k) contributions is December 31 and April 15, 2024 to make IRA contributions for the 2023 tax year. 401(k) limits are \$22,500 (\$30,000 for those aged 50 and older). The IRA contribution limit is \$6,500 (\$7,500 for those 50 years and older).

IRA Conversions

Now is the time to consider whether or not to convert to a ROTH IRA. You will have to pay tax on the converted funds, but once the money is in the ROTH IRA, future appreciation is tax free. If you plan to be in a low tax bracket this year, you may want to convert a portion of your IRA so that you don't move up to the next higher tax bracket. You don't need to convert the entire amount to a Roth at one time. Remember, ROTH IRAs don't have a Required Minimum Distribution (RMD) rule, unlike Traditional IRAs.

Time to plan those 2023 IRA contributions! Individuals have until April 15, 2024 to make their 2023 IRA contributions.

73 or older? Withdraw funds from traditional IRAs to avoid penalties.

If you are aged 73 or older, you must take annual payouts from your Traditional IRA and 401(k). If 2023 is your first RMD year, you have until April 1, 2024 to take the RMD. If you're still working past the age 73, you can delay the RMD from your current employer. If you are 70 ½ or older, you can distribute up to \$100,000 (if married, each can distribute \$100,000) annually to a charity and the direct gifts will not be added to your taxable income. Unfortunately, you can't deduct the donation.

Mega Back-Door Roth

If you participate in a 401(k) or 403(b) plan, the plan has a Roth conversion option and allows additional after-tax contributions, then in 2023, you can contribute up to \$66,000 vs. the \$22,500 limit.

Property and Real Estate

Home mortgage interest

If you pay your January 2024 mortgage bill before year-end, you can deduct the interest portion on Schedule A of your 2023 federal tax return.

Real Estate Sales

If you are selling property, see if you can use an installment sale to spread out a large gain.

Reimbursable Moving Expenses

If your employer reimbursed you for moving expenses, this reimbursement now becomes taxable to you (exception for active-duty military personnel only).

Short-term rental of property

Short-term rental of your primary residence – tax free income: If you rented your personal residence for 14 days or less in a year, the proceeds you receive are nontaxable and aren't reported on your tax return.

Tax Credits: Clean Energy, Home Improvements, and Electric Vehicles

Residential Clean-Energy Property credit

Up to 30% of the cost of solar panels, solar-powered water heaters and geothermal heat pumps, battery storage.

Energy-efficient home improvement credit

Exterior doors, home electric vehicle charger, heat pumps, windows, home energy audits, water heating equipment. Please see our one page summary for the credit dollar amounts for each item.

Electric Vehicle (EV) Tax Credit

New EVs qualify for a credit up to \$7,500 and the tax credit on used EVs is up to \$4,000.

The EV credit is not available to vehicles where the retail price is in excess of \$55,000 for sedans and \$80,000 for SUVs or pickup trucks.



Not sure if you have a nonpassive Real Estate side business?

So, you own some real estate and think you might have a nonpassive side-business on your hands. Before you start filing forms, double check. We've seen several people make this mistake in prior years and the IRS is reviewing this closely.

Remember, a passive activity is defined as any activity that involves the conduct of a trade or a business in which the taxpayer does not materially participate. Under the passive activity rules, a taxpayer can generally deduct losses from a passive activity only to the extent the taxpayer has a passive income in that year.

You can also deduct all deferred losses from that activity in the year of disposition. To be a real estate professional, you must meet both of the following tests:

1. More than half of the taxpayer's personal services performed in trades or businesses during the year must be rendered in real property trades or businesses (property development, construction, rental, management, or brokerage activities) in which the taxpayer materially participates;
2. The total hours that taxpayer materially participates in such businesses must exceed 750 hours for the year. If you're a real estate professional, then rental real estate activities are not automatically considered passive.

Householders can't receive the EV credit for new EV vehicles if your Modified Adjusted Gross income (AGI) is more than \$300,000 for couples filing a joint return or \$150,000 for single filers. For used EV buyers, the modified AGI thresholds are \$150,000 for couples and \$75,000 for single filers.

Tax Tip – hold off on EV Purchase if you exceeded the AGI limits. Consider waiting until 2024 to purchase your EV. Buyers will have the option to transfer the credit to the dealer at the time of purchase, thus lowering the amount you pay for the car.

