January 1, 2024

**Re: 2023 & 2024 Tax Year Planning for Individuals**

With rising interest rates, inflation, and continuing market volatility, tax planning is as essential as ever for taxpayers looking to manage cash flow while paying the least amount of taxes possible over time. As we begin a new year, now is the time to review your 2023 and 2024 tax situations and identify opportunities for reducing, deferring, and/or accelerating your tax obligations.

The information contained within this planning letter is based on federal laws and policies in effect as of the publication date. The tax information provided focuses primarily on federal tax planning strategies. If you live or work in a state with a separate state and/or local income tax or own foreign assets, additional planning may be necessary. Cunningham & Associates is available to help advise you in making tax and financial decisions regarding any of the items on the following pages.

| Tax item | 2023 | 2024 |
|---|---|---|
| MFJ – top bracket | 37% for taxable income over $693,750 | 37% for taxable income over $731,200 |
| Single – top bracket | 37% for taxable income over $578,125 | 37% for taxable income over $609,350 |
| Capital gains – MFJ | 15% rate with capital gain between<br>$89,250 - $553,850; 20% over $553,850 | 15% rate with capital gain between<br>$94,050 - $583,750; 20% over $583,750 |
| Capital gains – single | 15% rate with capital gain between<br>$44,625 - $492,300; 20% over $492,300 | 15% rate with capital gain between<br>$47,025 - $518,900; 20% over $518,900 |
| STD deduction – MFJ | $27,700 | $29,200 |
| STD deduction - single | $13,850 | $14,600 |
| Section 199A QBID – MFJ | $364,200 | $383,900 |
| Section 199A QBID - single | $182,100 | $191,950 |
| Social Security wage base | $160,200 | $168,600 |

| Tax item | 2023 | 2024 |
|---|---|---|
| IRA Contribution (TRAD & ROTH) | $6,500; $1,000 catchup over age 50 | $7,000; $1,000 catchup over age 50 |
| HSA Contribution | Self = $3,850; Family = $7,750; 55+ additional $1,000 | Self = $4,150; Family = $8,300; 55+ additional $1,000 |
| 401(k)/403(b) Contribution | $22,500; $7,500 catchup over age 50 | $23,000; $7,500 catchup over age 50 should be to Roth 401(k)/403(b) |
| Estate/Gift Exclusion | $17,000 | $18,000 |
| Estate/Gift Unified Exemption | $12,920,000 | $13,610,000 |

## CAPITAL GAIN & QUALIFIED DIVIDEND TAX RATES

The long-term capital gain and qualified dividend tax rates remain unchanged; however, the income limits for each bracket were adjusted. The brackets remain at 0 percent, 15 percent, and 20 percent. Short-term capital gains are taxed at ordinary income tax rates. One method often used to reduce capital gains is to “harvest” investment losses at the end of the year. We recommend consulting with your tax and investment advisors prior to selling investments at a loss to ensure the sales are in line with your financial goals.

## DEDUCTIONS

Many taxpayers find themselves claiming the standard deduction instead of itemized deductions after the standard deduction was increased by the Tax Cuts and Jobs Act of 2017. However, itemizing deductions still makes sense for some taxpayers who have a home mortgage, have large medical bills, make large charitable donations, and/or have high property or state income taxes.

## CHARITABLE CONTRIBUTION

For 2023 and 2024, the deduction for cash contributions made to qualifying charitable organizations, including donor-advised funds, is limited to 60 percent of an individual’s adjusted gross income. This limitation can be avoided for individuals over age 70 ½ if a cash contribution is made directly to a qualifying charity from their individual retirement account (IRA).

If you are charitably inclined and wish increase your charitable commitment, consider establishing a donor advised fund, private foundation, or a charitable trust. You may also wish to consider donating highly appreciated publicly traded stock to a public charity or donor-advised fund, thus avoiding recognizing the gain on a future sale while still getting the benefit of a deduction equal to the fair market value of the stock donated.

**CASULTY LOSSES**

The 2023 tax year saw significant natural disasters, including Hurricane Idalia in the South, Hurricane Lee in the North, and severe storms in the West. Where a disaster resulted in a Federal Disaster declaration, taxpayers can claim a casualty loss deduction for losses sustained during the disaster. Personal losses are still subject to a $100 limit per casualty, and losses are only deductible to the extent they exceed 10 percent of a taxpayer's adjusted gross income.

