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Client Portal

Dear Clients and Friends,

2023 and 2024 Taxes

As we come to the end of the year, we first want to wish each of you and your families a happy holiday season! We also want to thank you for trusting us with your personal and business tax preparation and planning needs. We value each of you and our priority is to provide you with trustworthy and reliable tax and financial strategies year-round.

Our annual tax letter is full of 2023 and 2024 tax law information, strategies, and points of interest and is available on our new secure portal. Our portal is designed to be easy to use. To gain access, you only need your email, the last 4 digits of your ssn, and your cell phone in hand. In the portal, you can upload your tax documents and download your tax returns. You can sign our engagement letter, fill out the online questionnaire, access your organizer if you use one, and pay your tax prep bill.

This year-end tax letter is based on the current federal tax laws, rules, and regulations, and is subject to change pending any tax legislation enacted by Congress before the year's end. This letter is intended to serve only as a general guideline, and your personal circumstances may need more detailed examination. We are available to schedule a meeting with you to assist with your tax planning needs.

To maintain the quality of our service and the efficiency of preparing your income tax returns, you can partner with us by submitting your tax documents by the first Monday in March (March 4th). Should your documents arrive after this date, and with your written permission, we will request a filing extension on your behalf. Once we receive all your documents, our typical processing time is 3-4 weeks. We process tax returns on a first-in, first-out basis.

Our whole team at RTI Tax look forward to preparing your 2023 taxes, along with your tax and business planning needs.

Leisha - Accountant & Senior Tax Preparer
Heather – Licensed Tax Preparer
Natalie & Bev - Operations & Client Services
Raymond & Tara - Enrolled Agents and Oregon Licensed Tax Consultants

INDIVIDUAL TAXES

QCD - Qualified Charitable Distribution:
If you are age 70½ or older, you can transfer up to $100,000 of IRA funds directly to a charity. Since the QCD distribution from your IRA is exempt from tax, the contribution isn't a deduction. This results in a reduction of your overall taxable income. This is a popular option if you must make a required minimum distribution (RMD) from a Traditional IRA and are not itemizing deductions to benefit from making charitable contributions. More information is available on the IRS website.

Residential Clean-Energy Property Credits
Taxpayers who install an alternative energy system in their home that relies on a renewable energy source, such as solar, wind, geothermal, fuel cell or battery storage technology may qualify for a credit. Think solar panels, solar-powered water heaters, geothermal heat pumps, wind turbines, fuel cells, etc. The credit is equal to 30% of the cost of materials and installation. More information is available on the IRS website.

Energy-Efficient Home Improvement Credits
This smaller tax credit applies to insulation, boilers, central air-conditioning systems, water heaters, heat pumps, exterior doors, and windows that meet certain energy efficiency ratings. This credit for 30% of the cost of these eco-savings upgrades used to have only a $500 lifetime limitation. There is now a general $1,200 aggregate yearly credit limit, but some specific upgrades have lower monetary caps, while others have larger ones. More information is available on the IRS website.

Tip: To qualify for 2023 Energy credits the products must be in use by December 31st, not just purchased. If planning for multiple home upgrades, think about staggering them over multiples years. These home improvement credits have been extended through 2032.

Electric Vehicle Credits
If you are in the market for a new vehicle, be aware of the tax benefits of purchasing a plug-in electric vehicle (EV). Generally, the maximum credit allowed for EVs purchased in 2023 - 2032 is $7,500 for new and $4,000 for used vehicles. 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.

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 on new vehicles. Additionally, this 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. The credit for an EV is nonrefundable, so you will want to tax plan accordingly. More information available on the IRS website.

For additional clarification on the vehicle tax credit, including which vehicles qualify for the credit, can be found on the US Dept of Energy's website.

INDIVIDUAL TAXES

Roth IRA Conversion

Converting pre-tax retirement accounts such as IRAs to after-tax Roth IRAs could allow you to keep growing funds tax-free and then make withdrawals in retirement without paying taxes. There are several scenarios in which it may be to your advantage. Typically, the most beneficial time is when you are not retiring anytime soon, do not have Social Security income or Medicare premiums, and you have a lower tax bracket in the year you convert. We recommend speaking with us before you consider a Roth conversion.

Higher Education Credits

The tax law provides tax breaks to parents of children in college, subject to certain limits. This often includes a choice between one of two higher education credits.

YEAR-END MOVE: When appropriate, pay qualified expenses for next semester by the end of the year. Generally, the costs will be eligible for a credit in the year paid, even if the semester doesn't begin until the following year.

