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Winter 2023-2024

To our dear friends and clients – you add purpose to our cause and lives. Thank you.

We all dream about typical days, events that should be recast, loved ones that have passed.
May we all find peace and safety wherever we sit, whenever we share, in thoughts we date.
As always, and in all ways – you have my ear.

Brian

Tax Season Readiness

- Even if you do not have all your tax information organized, please call the office, and book an in-person, Zoom, or telephone appointment ASAP. Tax appointments begin February 5th. You can also mail or drop off your tax documents. It's likely that your tax documents will meander into you during February.
- If you mail in your tax documents, please do so to our Glastonbury address (25 New London Turnpike, 06033). You can also drop off tax information at any of our three locations.
- We encourage you to review your 2022 tax return when compiling information for tax year 2023.
- To complete your tax returns by the **April 15th** filing deadline, and avoid an extension, please provide your complete tax information no later than **March 1, 2024.**

Tax Tidbits

- One way to gradually transfer your estate tax free is to use the annual exclusion and "gift" up to $17,000 per person, per year, to an unlimited number of recipients. You and your spouse can each do this and can gift $34,000 per person without having to file a gift tax return. Beginning 1/1/2024, these amounts increase to $18,000 and $36,000, respectively.
- Consider starting a ROTH IRA for your dependent children once they have earned income.
- You may qualify for a credit of $7,500 if you buy a new, qualified plug-in electric vehicle or fuel cell electric vehicle from 2023 to 2032.
- Energy credits have been greatly expanded. The Energy Efficient Home Improvement Credit is worth up to $1,200 per year through 2032. The Residential Clean Energy Credit (Solar, etc.) is worth 30% per year through 2032 on qualifying expenses.

Business Considerations

- **Bunching Expenses** – Pay your bills by 12/31/23 to deduct them in 2023. This can be done by either check or credit card.
- **Retirement Plans** – Establish a retirement plan if your business does not already have one.
- **Hiring Family Members** – Wages paid to a working dependent child can reduce your business' net income. Dependent wages will be tax free to them if they earn less than $13,850 in 2023.
- **Fixed Asset Purchases** – Consider buying a piece of equipment or a new business vehicle to reduce your 2023 income.
- **Form 1099-NEC** – This is the form used by businesses to report nonemployee compensation. Prior to 2020, this was reported in box 7 of form 1099-MISC. This form is used to report payments to subcontractors and other vendors that provide a service to your business.
- **Home Offices** – A self-employed individual may qualify for a home office deduction.

2024 Economic & Market Outlook

The Economy

The economy grew faster than expected in recent quarters, as unemployment remained historically low, and activity in some sectors grew (e.g., homebuilding), despite the macro headwinds. In 2024, a mild recession could possibly emerge as consumers buckle under debt burdens and use up their excess savings. But a Fed that's sensitive to risk management might provide an offset by taking interest rates down a bit.

Stocks

We believe stocks are entering a phase in which investors will be focused on interest rate stability. And while rates may be the most impactful driver of stock valuations, corporate profits are moving into a sweet spot. If rates ease as we expect, we see upside to a year-end 2024 and believe stocks could provide mid-to-high, single-digit returns in 2024. Risks include a potential widening conflict in the Middle East or Europe, an increase in U.S.-China tensions, and a reacceleration in inflation that pushes interest rates higher.

Bonds

The move higher in yields in 2023 was unrelenting, rising alongside a U.S. economy that continued to outperform expectations. With a still resilient economy to date, we think Treasury yields could stay relatively high in the near term, although rates may subside a bit versus the volatility seen in 2023. The issuance of Treasury securities to fund budget deficits and the potential for the bank of Japan to finally end loose monetary policies in 2024 could keep some upward pressure on yields. However, the big move in yields may have already taken place, and with a potential directional change in interest rates likely coming in 2024, we believe bonds offer compelling value.

Geopolitics

With the onset of the war in the Middle East, geopolitical concerns have broadened as global leaders and diplomats try to encourage its containment. Meanwhile, both Russia and Ukraine continue to absorb losses—amid debates across NATO about the monetary and political costs associated with supplying Ukraine with military equipment. As part of this backdrop, the U.S. has focused on keeping China from acquiring advanced semiconductor technology that can be applied to its expanding military buildup. We're not expecting this backdrop to materially improve but believe that risk alone is often not enough to derail opportunities.

Brian Lichtenstein
CEO

The opinions voiced in this material are for general information only and are not intended to provide specific financial or tax advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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TaxBrief

Keeping you informed December 2023

As 2023 wraps up, it's a good time to look at recent changes to the tax laws and regulations that could impact your personal and business taxes for 2023 and beyond. If you have any questions or need additional information, please feel free to reach out to us.

