Freddi Eberhart & Associates Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

DECEMBER 2022

Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

This Month:

Upcoming dates:

January 17

- 4th Quarter Estimated Payments Due

Take final year-end actions

- Deductible gifts / Capital gains/losses / Itemized deductions / Dividend income

With the hustle and bustle of the holiday season, it's easy to overlook that tax season is right around the corner. To help you make the most of potential tax saving moves before the end of 2022, this month's newsletter features several year-end tax cutting ideas.

Also read about paying pass-through entity elective tax before year-end and how to shrink your tax bill in 2023.

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 Ideas

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

- **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.** Planfully sell 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 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.

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Year-End Tax Cutting Ideas (Cont'd)

- **Max out pre-tax retirement savings.** The deadline to contribute to a 401(k) plan for a 2022 taxable income reduction is December 31st. So if your employer's plan allows it, consider making a last-minute lump sum contribution. For 2022, you can contribute up to $20,500 to a 401(k), plus another $6,500 if you're age 50 or older. Even better, you have until April 18, 2023, to contribute up to $6,000 into a traditional IRA. And as long as your income does not exceed phaseout limits, you can reduce your taxable income on your 2022 tax return.

- **Bunch deductions so you can itemize.** If your personal deductions are near the following standard deduction amounts for 2022: $12,950 for singles, $19,400 for head of household, and $25,900 for married filing joint, consider bringing some of 2023's spending into 2022 so you can itemize this year. For most, the easiest way is to do this is to make 2023's planned charitable contributions before the end of 2022. You can also include gifts of appreciated stock where you get to deduct the fair market value without paying capital gains tax.

- **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 $570 from 2022 into 2023. The deadline for contributing to your Health Savings Account (HSA) and still getting a deduction for the 2022 tax year is April 18, 2023. The maximum contribution for 2022 is $3,650 if single and $7,300 for married couples.

While the year is quickly coming to an end, there is still time to reduce your 2022 tax liability, but only if you act now.

Pay Your State Pass-Through Entity Elective Tax Before Year-End

Pass-through entities may want to make a 2022 state tax payment before the year ends to reduce their federal taxable income.

For a quick refresher: California's pass-through entity elective tax statute allows qualified S-corporations, partnerships, or LLCs to pay tax on their individual, trust, estate, and certain single member LLC owners share of the entity's qualified net income at the entity level. It also allows these owners to claim a credit for the tax paid on their California personal income tax return.

Having the entity pay the tax may reduce your federal taxable income by the amount of the tax paid, and

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Pay Your State Pass-Through Entity Elective Tax Before Year-End (Cont'd)

you may also qualify to claim a 100% California credit equal to the amount of the entity tax paid on your share of the entity's income.

Similar pass-through entity rules and benefits apply for most taxable states.

Shrink Your Tax Bill in 2023

Here are several strategies to consider to shrink your tax bill in 2023.

Consider life events. Consider whether any of the following key events may take place in 2023, as they may have potential tax implications:

- Purchasing or selling a home
- Refinancing or adding a new mortgage
- Getting married or divorced
- Incurring large medical expenses
- Changing jobs
- Welcoming a baby

Manage your retirement. One of the best ways to reduce your taxable income is to use tax beneficial retirement programs. Now is a good time to review your retirement account funding. Here are the contribution limits for 2023:

- 401(k): $22,500 ($30,000, Age 50+)
- IRA: $6,500 ($7,500, Age 50+)
- SIMPLE IRA: $15,500 ($19,000, Age 50+)
- Defined Benefit Plan: $66,000

Look into credits. There are a variety of tax credits available to most taxpayers. Take a look at those you currently use and determine whether you qualify for them again next year. Here are some worth

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Shrink Your Tax Bill in 2023 (Cont'd)

reviewing:

- Child Tax Credit
- Earned Income Tax Credit
- Premium Tax Credit
- Adoption Credit
- Elderly and Disabled Credit
- Educational Credits (Lifetime Learning Credit and American Opportunity Tax Credit)

Assess your income. Forecast how your 2023 income will compare to your 2022 income, then review your most recent tax return and find your effective tax rate by dividing your total tax by your taxable income. Then apply that rate to your new income. This will give you a rough estimate of next year's tax obligation.

To avoid getting stuck with an unexpected tax bill, consider scheduling tax planning sessions throughout the year. Remember, some tax saving ideas may require funding on your part. It is best to identify them now so you can save the cash necessary to take advantage of them throughout 2023.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.