Barry & Moore, CPAs

2023 Year-End Letter and Tax Information Reference Guide

Navigating Through a Transformative Year

Dear Valued Clients and Friends,

As 2023 comes to a close, we at Barry & Moore, CPAs reflect on a year that presented challenges and transformative opportunities. In a landscape marked by continued economic uncertainty, your resilience and adaptability have been nothing short of inspiring. This year, we've navigated fluctuating markets, ongoing recession discussions, and significant legislative developments, each profoundly impacting the business environment.

In these times, our role as your trusted advisors has become even more vital. We have witnessed tight labor markets, persistently high inflation, and rising interest rates, each adding layers of complexity to your financial and tax planning. Yet, amidst these challenges, there have been opportunities – moments where strategic planning and foresight have led to successful outcomes.

As we look back, it's important to acknowledge the sheer tenacity and entrepreneurial spirit that you, our clients, have shown. Whether in construction, real estate development, manufacturing, or any of the diverse industries we serve, your ability to adapt and thrive has been a constant source of motivation for our team.

This letter aims to provide an overview of key tax and financial developments from the past year, including tax bracket updates and strategies to prepare you for the upcoming year. Our focus is not just on addressing the challenges, but on seizing the opportunities that lie within them.

As we step into 2024, Barry & Moore, CPAs remains committed to being your partner in navigating these complex times. Our team is dedicated to providing you with the specialized advisory and support services that align with your unique needs and aspirations.

Thank you for your continued trust and partnership. Together, let's look forward to a year of growth, prosperity, and continued success.

Warm regards,

Barry & Moore, CPAs

Legislative Developments and the IRS: Impacts on Your Business

A Year of Legislative Evolution - As we navigate through the complexities of the ever-evolving tax landscape, 2023 has brought several legislative developments that warrant your attention. These changes are poised to have a significant impact on your business and personal tax planning, especially considering the diverse industries you operate in, from construction and real estate to manufacturing and beyond.

Tax Cuts and Jobs Act (TCJA) Revisions - One of the pivotal points of discussion this year has been around the Tax Cuts and Jobs Act (TCJA) and its impending changes. As we edge closer to 2025, the landscape of tax rates, deductions, and credits is set for a substantial shift. Notably, the potential increase in the top individual tax rate to 39.6% (up from 37%) and the reduction in the income level to which it applies could have profound effects on your tax planning strategies.

Focus on Digital Asset Taxation and Reporting - In line with the evolving digital economy, there has been an increasing focus on the taxation of digital assets. The legislation and IRS guidelines surrounding cryptocurrencies and other digital assets are becoming more defined. This year has seen efforts to streamline the tax treatment of these assets, which is particularly pertinent for clients like you who are invested in or considering venturing into digital asset markets.

With the increasing prominence of these digital assets, the IRS has released proposed regulations on broker reporting for digital asset transactions. This is a crucial development for clients who are investing in or using digital assets. Understanding these reporting requirements is essential to ensure compliance and avoid potential penalties.

Corporate Transparency Act (BOI Reporting) - Starting Jan. 1, 2024, the Corporate Transparency Act (CTA) will go into effect. All entities formed or registered to do business in the United States will need to either, confirm they qualify for an exemption from the CTA's reporting requirements, or timely submit a beneficial ownership information (BOI) report to the U.S. Treasury's Financial Crimes and Enforcement Network (FinCEN). ***All entities means ALL entities.***

- Entities formed prior to Jan 1, 2024, do not have to report until Jan 1, 2025.
- Entities formed on or after Jan 1, 2024, must file the BOI report within 90 days of the entity's formation.

Assuming that an entity is not exempt from reporting, the entity identifies itself and then identifies any individual who, directly or indirectly, either exercises substantial control over such reporting company or owns or controls at least 25% of the ownership interests of such reporting company. For a list of exempt organizations and the definition of "substantial control" we recommend reviewing the resources and information on the FinCEN website dedicated to this topic. https://www.fincen.gov/boi

Once an entity files its initial report, entities must report changes in beneficial ownership within 30 days of the change. BOI reports are filed by accessing and entering data on FinCEN's website. The website is not currently open for use. There are penalties for failure to file: civil - $500/day up to a maximum of $10,000; and criminal fines up to $10,000 and prison up to 2 years.