Cash Gifts and Charitable Giving

Cash Gifts

You can gift up to \$17,000 (\$34,000, if married) in cash, securities, or property to as many people as you want without having to file a tax return. Make sure the gift recipient deposits it by December 31, or make the gift using a bank cashier's check.

College tuition paid directly to school is nontaxable

Looking for a way to help your children or grandchildren with college education – you pay the tuition directly to the school. The payment is nontaxable to the child and it doesn't count towards the \$17,000 gift tax exclusion.

Charitable Giving: Donor Advised Funds

Allows a taxpayer to make charitable contributions in one year, receive immediate tax benefit in that year, and then allocate those contributions over time. For example, you contribute \$100,000 to the fund in 2023, you receive the full tax benefit of the \$100,000, and then get to decide which charities are to receive those funds later.

Make the most of your charitable deductions

Support a worthy cause and increase your itemized deductions, just make sure your contributions are mailed BEFORE December 31, 2023 or pay with your credit card. Always verify that the organization you're donating to is approved by the IRS, you can use the IRS Tax Exempt Organization Search tool to look up an organization's federal tax status. If you own investments that have appreciated in value, you can donate the stock to a charity and deduct its FULL value. Consider making larger donations in 2023 that you would have made over multiple years.

Talk to a tax expert. Schedule a complimentary 20-minute call.

We've highlighted some of the significant new tax law changes, but tax law is complex. Talk to an expert.

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2023 Tax Prep Checklist for Individuals



Where's my refund?

Generally, the IRS and State will send refunds to you within 3 weeks but everyone's tax situation is different. If you have questions about your refund, we ask that you visit <https://www.irs.gov/refunds> to track your refund. There's also an app for that - learn more and download the IRS2Go app here: <https://www.irs.gov/help/irs2goapp>

Do you have Health Insurance Forms 1095 A, B, or C?

All individuals covered by health insurance in 2023 will receive either FORM 1095 A, B, or C. Make sure you have this document by January 31, 2024, you'll need it to prepare your individual tax return. If you have not received the form by the end of January, contact your employer or insurance carrier.

Document your medical/dental expenses

Make a list of all medical and dental expenses incurred in 2023. You can deduct amounts greater than 10% of AGI or 7.5% of AGI for individuals over 65.

Document your charitable deductions

Make a list of all charitable deductions you made in 2023. Ask us for a copy of our standard donation charity list!

Calculate your assets: Foreign property requirements

Do you have assets greater than \$10,000 held outside the US, including cash, investments and real estate? Now is the time to start gathering that information, including bank and investment statements for required special filing.

Do your children or grandchildren have earned income?

Consider setting up retirement accounts for them where you can gift them money to fund a Roth IRA.

Did you sell your home in 2023?

If you sold your home this year, you can deduct the real estate taxes you paid in the current year plus the real estate taxes that you gave to the buyer as a credit on your closing statement. You will need to know the cost value of your home plus improvements and the date you purchased it, in addition to keeping a copy of the closing statement.

Were you an independent contractor in 2023 earning more than \$600?

If so, make sure the companies that paid you send you a 1099 by early January. If you do not receive a 1099, contact the company by January 15.

Independent Contractors and Calculating Expenses

If you are an independent contractor, make sure to properly categorize expenses to reduce your tax liability. Start preparing a list of expenses prior to December 31 so that you are ready for tax time. Remember, if you have a Simplified Employee Pension Plan (SEP), you cannot contribute to it if you DO NOT have self-employment income.

Quarterly Tax Estimates

If you made any quarterly tax payments to the IRS and State in 2023, make sure you have the amounts and dates of these payments. This information will be needed for your 2023 tax return. Do not confuse the quarterly tax payments with amounts due to the IRS/State from your 2022 tax return.

Do you own an LLC or S-Corp?

If you own an LLC or S-Corp or are a passive investor in an LLC or S-Corp, you will receive a K-1 form from those businesses. You will need that form in order to complete your personal tax return.

Securities Dividends

If you own securities and sold any in 2023, or if these securities paid out dividends to you, be on the lookout for FORM 1099-DIV, 1099-INT, or 1099 B.



Visit us at PasquesiPartners.com to learn more about how we can simplify your finances and better your financial well-being!