STRATEGIES TO HELP PROVIDE A

LESS STRESSFUL TAX SEASON

5280 RETIREMENT GROUP

EXECUTIVE SUMMARY: UNLOCKING POTENTIAL TAX OPPORTUNITIES

Tax season often heralds a stressful and expensive time of the year for many. Ever-changing tax codes and a lack of knowledge about taxes can make the whole experience one to dread. Not at our firm. We view tax season as a potential advantage. It's a chance for our professionals to help our clients ensure their portfolios are tax efficient and to begin seeking attractive growth opportunities throughout the year. Here we've gathered some key (and sometimes under-utilized) tax strategies to help you get more out of your money.

Capitalize On Charitable Donations

Most people know that donating goods or money to qualified charities can get them a tax break. Taxpayers can deduct their benevolence contributions to help reduce their taxable income. Though there are a few caveats, such as smaller contributions to private foundations, in general, you may deduct as much as 60% of your adjusted gross income (AGI) for cash donations and up to 50% of your AGI minus your cash contributions subject to the 60% limit for noncash contributions to 50% limit organizations like religious establishments, educational bodies, or other qualifying entities.[1] The limit applies to all donations you make in a calendar year, but contributions that exceed the limit can sometimes be deducted on your taxes over the next five years through a process called "carryover." Here are some suggestions to make the most of your goodwill giving in the 2022 tax year.

Bunch Your Donations

You can help maximize your tax deductions by bunching or stacking your donations over the course of two years. Essentially, you can bunch your donations the first year to itemize them and then take the standard deduction for the second year. Here's how it works. For the 2023 tax year, the standard deduction amounts are:[2]

- $13,850 for single and married filing separate taxpayers
- $20,800 for the head of household taxpayers
- $27,700 for married filing jointly, or qualifying widow(er) taxpayers

Take a look at your charitable donations for last year. If you're donating enough that you get close to one of the standard deduction amounts but not close enough, then the bunching strategy could help push you over the limit. Instead of making dozens of donations worth $10,000 over one year, you would make one donation on January 1st and another on December 31st of the same year, allowing you to claim $20,000 in itemized deductions.[3]

Donate Stocks to Charities

This method is a little more work but could be well worth it in the end for both you and your favorite charity. If the stock has increased in value from the time of purchase, you can avoid paying capital gains tax on it by donating it to a qualified charitable organization. After the stock has been held for at least a year, its fair market value may be itemized as an income tax deduction when you donate it. For publicly traded stock shares, the fair market value is the average of the high and low price on the transfer date. For example, say you bought stocks in 1995 that were originally worth $100 but today the FMV is $1,000. You would qualify for a tax deduction of $1,000 for that year's taxes.

Another benefit to giving through stocks is that you don't have to pay capital gains, which for the 2023 tax year, are as high as 20%.[4] Be sure to speak with our office and your tax attorney to help you set up the donation and take care of the necessary clerical work. Remember: Don't leave your charitable donations until the last minute. Financial offices are usually flooded with stock donation requests around tax season, the holidays, and the first quarter of the year. Schedule your appointments accordingly.

[1] **Publication 526 (2021), Charitable Contributions | Internal Revenue Service** www.irs.gov/es/publications/p526

[2] **Standard Deductions for 2022-2023 Taxes: Single, Married, Over 65 – Forbes Advisor** www.forbes.com/advisor/taxes/standard-deduction/

[3] **How To Maximize Your Tax Deductible Donations – Forbes Advisor** www.forbes.com/advisor/taxes/tax-deductible-donations/#:~:text=Here's%20how%20it%20works%3A%20You,of%20taking%20the%20standard%20deduction

[4] **Publication 526 (2022), Charitable Contributions | Internal Revenue Service** www.irs.gov/publications/p526

Claim Tax Breaks for College Expenses

According to a 2022 report from the College Board, the average cost of tuition and fees for full-time undergraduates is about $10,940 for in-state public schools and $39,400 for private non-profit colleges.[5] As education costs continue to increase, many of our clients look for ways they can limit their tax bill through their college expenses.