Looking Ahead: Anticipated Changes - As your advisors, we keep a close watch on the legislative horizon. There are talks of further modifications and extensions to existing tax provisions, with particular attention to areas such as child tax credits and business-related deductions. These discussions, while still in their nascent stages, could lead to significant tax planning opportunities and considerations for you and your businesses in the near future.

Strategic Tax Planning for Year-End

As we approach the close of 2023, it's crucial to adopt a strategic approach to your year-end tax planning. This section aims to provide you with actionable insights and recommendations to optimize your tax position before the year ends, considering the unique aspects of your businesses and investments.

Capital Gains Management - For our clients invested in public company stocks and funds, managing capital gains is a key aspect of tax planning. We recommend reviewing your investment portfolio to identify opportunities for harvesting losses to offset gains. This strategy can help in reducing your overall tax liability for the year.

Maximizing Deductions and Credits - This is also an opportune time to assess potential deductions and credits. For businesses in industries like construction and manufacturing, maximizing deductions related to equipment purchases or improvements can be particularly beneficial. Additionally, consider making charitable contributions before year-end to avail yourself of deductions.

Tax-Smart Philanthropy - For those inclined towards philanthropy, consider strategies like donor-advised funds or direct donations of appreciated securities. These methods can offer both tax benefits and fulfill charitable intentions.

Retirement Planning - Contributing to retirement accounts such as IRAs or 401(k)s can provide tax advantages. We encourage our clients to maximize their contributions to these accounts, which can reduce taxable income while enhancing long-term financial security.

Estate & Gift Planning - For clients with significant estate and gift planning considerations, year-end presents an opportunity to review and adjust your strategies. Utilizing annual gift tax exclusions or making charitable gifts can be effective ways to manage estate taxes.

Effective year-end tax planning is about making informed decisions that align with both your short-term needs and long-term financial goals. As always, the team at Barry & Moore is here to provide personalized advice and help you navigate these decisions.

Tax Brackets, AZ Tax Credit Information, and Tax Topics - The following pages contain reference information related to 2023 Marginal Tax Brackets, AZ Tax Credit information and other various tax topics and tax credit items that may be related to your individual or business tax needs in 2023 and forward.

2023 Tax Information Reference Guide

2023 Tax Brackets

Rate	Single	Married Filing Jointly	Head of Household
10%	Up to $11,000	Up to $22,000	Up to $15,700
12%	Over $11,000 but not over $44,725	Over $22,000 but not over $89,450	Over $15,700 but not over $59,850
22%	Over $44,725 but not over $95,375	Over $89,450 but not over $190,750	Over $59,850 but not over $95,350
24%	Over $95,375 but not over $182,100	Over $190,750 but not over $364,200	Over $95,350 but not over $182,100
32%	Over $182,100 but not over $231,250	Over $364,200 but not over $462,500	Over $182,100 but not over $231,250
35%	Over $231,250 but not over $578,125	Over $462,500 but not over $693,750	Over $231,250 but not over $578,100
37%	Over $578,125	Over $693,750	Over $578,100

*2023 Standard Deduction**

Single/MFS	Married Filing Jointly	Head of Household
$13,850	$27,700	$20,800

**Under current law, there is no deduction allowed for Personal Exemptions from 2018 through 2023.*

2023 Child Tax Credits

Child Tax Credit	Married Filing Jointly	All Other Taxpayers
$2,000 - Children under age 17 $500 - Credit for other dependents	Phaseout begins at $400,000, credit is fully phased out at $440,000 of AGI.	Phaseout begins at $200,000, credit is fully phased out at $240,000 of AGI.