Typically, you can claim either the American Opportunity Tax Credit (AOTC) or the Lifetime Learning Credit (LLC), but not both. The maximum AOTC of $2,500 is available for qualified expenses for the first four years of study for each student, while the maximum $2,000 LLC is claimed on a per-family basis for all years of study. Thus, the AOTC is usually preferable to the LLC. Both credits have income limits that phase out the credit.

Tip: The list of qualified expenses includes tuition, books, fees, equipment, computers, etc., but not room and board.

Miscellaneous Items to Consider:

- Pocket tax-free cash by doing a short-term rental of your home. The proceeds from a personal residence that is rented out 14 days or less in a year are non-taxable and aren't reported on your return, no matter the rent amount charged.
- Minimize "kiddie tax" problems by having your child invest in tax-deferred or tax-exempt securities. For 2023, unearned income above $2,500 that is received by a dependent child under age 19 (or under age 24 if a full-time student) is taxed at the top tax rate of the parents.
- Empty out flexible spending accounts (FSAs) for healthcare or dependent care expenses if you have to forfeit unused funds under the "use-it-or-lose it" rule. However, your employer's plan may provide a carryover to 2024 of up to $610 of unused funds or a 2½-month grace period. Make sure to check with your employer.

BUSINESS TAXES

Corporate Transparency Act - NEW beginning in 2024
In 2021, Congress passed the Corporate Transparency Act (CTA) aimed at reducing money laundering and other illegal activities. It is a small business reporting requirement with potentially high penalties for not filing the required Beneficial Ownership Information (BOI) Report.

Who must file? If your business started prior to January 1, 2024, is an LLC or corporation, including a single-member LLC filing as a sole proprietor, you must file the BOI report by the end of 2024. If starting a new business in 2024, you must file the report within 90 days of formation. Since this is not an IRS tax form, we won't be filing this report for you. Reporting is filed electronically with the Treasury Department's Financial Crimes Enforcement Network (FinCen) directly on their website.

Currently, FinCen has issued some guidance on the filing requirements. Filing will be available on January 1, 2024. You can find specific details and FAQs of the reporting requirements on the FinCen website. We will be available for questions.

S-Corp requirements for Employee-Owners:
The IRS has stepped up its scrutiny of employee-owners regarding payroll, health insurance, and employee business deductions. Here are a few reminders of the current tax rules regarding S-Corp employee-owners:

- Employee-owners in an S-Corp must pay themselves a "reasonable salary" through **payroll via a W-2.** The term "reasonable salary" is not defined strictly by the IRS but is determined by the owner. More information is available on the IRS website.
- Owners must also include their own health insurance premiums in their W-2 wages when premiums are paid through the business. These health insurance premiums are then deducted on their individual tax return. More information is available on the IRS website.
- S-Corps are not allowed a deduction for home office or vehicle expenses unless they have an Accountable Plan. An Accountable Plan allows reimbursements to all employees to be a deduction on the business return and is tax-free to the owner/employee.
- Do you have a 401k or Simple IRA as your employee retirement plan? Remember, the employee contribution amount must be paid by December 31, 2023. The employer (matching) portion can be made by the due date of the tax return (March 15, 2024). More information is available on the IRS website.

BUSINESS TAXES

Depreciation-Based Deductions

As the year draws to a close, a business may benefit from one or more of three depreciation-based tax breaks: (1) the Section 179 deduction; (2) first year "bonus" depreciation; and (3) regular depreciation.

YEAR-END MOVE: Place qualified property in service before the end of the year. If your business does not start using the property before 2024, it is not eligible for these tax breaks.

1. Section 179 deduction: Under Section 179 of the tax code, a business may currently deduct the cost of qualified property placed in service during the year. Be aware that the Section 179 deduction cannot exceed the taxable income from all your business activities this year but can be carried forward. This rule could limit your deduction for 2023.
2. First-year bonus depreciation: The last few years, we have had 100% first-year bonus depreciation. Bonus depreciation for 2023 has been reduced to 80% and is scheduled to drop to 60% in 2024.
3. Regular depreciation: If any remaining acquisition cost remains, the balance may be deducted over the IRS MACRS method (percentage of cost deducted over a period of years based on the type of property).

Tip: Special "luxury car" rules limit deductions for business vehicles. Nevertheless, due to the TCJA, you can write off up to $20,200 for such a vehicle placed in service in 2023.