Popular College Tax Credits

The American Opportunity Tax Credit[6] offers tax credits up to $2,500 per student for undergraduate expenses and the Lifetime Learning Credit[7] offers tax credits up to $2,000 for graduate or professional courses. Otherwise, graduating students may use the standard student loan interest deduction that allows them to subtract up to $2,500 a year in interest payments made on loans from your gross income (you can claim up to $2500, or the total amount of interest paid in the year, whichever is less).[8]

Consider A 529 College Savings Plan

If you need to fund a child or grandchild's educational expenses, a 529 savings plan can help you to save and accrue interest on money for qualified educational expenses tax-free.[9] Higher education, trade schools, and even K-12 tuition qualify. There is a catch, however. You will generally have to pay a 10% penalty and income taxes on any earnings if you dip into the account for non-qualified educational expenses.[10] It's crucial that you're sure you can commit these funds for the long-term to avoid the penalty and income taxes. Our office can help you determine if this type of savings plan might be right for you and your budget.

Open A Health Savings Account

Saving for healthcare can offer you deductions on your taxes if you contribute your funds into a health savings account (HSA). You can open and contribute to an HSA only if you have a qualifying high-deductible health plan. Your contributions can be subtracted from your gross income up to the annual contribution limits, which are $3,850 per individual or $7,750 per family in 2023.[11] Your HSA funds can be withdrawn and used tax-free on any qualifying medical expenses and roll over year to year if you don't use them. But remember, withdrawals for non-qualified expenses are taxable and involve a 20% IRS penalty as well. If you change jobs, no problem. Your HSA follows you, not your employer.

Prepare to Pay for Cryptocurrencies

There's a lot of confusion around virtual currency, and for good reason. It's a relatively new investment option—over half of the new Bitcoin investors came to the market in 2021.[12] Since crypto has hit the scene, there's been all kinds of misinformation, especially in the wake of the highs and lows of the pandemic and presidential elections. Let's be clear: Bitcoin, Ethereum, and other cryptocurrencies are taxable. They are considered "property" for tax purposes, which means you treat them similarly to how you would stocks, silver, or gold. That being said, any transactions involving a digital asset should typically be reported on your tax return, including sale or exchange, payment for goods or services, or holding virtual currencies on form 8949.[13] You will want to confirm this with your tax advisor when preparing your 2023 tax return. Don't leave cryptocurrencies to chance or a limited understanding of the laws surrounding this form of currency. Connect with our office so we can go through your portfolio to help ensure that you're not leaving money on the table.

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5 **Trends in College Pricing and Student Aid 2022** https://research.collegeboard.org/media/pdf/trends-in-college-pricing-student-aid-2022.pdf

6 **AOTC - American Opportunity Tax Credit.** www.irs.gov/credits-deductions/individuals/aotc#:~:text=The%20American%20opportunity%20tax%20credit,of%20%242%2C500%20per%20eligible%20student.

7 **LLC - Lifetime Learning Credit** www.irs.gov/credits-deductions/individuals/llc

8 **Topic No. 456, Student Loan Interest Deduction | Internal Revenue Service** www.irs.gov/taxtopics/tc456

9 **Topic No. 313, Qualified Tuition Programs (QTPs) | Internal Revenue Service** www.irs.gov/taxtopics/tc313

10 **Should you super fund a 529 college savings plan? Here's what experts say** www.cnbc.com/2022/03/07/should-you-super-fund-a-529-college-savings-plan-what-experts-say.html

11 **1 26 CFR 601.602: Tax forms and instructions. (Also Part I, §§ 1, 223; Part III § 54.9831-1) Rev. Proc. 2022-24 SECTION 1. P** www.irs.gov/pub/irs-drop/rp-22-24.pdf

12 **Grayscale Investments® Study Reveals More than a Quarter of US Investors Currently Own Bitcoin** www.globenewswire.com/news-release/2021/12/06/2346525/0/en/Grayscale-Investments-Study-Reveals-More-than-a-Quarter-of-U-S-Investors-Currently-Own-Bitcoin.html

13 **Crypto Tax Guide | TaxBit** taxbit.com/cryptocurrency-tax-guide/#what-crypto-transactions-are-taxable

Schedule Your Appointment

You've heard that knowing the rules is half of the game. Your taxes are no different. Tax management is key to creating a viable strategy—there is no "set it and forget it" when making an annual report to the government. A large facet of tax accuracy is working with a team of financial and tax professionals that can familiarize you with how the system works. Only by knowing how the system works will you be able to potentially take advantage of new rules and law changes to help better manage your tax burden. Connect with financial and tax professionals to see where missed opportunities might be in your tax strategy and how we may be able to help you potentially reduce your tax bill.

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