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Fall 2023

Dear Clients;

Happy autumn. Leaves are changing colors, it's almost Thanksgiving, so it's time to think about year-end tax moves. Over the next two months we welcome any client to get a projection and quick review to see if there are planning opportunities before the books close on another year.

Please let us know of any relevant change you made or are considering, if you moved, had a baby, changed jobs, have a child entering college, suddenly have very high medical costs, received a significant inheritance, received a tax notice, etc.

Our firm and most of our profession, since Covid, have been working harder than ever and many tax professionals have thrown in the towel. To maintain our quality, we have unfortunately needed to trim our practice and have explained to about 10% of our clients that we do not have the capacity for them. It's upsetting, and hopefully we will not need to do this again, but was unfortunately needed. For clients that choose to stay with us, if your tax return is roughly the same as the prior year, please expect a 10-15% increase in our fees.

<u>Inflation is having a major impact everywhere.</u>

Minimum wage in NJ goes to $15.13 per hour for 2024. New York state goes to $15.00 but in New York City, Long Island & Westchester it's $16.00 per hour. This increase worked like a wave, leading most people, up and down the wage scale, to demand higher pay.

Tax brackets are adjusted favorably for inflation a well. Each tax bracket is wider, so more of your income will be taxed at a lower bracket. This will slightly increase your net pay as the withholding charts get updated.

Inflation increased the 2024 limit for 401(k) plans through work as well. The contribution limit for 2024 increased from $22,500 to $23,000. Consider increasing your payroll deduction to maximize this. Also, while looking at employer benefits, review your workplace options for pre-tax benefits like medical or dependent care spending.

Banks were paying next to nothing in interest for years, so many people were sitting with large balances in checking accounts. Now that you can get 4% or more in a money market, everyone should connect their checking with an interest paying account for all the extra funds there and just transfer over what's needed, when needed.

Home prices have risen so much recently, that it has become more important to keep track of your home improvement costs. Married couples can usually exclude $500,000 of the gain on the sale of your home, single filers can usually exclude $250,000. This amount is not subject to inflation, so many people never tracked their improvements thinking it would never matter. We suggest making a list of every improvement and saving the invoices and proof of payments. We would be glad to scan this for you and save it in your file for when or if you decide to sell.

<u>Do you have a student loan?</u>

Now that the deferment is over, it may be worthwhile to pay more of the interest before the end of the year. Taxpayers may be able to deduct up to $2,500 of student loan interest paid in 2023 if their income is below certain limits. The deduction starts to get phased out for single filers with income of $75,000 and or married filers at $150,000. Paying more interest in 2023 is especially smart if, in 2024, your interest will already be more than $2,500 or if your income will go over the phase out limits.

<u>Is someone in your family in their last year of college?</u>

While most colleges want to get paid in December, we suggest paying at least $4,000 of their final tuition bill in January. This way, the graduate can potentially receive the American Opportunity Tax credit worth up to $2,500 to lower their tax in 2024.

<u>There are better ways to give to charity.</u>

With the high standard deduction many people do not gain any additional tax benefit from charitable giving. But if you are over 70.5 you can direct up to $100,000 per year be sent from your retirement account directly to your charity and not pay federal tax on the distribution. This also satisfies that portion of your RMD requirement.

Another strategy is to contribute to a Donor Advised Fund (DAF) and lump many years of charity in one year. You can then grant smaller amounts to the charities of your choice, from your fund, for as many years as you like. Your contribution to the DAF can also be an appreciated stock. You will get the deduction for the total value without paying tax on the appreciation.

<u>Who should get audited?</u>

This is a hot item in the news. The reality is that most taxpayers are audited through the IRS matching program. Most income is reported on forms such as W-2's or 1099's. The IRS also receives copies of these and matches them to your tax return. If there is a difference, you will get an automated notice.

In gross number of audits, most are on lower income taxpayers. There are few reasons for this: As a class, there is simply a larger number of filers, so logically there are more audits. The single most abused tax items are the "Earned Income Credit" and the "Child Tax Credit." Scams involve a parent giving the benefit of their child to another person, for a share of a larger credit. Also, scammers simply make up children or use the identity of other parent's children to get large refunds. Finally, at the higher level, the reality is that the private sector is more talented than the typical IRS staffer, and they can usually outwit them with complex transactions.