Qualified Retirement Plans for Employers

There are quite a few changes regarding the new SECURE 2.0 act passed by Congress in December of 2022. Below is a list of a few provisions affecting employers with qualified retirement plans.

- For 401(k) plans adopted after 2024, an employer must provide automatic enrollment to employees. Certain small companies and start-ups are exempt.
- Beginning in 2023, employers with 50 or fewer employees can qualify for a credit equal to 100% of their contributions to a new retirement plan, up to $1,000 per employee, phased out over five years. The 100% credit is reduced for a business with 51 to 100 employees. This tax break is in addition to an enhanced credit for plan start-up costs.
- Beginning in 2024, employers may automatically provide employees with emergency access to accounts of up to 3% of their salary, capped at $2,500.
- An employer may elect to make matching contributions to an employee's retirement plan account based on student loan obligations, beginning in 2024.
- The new law shortens the eligibility requirement for part-time workers from three years to two years, beginning in 2023, among other modifications.

FINANCIAL TAX

Securities Sales

Traditionally, investors time sales of securities at year-end to maximize tax advantages. For starters, capital gains and losses offset each other. If you show an excess loss for the year, you can then offset up to $3,000 of ordinary income before any remainder is carried over to the next year. Long-term capital gains from sales of securities owned longer than one year are taxed at a rate of 15% or 20% for high-income investors. Conversely, short-term capital gains are taxed at ordinary income rates reaching as high as 37% in 2023.

YEAR-END MOVE: Review your portfolio. Depending on your situation, you may want to harvest capital losses to offset gains, especially high-taxed short-term gains, or realize capital gains that will be partially or wholly absorbed by losses.

Be aware of the “wash sale rule.” If you sell securities at a loss and reacquire substantially identical securities within 30 days of the sale, the tax loss is disallowed.

Tip: The preferential tax rates for long-term capital gains also apply to qualified dividends received in 2023. These are most dividends paid by U.S. companies or qualified foreign companies.

Net Investment Income Tax (NIIT) – 3.8%

When you review your portfolio (see above), do not forget to account for the 3.8% net investment income tax. The NIIT applies to the lesser of “net investment income” (NII) or the amount by which MAGI for the year exceeds $200,000 for single filers or $250,000 for joint filers. (These thresholds are not indexed for inflation.) The definition of NII includes interest, dividends, capital gains and income from passive activities, but not Social Security benefits, tax-exempt interest, or distributions from qualified retirement plans and IRAs.

An option to avoid a portion of the NII tax is to consider investing in tax-exempt investments. For example, you may invest in municipal bonds. The interest income generated by them does not count as NII, nor is it included in the MAGI calculation. Similarly, if you turn a passive activity into an active business, the resulting income may be exempt from the NII tax.

Required Minimum Distributions

For starters, you must begin “required minimum distributions” (RMDs) from qualified retirement plans and IRAs after reaching a specified age. After the SECURE Act raised the age threshold from 70½ to 72, SECURE 2.0 bumped it up again to 73, beginning in 2023 (scheduled to increase to 75 in 2033). The amount of the RMD is based on IRS life expectancy tables and your account balance at the end of last year.

STATE AND LOCAL TAX

Oregon Pass-Through Entity Election

Oregon passed the Pass-Through Entity Election, affecting owners of pass-through entities. This allows S-Corporations and Partnerships to pay their state tax at the entity level. Consequently, the business takes a deduction for the state taxes paid through the business. If paid prior to December 31st (for cash-basis taxpayers) or elected and paid with the 2023 pass-through return (for accrual taxpayers), the owner can avoid the $10,000 state tax limit on itemized deductions on the federal return, resulting in a federal tax savings. Estimates are required. Please reach out for more information.

Oregon Kicker

Oregon is issuing its Surplus Credit on the 2023 tax return as a refundable tax credit. The amount of your kicker can be looked up on the Oregon Dept of Revenue website under "What's My Kicker".

City of Portland and Multnomah County Business Tax

For tax years beginning in 2023, the City of Portland and Multnomah County has implemented the market-based income apportionment method, which Oregon already follows. Business owners providing goods or services to customers located in the city and county (even if from a remote location), may now have a filing requirement to the city. The city and county are following the Oregon Department of Revenue's tax law guidance on apportionment, which is explained thoroughly on Oregon's website.

We will ask business owners, if your business is **not** located in Portland or Multnomah County, whether any of their clients or customers are located in either of these tax jurisdictions. If you have revenue generated from the city and/or county, please provide that information separately.

Please reach out with any questions or comments.