IRS seeks reporting of digital asset sales

Regulations proposed by the IRS this summer would require brokers to report the sale or exchange of digital assets by customers to the agency beginning in 2025. Under current law, taxpayers owe tax on gains and may be entitled to deduct losses on digital assets when sold, but for many taxpayers it is difficult and costly to calculate their gains. A new Form 1099-DA, issued by brokers, will help these taxpayers determine whether they owe taxes. Entities that would be required to issue Forms 1099-DA include digital asset trading platforms, digital asset payment processors and certain digital asset-hosted wallet providers. The proposed regulations would also require "real estate reporting persons" to report digital assets used in the purchase of real estate. Real estate reporting persons would include real estate brokers, title companies, closing attorneys and mortgage lenders.

Employee retention credit scams still common

The employee retention credit (ERC) was a COVID-era tax benefit Congress enacted to help businesses that kept paying their employees during pandemic-related business disruptions. While the ERC helped many businesses weather the pandemic, confusion over how the program worked and who was eligible for the credit resulted in unscrupulous promoters pushing ineligible companies to claim the credit. Because the ERC can still be claimed retroactively, many of these scammers are still active and pushing unwary businesses to claim credits in return for a fee of up to 25% of the claimed credit. Unfortunately, if the IRS discovers that an ineligible employer has claimed the credit, it is the business that is required to repay the credit, plus interest and penalties.

Due to the high number of potentially ineligible claims it is receiving, the IRS is warning businesses to be on the lookout for aggressive promoters misleading taxpayers about their eligibility. There are specific requirements for claiming the ERC, and many companies do not qualify. If you are approached with an offer to help you claim the credit, please reach out to us before filing any documents with the IRS. We understand your tax situation and can help you determine whether you are actually eligible. If you are not eligible, we can help you avoid paying large upfront fees to unscrupulous promoters and perhaps having to repay the IRS.

IRS moratorium on ERC claims

Because the agency is receiving an enormous number of ERC claims from potentially ineligible businesses, the IRS has stopped processing new claims until at least Jan. 1, 2024. The moratorium will allow the IRS to scrutinize the claims it is receiving and ensure that it is not paying the credit to ineligible businesses. This is leading to slower IRS processing times for the claims it has already received, even those that are deemed legitimate. While the IRS had been processing ERC claims within 90 days, it now will take at least 180 days to do so — longer if a claim faces additional review.

Process for withdrawing ERC claims

The IRS has introduced a withdrawal process for some employers who have already filed claims but have yet to receive a refund. This process will allow taxpayers who believe they were pressured or misled into filing claims for the ERC to withdraw their claims while the IRS is still processing them. Withdrawn claims will be treated as never having been filed, so taxpayers who withdraw their ERC claims won't be punished for having filed. This should help prevent those who fear they are ineligible for the ERC from receiving refunds they would need to repay. However, the IRS said taxpayers who willfully filed fraudulent ERC claims will not be exempt from criminal prosecution even if they withdraw their claims.

New rule allows for rollover of 529 accounts to Roth IRAs

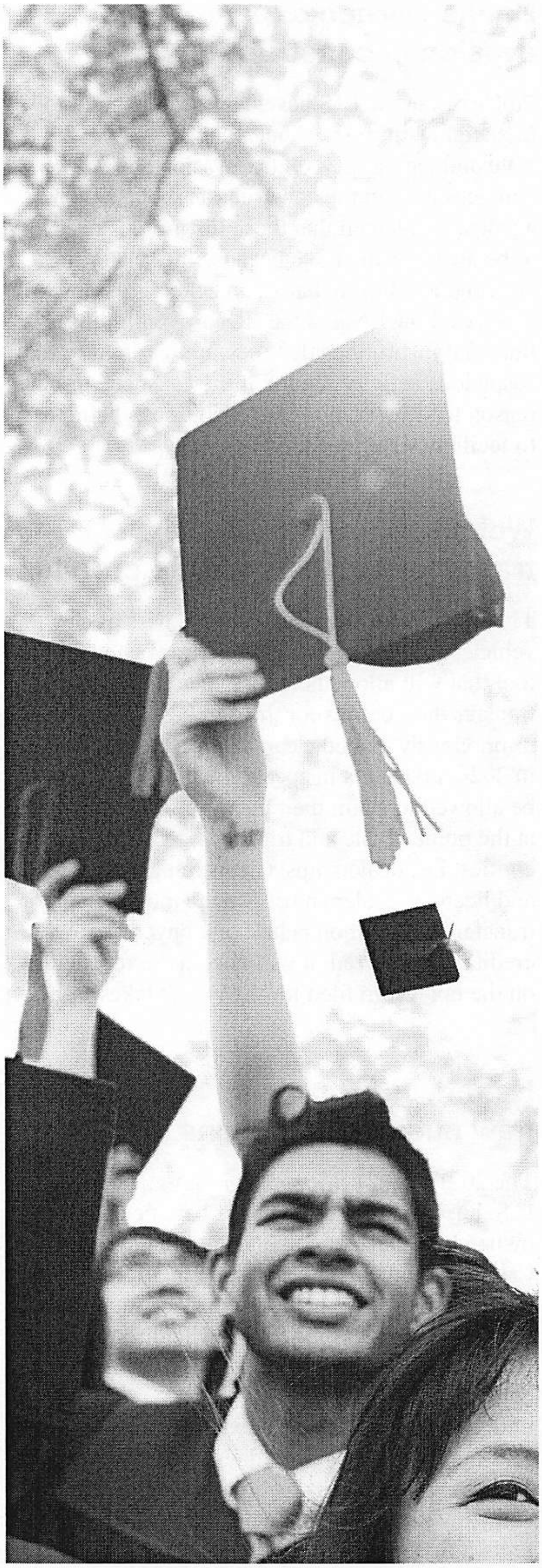
Tax-advantaged educational savings accounts, also known as 529 plans, provide a way for parents to help their children or other family members save for college or to pay other educational expenses. However, not every beneficiary uses the full amount they paid into the plan. Beginning in 2024, the SECURE 2.0 Act allows beneficiaries to roll over unused funds into a Roth IRA without having to pay a penalty. However, there is a lifetime limit of $35,000 per beneficiary and the 529 account must have been open for at least 15 years. The rollover amount cannot exceed the beneficiary's annual IRA contribution limit.

