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COUTO DEFRANCO, P.A.
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

ONLINE ADVISOR

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The temperature isn’t the only thing falling this time of year.

Your 2023 tax bill can also be falling with a little bit of proactive planning, but time is running out!

To help you make the most of potential tax saving moves before the end of the year, this month's newsletter features several year-end tax cutting ideas.

Also learn about tax surprises to watch out for, and some key ingredients to be mindful of if you’re a part of a business partnership.

Please feel free to forward this newsletter to someone who may be interested in a topic and call with any questions you may have.

Year-End Tax Cutting Moves to Consider

Here are moves you can make to reduce your taxable income. But the year is quickly coming to a close, so plan accordingly.

- **Max out pre-tax retirement savings.** The deadline to contribute to a 401(k) plan to get a 2023 taxable income reduction is December 31st. So if your employer's plan allows it, consider making a last-minute lump sum contribution. For 2023, you can contribute up to $22,500 to a 401(k), plus another $7,500 if you're age 50 or older. Even better, you have until April 15, 2024, to contribute up to $6,500 into a traditional IRA. And as long as your income does not exceed phaseout limits, you can reduce your taxable income on your 2023 tax return.
- **Convert to a Roth IRA.** Consider converting some or all of your traditional IRA, SEP IRA, or SIMPLE IRA into a Roth IRA. Although you pay income tax on the amount of the Roth conversion the year it is made, subsequent growth is tax-free in a Roth IRA, and

Upcoming dates:

Dec. 7 to Dec. 15
- Hanukkah

December 25
- Christmas Day

December 26
- Kwanzaa begins

January 16
- 4th Quarter Estimated Payments Due

Take final year-end actions
- Charitable contributions, other itemized deductions
- Capital gains/losses
- 401(k) contributions
- Dividend income

Watch Out For These Unexpected Tax Surprises!

No one likes surprises from the IRS, but they do occasionally happen. Here are some examples of tax situations you could find yourself in and what to do about them.

- **Kids getting older tax surprise.** Your children are a wonderful tax deduction if they meet certain withdrawals from the account are 100% tax-free after five years from the date of the conversion.

- **Tax loss harvesting.** If you own stock outside a tax-deferred retirement plan, you can sell your under-performing stocks by December 31st and use these losses to reduce any taxable capital gains. If your net capital losses exceed your gains, you can net up to $3,000 against other income such as wages. Losses over $3,000 can be used in future years.
- **Selling appreciated assets.** Consider selling appreciated assets in the tax year that helps you the most. While this strategy may be hard to accomplish this late in the year, it is still worthy of consideration. To do this, estimate your current year's taxable income and compare it to next year's projected income. Then sell the appreciated asset in the year that will yield the lowest tax. Remember to account for the 3.8% net investment income tax in your estimates.
- **Review health spending accounts.** If you participate in a Health Savings Account (HSA), try to maximize your annual contribution to reduce your taxable income. Remember, these funds allow you to pay for qualified health expenses with pre-tax dollars. More importantly, unlike Flexible Spending Accounts (FSA), you can carry over all unused funds into future years. If you do have an FSA, you can carry forward a maximum of $610 from

qualifications. But as they get older, many child-related deductions fall off and create an unexpected tax bill. And it doesn't happen all at once.

As an example, one of the largest tax deductions your children can provide you is via the child tax credit. If they are under age 17 on December 31st and meet several other qualifications, you could get up to $2,000 for that child on that year’s tax return. But you’ll lose this deduction the year they turn 17. If their 17th birthday occurs in 2023, you can’t claim them for the child tax credit when you file your 2023 tax return in 2024, resulting in $2,000 more in taxes you’ll need to pay.

- **Limited losses tax surprise.** If you sell stock, cryptocurrency or any other asset at a loss of $5,000, for example, you can match this up with another asset you sell at a $5,000 gain and - presto! You won’t have to pay taxes on that $5,000 gain because the $5,000 loss cancels it out. But what if you don’t have another asset that you sold at a gain? In this example, the most you can deduct on your tax return is $3,000 (the remaining loss can be carried forward to subsequent years).

  Herein lies the tax surprise. If you have more than $3,000 in losses from selling assets, and you don’t have a corresponding amount of gains from selling assets, you’re limited to the $3,000 loss. So if you have a big loss from selling an asset in 2023, and no large gains from selling other assets to use as an offset, you can only deduct $3,000 of your loss on your 2023 tax return.

- **Getting a letter from the IRS surprise.** Official tax forms such as W-2s and 1099s are mailed to both you and the IRS. If the figures on your income tax return do not match those in the hands of the IRS, you will get a letter from the IRS saying that you’re being audited. These audits are now done by mail

2023 into 2024 if your plan allows this. The deadline for contributing to your Health Savings Account (HSA) and still getting a deduction for the 2023 tax year is April 15, 2024. The maximum contribution for 2023 is $3,850 if single and $7,750 for married couples. If you're age 55 or older, you can add $1,000 to your HSA contribution.

While the year is quickly coming to an end, there is still time to reduce your 2023 tax liability, but only if you act now.

and are commonly known as correspondence audits.