The IRS is cracking down on crowdfunding in two directions: First, contributing to a crowdfunding campaign is typically NOT a deductible charitable contribution. The organization receiving the funds must be a charity under IRS section 501(c)3 and provide a receipt stating the amount of the donation and if anything was received in return. Second, receiving funds from crowd sources is generally income, and they are checking up on you to make sure you are paying tax. It is only not taxable if you can prove there was no quid pro quo for any service of product.

A teacher raised $41,000 in a crowdfunding campaign during COVID and used the funds to assist parents with food & rental assistance. Because he had not set up a charitable organization, and was subject to all their rules, he was on the hook for a $16,000 tax bill.

There is a Covid era credit for employers called Employee Retention Credit (ERC) that has garnered a lot of attention. There are aggressive solicitations that, for a percentage of the refund, companies will file claims. We would guess that years later, when the claim is audited, the firm that prepared it will be out of business.

So many businesses were and are being swayed by these shady firms into filing claims using fraudulent criteria, that the IRS suspended taking applications. During the suspension, the IRS is allowing you to withdraw your application, and avoid the possibility of prosecution for fraud.

With a huge influx of cash, the IRS has been directed to audit people with incomes greater than $400,000, partnerships, and the super wealthy. From personal experience, our client base always seems to have been a target. Meanwhile, they pay an overwhelming amount of tax, only take advantage of legitimate deductions, and are not deserving of additional attention.

Other tax news

Clean vehicle credits will be available at the time of purchase through auto dealerships. This means you can use rebates of up to $7,500 as a downpayment toward the purchase. If your income is too high and you were not entitled to the credit, it will get repaid when you file. But if your tax liability was less than the credit you received, you get to keep it. This is new. In the past, the credit was limited to your tax. There is a lot of fine print and limitations about how many cars can be purchased, how long you need to own the car, etc.

The SECURE Act 2 is still making waves for retirement account rules. Required distributions from retirement accounts was increased from age 70.5 to age 73. This will go up over time to 75. This provides a few more years of tax planning and possible Roth conversions.

The IRS punted again on inherited IRAs where the original owner passed in 2020 or later. The issue is whether distributions are required each year, or does it all just need to be withdrawn within 10 years. The IRS's position is that distributions are required each year, but suspended that requirement for 2021, 2022 & again in 2023. Hopefully a firm decision will be made for 2024.

We are here for you

Please show us any tax notice you receive. There are a lot of scams and we don't want you to become a victim. The IRS does not call or email without first sending a lot of paper notices. Paid services like LifeLock are great, but there are also a few free services we suggest you use as well.

Review your credit bureau information. Make sure there are no new accounts opened in your name. If requested, each of the major credit agencies must provide you with a credit report annually. Consider freezing your credit if not needed; this is a great defense against fraud.
https://www.experian.com/freeze/center.html
https://www.transunion.com/credit-freeze
https://www.equifax.com/personal/credit-report-services/credit-freeze/

You can also "Self-Lock" your Social Security number to protect it from identity theft using your information for employment. Large employers must use an E-Verify system to verify an employee's identity. This will block your information from being used. Like the credit freeze, you control when to turn it on and off. https://myeverify.uscis.gov/

Protect yourself from deed fraud. There are companies that advertise help for a fee, but many areas provide this service for free through www.PropertyFraudAlert.com If your county does not participate, call and ask if they offer a substitute for free.

Finally, our favorite family holiday game

For fun, check for unclaimed property with your state site. Look for friends and family as well. You can even look for deceased family members. Use as few letters in your name to narrow down the list, as misspellings or incorrect addresses may have caused the property to go unclaimed. It's very surprising how often you can find free money!

Many states can be found at www.MissingMoney.com but many states have their own. Google your home state, and any other states you lived in, and "unclaimed property." Here are some of the popular state sites:
NJ: https://nj.gov/treasury/unclaimed-property/
NY: https://www.osc.state.ny.us/unclaimed-funds
FL: https://fltreasurehunt.gov/

Please feel free to email us and we can provide live links to these sites. Thank you for working with us and we look forward to assisting you with any tax planning or projections. We hope you enjoy the holidays and look forward to working with you soon.

Sincerely,

The entire staff at Westfield CPAs LLC
Bob, Cathy, Danielle, Jack, Jacob, Jenica, John,
Maryna, Michelle, Patty, Robyn, Susannah & Vanessa