IRS warns of fake charities soliciting donations

The IRS is reporting that scammers are taking advantage of the large numbers of recent natural disasters and international conflicts to fraudulently solicit donations to help victims. In addition to lining the pockets of criminals, donating to these fraudulent charities can get you in trouble with the IRS if you try to claim a deduction that ends up being disallowed. The best way to keep from being a victim of this kind of fraud is to check with the Tax-Exempt Organization Search tool on the IRS's website. Using the tool will both ensure that you are donating to a legitimate charity and that you will be allowed to deduct the donation.

IRS stepping up enforcement for high-income individuals

Using the extra funding it received in the 2022 *Inflation Reduction Act*, the IRS is moving forward with its plans to prioritize enforcement efforts against high-income earners, partnerships, large corporations and promoters abusing U.S. tax laws. The agency is touting this increased enforcement as part of its efforts to restore fairness to the U.S. tax system and will focus its efforts on taxpayers with more than $1 million in income and more than $250,000 in recognized tax debt.



Banks warned of payroll tax evasion in construction

FinCEN and the IRS have been reaching out to financial institutions about a concerning rise in state and federal payroll tax evasion and workers' compensation in the construction industry. The agencies explained that these institutions need to be aware of the issue because the schemes are conducted using banks and check-cashing services. FinCEN and the IRS are reminding financial institutions that they are required to file suspicious activity reports if they suspect, or have reason to suspect, that the institution is being used to facilitate criminal activities.

Website allows for dealer transfers of clean vehicle credits

The IRS is allowing dealers and sellers of clean vehicles to register to use the agency's new online tool that will allow their customers to claim or transfer their credits for the purchase of a new or previously owned clean vehicle. Beginning in 2024, taxpayers in specified situations will be allowed to claim their clean vehicle credit at the point of sale and transfer it to eligible entities, i.e., dealerships. Clean vehicle sellers and licensed dealers must use the tool to claim or transfer the credit on behalf of a buyer. Once the credit is transferred, it will need to be reconciled on the tax return filed for the year it takes place.

Beneficial ownership reporting for new businesses begins in 2024

The 2021 *Corporate Transparency Act* requires U.S. businesses to report their beneficial ownership information (BOI) to the Financial Crimes Enforcement Network (FinCEN). The reports require companies to provide identifying information about individuals who directly or indirectly own or control them. While existing companies will not need to file BOI reports until 2025, businesses created or registered after Jan. 1, 2024, will have 90 days to file their report. The 90-day countdown begins at the time the company receives actual notice that its creation or registration is effective, or when the state provides public notice of its creation or registration, whichever is earlier.

While the reporting requirements have yet to take effect, FinCEN is already receiving reports of scams targeting businesses that are required to submit BOI reports. These scams usually involve official-looking letters or emails asking the recipient to respond by scanning an included QR code or clicking on a web link. FinCEN is asking that recipients not respond to these messages. FinCEN added that it can't accept any BOI ownership reports before Jan. 1, 2024.

Additional questions or concerns?

If you have any questions about how the items in this newsletter or any other tax matter could impact you or your business, please feel free to contact us. We understand that taxes can be confusing and complicated. We're here to help.