Assuming you already know you received all your 1099s and W-2s and confirmed their accuracy, verify the information in the IRS letter with your records. Believe it or not, the IRS sometimes makes mistakes! It is always best to ask for help in how to correspond and make your payments in a timely fashion, if they are justified.

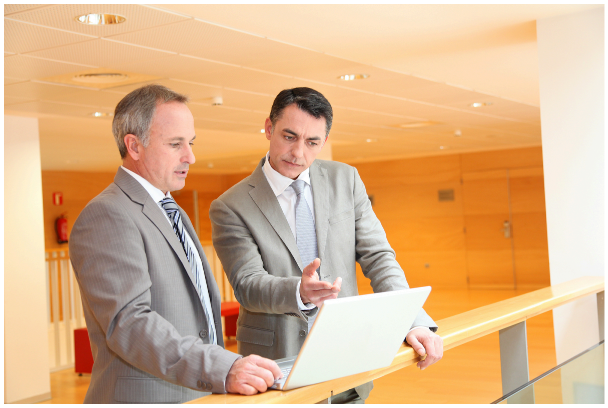
Please call to schedule a tax planning session so you can be prepared to navigate around any potential tax surprises you may encounter on your 2023 tax return.

Tips to Turn Buying a Home into a Reality

Homeownership seems more out of reach than ever for many Americans, especially for those who have been waiting for real estate prices to drop. But there are still multiple ways to buy a home right now, or to position yourself for a future purchase.

- **Build up your down payment.** The higher real estate prices climb, the bigger you'll want your down payment to be. Having at least 20% saved up as a down payment can help you avoid paying private mortgage insurance (PMI) on a conventional loan.

- **Ask for a gift.** One-fourth of first-time homebuyers used a cash gift or loan from family or friends as a down payment in 2021 and 2022, according to the National Association of Realtors' Profile of Home Buyers and Sellers. Depending on the type of mortgage, you may also be allowed to receive a down payment gift from your employer or labor union, a charitable organization, or a government agency that assists first-time or low-income homebuyers. So don't be afraid to ask!
- **Improve your credit score.** A better credit score can help you qualify for more home loan options and better interest rates. The most important steps you can take to improve your credit include making all bill payments on time, paying down revolving debt to get a lower credit utilization ratio, and refraining from opening new accounts or closing old ones.
- **Consider several loan types.** Look at different types of mortgages that could help you get into the home you want, including government-backed home loans. As an example, FHA loans let borrowers put down as little as 3.5% with a credit score as low as 580. For those with scores between 500 and 579, a down payment as low as 10% of the purchase price will suffice.
- **Start working with a realtor early on.** Have a realtor working on your behalf early in the buying process, particularly if you live in an area with a hot real estate market. By having a professional on your side who knows what you’re looking for and how much you can afford, you could find out about available properties before they’re snagged by someone else.
- **Remember you can always refinance.** Keep in mind that today’s high mortgage rates don’t have to be forever. Take out a home loan for the property you want when you’re ready and remember that you can always refinance your mortgage when rates drop in the future. This could help you save money on interest later down the road, and you can also qualify for a lower monthly payment when rates drop.



Ingredients of a Successful Business Partnership

Like a bundle of sticks, good business partners support each other and are less likely to crack under strain together than on their own. In fact, companies with multiple owners have a stronger chance of surviving their first five years than sole proprietorships, according to U.S. Small Business Administration data. Yet sole proprietorships are more common than partnerships, making up more than 70 percent of all businesses. That's because while good partnerships are strong, they can be a challenge to successfully get off the ground. Here are some of the ingredients that good business partnerships require:

- **A shared vision.** Business partnerships need a shared vision. If there are differences in vision, make an honest effort to find common ground. If you want to start a restaurant, and your partner envisions a fine dining experience with French cuisine while you want an American bistro, you're going to be disagreeing over everything from pricing and marketing to hiring and décor.
- **Compatible strengths.** Different people bring different skills and personalities to a business. There is no stronger glue to hold a business partnership together than when partners need and rely on each other's abilities. Suppose one person is great at accounting and inventory management, and another is a natural at sales and marketing. Each is free to focus on what they are good at and can appreciate that their partner will pick up the slack in the areas where they are weak.
- **Defined roles and limitations.** Before going into business, outline who will have what responsibilities. Agree on which things need consensus and which do not. Having this understanding up front will help resolve future disagreements. Outlining the limits of each person's role not only avoids conflict, it also identifies where you need to hire outside expertise to fill a skill gap in your partnership.

- **A conflict resolution strategy.** Conflict is bound to arise even if the fundamentals of your partnership are strong. Set up a routine for resolving conflicts. Start with a schedule for frequent communication between partners. Allow each person to discuss issues without judgment. If compromise is still difficult after a discussion, it helps to have someone who can be a neutral arbiter, such as a trusted employee or consultant.
- **A goal-setting system.** Create a system to set individual goals as well as business goals. Regularly meet together and set your goals, the steps needed to achieve them, who needs to take the next action step, and the expected date of completion.
- **An exit strategy.** It's often easier to get into business with a partner than to exit when it isn't working out. Create a buy-sell agreement at the start of your business relationship that outlines how you'll exit the business and create a fair valuation system to pay the exiting owner. Neither the selling partner nor the buying partner want to feel taken advantage of during an ownership transition.

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