Money Talks by Dave Helscher

November 2023

I get to play the part of the Grinch, maybe a little early, but here are some things to consider as you weigh potential tax moves before the end of the year. Effective planning requires that you have a good understanding of your current tax situation, as well as an estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. The window for most tax-saving moves closes on December 31, so don't procrastinate.

Consider opportunities to defer income to 2024, particularly if you think you may be in a lower tax bracket then. You may be able to defer a year-end bonus, the collection of business debt, rents, and payments for services in order to postpone payment of tax on the income until next year. Look for chances to accelerate deduction into the current tax year. If you itemize deductions, making payments for deductible expense such as qualifying interest state taxes, and medical expenses before the end of the year (instead of paying them in early 2024) could make a difference on your 2023 return. If you are unable to itemize deductions in 2023, but you may be able to in 2024, defer payments until early 2024 when your deductions might exceed the standard deduction.

If it looks as though you are going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2023 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2023, you can contribute up to $6,500 to traditional and Roth IRAs combined ($7,500 if you are age 50 or older). The window to make 2023 contributions to an employer plan generally closes as the end of the year, while you have until April 15, 2024 to make 2023 IRA contributions. Roth contributions are not deductible, but qualified Roth distributions are not taxable.

If you are age 73 or older, you generally must take annual required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans. Take any distributions by the date required, the end of the year for most individuals. The penalty for failing to do so is substantial. Beneficiaries are generally required to take annual distributions from inherited retirement accounts. There are special rules for spouses. If so inclined, you can make a qualified charitable distribution to your favorite qualified charity which counts against your RMD but is not included in your taxable income.

Though you shouldn't let tax consideration drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income or carried forward to reduce your taxes in future years.

As you gather for the Thanksgiving holiday and there is objection to putting up Christmas decorations, consider proposing the family review your year to date income tax situation and some planning options to reduce your taxes. I suspect for most of you, the Christmas tree will win out!

Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. To the extent this material concerns tax matters, it is not intended or written to be used by a taxpayer for purposes of avoiding penalties that may be imposed by law.