2023 AZ Tax Credit Limitations

Organization Type	Single/HOH/MFS	Married Filing Jointly
Public School Tax Credit	$200	$400
Qualifying Charitable Organization	$421	$841
Qualifying Foster Care Organization	$526	$1,051
Private School Tuition Tax Credit	$655	$1,308
Private School Tuition - Plus Tax Credit	$652	$1,301
Military Family Relief Fund[1]	$200	$400
Maximum Potential AZ Tax Credits[2]	$2,654	$5,301

1. Arizona allows only $1,000,000 in contributions each year to qualify for this credit. If the limit has been reached, your contribution for the tax credit will be returned.
2. Credit eligible contributions made on or before the April due date for individual returns can be utilized on the preceding taxable year (i.e., contributions made by April 2024 can be utilized on 2023 tax returns; excludes Military Relief Fund contributions, which must be made in the year they apply to, due to yearly cap limitation).

AZ Tax Credits - Timing of Contribution

Due to the 2018 tax law change, AZ tax credit contributions can no longer be deducted on Schedule A as charitable contributions when a state credit is received. <u>Therefore, we recommend making your AZ Credit contributions as near as possible to the April 15, 2024 due date, to maximize the timing & credit of the payments on your 2023 returns</u>.

529 Plan Deduction - For 2022 and future years, 529 plan contributions of up to $4,000, *per beneficiary*, can be deducted against your Arizona income.

2023 Year End and 2024 Tax Topics

IRA Contributions - Taxpayers have until April 15, 2024 to make traditional and Roth IRA contributions. The contribution limit for IRAs for 2023 is $6,500 ($7,500 if aged 50 or older), or if less, your taxable compensation for the year. Additionally, for 2020 and later there is no age limit for contributing to traditional or Roth IRAs.

While its possible that your traditional IRA contribution may be tax-deductible, if it isn't, consideration should be given to making non-deductible contributions. These non-deductible contributions can likely be converted to a Roth IRA with little to no tax consequences, (i.e., Backdoor Roth Conversion).

SEP–IRA Contribution Limits - Employers can make contributions to an employee's SEP-IRA not to exceed the lesser of, 25% of the employees compensation, or $66,000 for 2023. For 2023, the employee compensation required to reach the maximum contribution is $264,000. For Self-Employed individuals, the applicable percentage for calculating the limit is 20% of your net self-employment income. While the contribution limits are the same, more net self-employed income is required to meet those limits; $330,000 for 2023.

Bonus Depreciation 80% for 2023, 60% for 2024 - Bonus depreciation is scheduled to phase down to 60% of the cost of the acquired eligible asset in 2024 from 80% in 2023. To take advantage of 80% bonus depreciation in 2023, make sure that any purchases you intend to make are made before the end of the year and that those assets are ready and available for use or are placed in service before the end of the year, so they can potentially qualify for bonus depreciation in 2023.

For 2023, even with the phase down to 80%, there is still tremendous benefit for investing in fixed assets for your business. Additionally with the potential option of combining the 60% bonus limitation with the Section 179 expensing election, it is unlikely that many businesses will see a material difference in the amount of depreciation they will be allowed to take in 2023 vs. 2024. Unless new legislation is enacted the phase out will continue through 2026 with an additional 20% per year decrease.

Both Democrats and Republicans have traditionally indicated that they would like to keep bonus depreciation in some form, so before the full phase out is reached, and most likely by 2024/2025, we would expect to see legislation to spur additional investment in fixed assets by businesses.

- Section 179 Expensing Maximum - $1.16MM for 2023.
- Section 179 Expensing Limit* - $2.89MM for 2023.

*The Expensing Limit is the amount of section 179 eligible assets you can place in service before the business begins to phase out its eligibility to expense fixed assets under Section 179.

QBI Income Limitation - The Qualified Business Income (Section 199A) deduction that was implemented under the 2018 TCJA legislation is still in effect through 2025 and the income phase-out deduction limitations have increased due to inflation, for the 2023 tax year.

- Single/Head of Household - $182,100 for 2023.
- Married Filing Jointly - $364,200 for 2023.