Business losses are not subject to these same limitations. In past years, Congress has passed legislation for certain federally declared disasters to increase the $100 limit to $500 per casualty, and to eliminate the 10 percent adjusted gross income (AGI) limitation applied for personal casualty losses. As of the date of this publication, Congress has yet to do the same for disasters that occurred in 2022 and 2023, though various bills have been introduced in both the House and Senate. If legislation is eventually passed we will provide updated information on claiming the additional allowed losses.

**CHILD TAX CREDIT**

For 2023, the credit limit is $2,000 per qualifying child, with up to $1,600 refundable. The refundable portion is generally referred to as the "Additional Child Tax Credit." The availability of the Child Tax Credit phases in when earned income exceeds $2,500 and then phases out when income exceeds $200,000 for single filers or $400,000 for married filing jointly. Note that these limits were put in place as part of the Tax Cuts and Jobs Act of 2017 and will be reduced when it expires in 2026 if Congress does not act.

**ELECTRIC VEHICLE CREDIT**

Generally, the maximum credit allowed for EVs purchased in 2023 is $7,500. The vehicle must be powered by batteries with materials sourced from the U.S. or its free trade partners and it must be assembled in North America. However, the credit cannot be claimed by a single filer with a modified adjusted gross income (MAGI) above $150,000 or MAGI of $300,000 for joint filers. Also, the credit is not available for most passenger vehicles that cost more than $55,000. The threshold is $80,000 for vans, sports utility vehicles (SUVs) and pickup trucks. Furthermore, you cannot claim any credit if you lease an EV instead of buying it. The credit for EVs is nonrefundable, so you may want to time year-end purchases accordingly.

**FOREIGN EARNED INCOME EXCLUSION & HOUSING COSTS**

A qualified individual may elect to exclude foreign-earned income from the U.S. gross income up to the exclusion amount. For 2023, the exclusion amount is $120,000, up from $112,000 in 2022. A taxpayer cannot claim a foreign tax credit or deduction for foreign taxes paid on any amount excluded from U.S. gross income.

In addition to the foreign earned income exclusion, a qualifying person can also elect to exclude a housing cost amount from the gross income. The limit on housing expenses is $16,800 (14 percent of $120,000) for 2023.

**IRA DEDUCTION LIMITS**

Taxpayers that make a contribution to a Traditional Individual Retirement Account (IRA) may be entitled to a deduction for the amount of the contribution. If the taxpayer is covered by a workplace retirement plan, the deduction is subject to income limitations. For the 2023 tax year, the income phase-out range for single filers is between $73,000 and $83,000. For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the income phase-out range is between $116,000 and $136,000.

**ROTH IRA CONTRIBUTION LIMITS**

Taxpayers may only make Roth IRA Contributions if their income falls between or below the income phase-out limitations. For the 2023 calendar year, the income phase-out range is between $138,000 and $153,000 for single filers and heads of household and between $218,000 and $228,000 for married taxpayers filing jointly. If your income exceeds these ranges, the “backdoor” contribution is generally recommended.

**SECTION 179 DEDUCTION**

For tax years beginning in 2024, small businesses can potentially write off up to $1,220,000 of qualified asset additions in year one (up from $1,160,000 for 2023). However, the maximum deduction amount begins to be phased out once qualified asset additions exceed $3,050,000 (up from $2,890,000 for 2023). Various limitations apply to Sec. 179 deductions.

Side Note: Under the first-year bonus depreciation break, you can deduct up to 60% of the cost of qualified asset additions placed in service in calendar year 2024. For 2023, you could deduct up to 80%.

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**ADDITIONAL RESOURCES: CUNNINGHAM WEALTH MANAGEMENT**
Our affiliated fiduciary fee-based registered investment advisor, Cunningham Wealth Management, works closely with its clients to help create financial plans and investment portfolios that incorporate many aspects of a tax sensitive investment management structure.

This season, we are pleased to invite you, as a client of Cunningham & Associates, to a complimentary consultation with one of our professionals to develop financial plans that address client-specific problems and design solutions specific to your financial needs and goals. Contact us by phone or email to schedule a time to talk. We look forward to meeting with you.