Business Losses of Noncorporate Taxpayers - The limitation for noncorporate taxpayers with "excess business" losses was extended in 2022. For this purpose, excess business losses are the amount by which business deductions exceed gross business income. This provision would limit such losses to $500,000 (married filing jointly, $250,000 others) per year with both amounts indexed for inflation. This provision was scheduled to sunset but has been extended through taxable years beginning before Jan. 1, 2029.

Estate and Gift Unified Exclusion - The estate and gift tax exclusions are still at their increased levels from the passage of the 2018 TCJA through the 2025 tax year and have been increased for the 2023 and 2024 years for inflation. The annual gift tax exclusion amount has also increased for inflation for the 2024 year.

- Estate and Gift Tax Exclusion - $12.92 million for 2023 and $13.61 million for 2024.
- Gift Tax Annual Exclusion - $17,000 for 2023 and $18,000 for 2024.

The estate and gift tax exclusion limitations will also revert back to pre-2018 levels after 2025, without future legislation. The estate and gift tax exclusion is projected to drop back to $5 million and indexed for inflation (currently estimated to be approximately $6.4 million) for 2026.

Clean Vehicle Credits, 2023 and Forward - The credit for new qualified plug-in electric drive motor vehicles is overhauled and retitled as the clean vehicle credit (CVC). The maximum credit for a clean vehicle remains $7,500, though the manner in which it is computed has changed. The first $3,750 is contingent upon the percentage of the vehicle's battery that is made up of critical materials (i.e., aluminum, lithium, zinc, etc.) that were either extracted or processed in the U.S. or any country with which it has a free trade agreement, or recycled in North America. The second $3,750 is dependent on the percentage of the vehicle battery's other components (apart from critical minerals) that were manufactured or assembled in North America. Final assembly of the vehicle must occur in North America for it to be credit eligible.

The credit is not allowed for vehicles with manufacturers' suggested retail prices that exceed certain thresholds ($80,000 for vans, SUVs and pickup trucks; $55,000 for any other vehicle). Additionally, no portion of the credit is available to a taxpayer whose modified adjusted gross income (MAGI) exceeds certain amounts ($300,000 for joint filers, $225,000 for head of household, $150,000 for all other filers).

Non Business Energy Property Credit for Individuals - Under prior law, individuals were allowed a tax credit for specified "nonbusiness energy property" expenditures if the property was placed in service before Jan. 1, 2022. Nonbusiness energy property includes building envelope components (i.e., insulation, exterior windows and doors, certain roofing materials) as well as building system components, such as water heaters, heat pumps, central air, etc. that meet specified energy efficiency standards. The credit included a principal residence requirement and was subject to a lifetime limit.

The 2022 law increases the amount of the credit and extends the credit to Jan. 1, 2033. The Act revises the energy efficiency certification requirements for building envelope components and substantially expands the definition of residential energy property expenditures. In addition, the new law repeals the requirement that expenditures must be made with respect to the taxpayer's principal residence. Finally, the Act repeals the lifetime credit limitation and instead limits the allowable credit to $1,200 per taxpayer per year. These provisions generally apply to property placed in service after Dec. 31, 2022.

Residential Energy-Efficient Property Credit for Individuals - Under prior law, individuals could claim the "residential energy-efficient property" credit for solar electric, solar hot water, fuel cell, small wind energy, geothermal heat pump and biomass fuel property installed in residences in years before 2024. In contrast to the nonbusiness energy property credit described on the previous page, the principal residence requirement did not apply to most categories of property under the rules for this credit, thus making expenditures on equipment at second homes and vacation homes eligible for the credit. The amount of the credit was 26% of qualified expenditures for property placed in service after Dec. 31, 2019, and before Jan. 1, 2023, phasing down to 22% for property placed in service after Dec. 31, 2022, and before Jan. 1, 2024.

The Act extends the life of the credit, making it available for property installed in years before 2035. The Act also increases the amount of the credit to 30% for property placed in service after Dec. 31, 2021, and before Jan. 1, 2033 (reduced to 26% and 22% for 2033 and 2034, respectively).

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