

2023 Newsletter

Dear Clients,

Another year has passed, and it is hard to believe we are already heading into 2024. We are so thankful that you continue to allow our firm to assist you with your tax filing needs as we navigate another tax filing season. We are encouraging as many clients as possible to drop off, mail in, or upload their tax information and our office will follow up via telephone with questions, concerns, and to discuss important matters as soon as your documents are ready.

Here are some of the key planning and tax updates we feel are relevant to our clients as we enter the new year:

- 1) **Download Our App** – If you did not download our Canopy Client Portal App, or use this tool last year, we encourage you to do so this year. In your portal, you'll be able to retrieve copies of tax returns and tax documents, electronically sign your signature docs, and pay invoices. This is a great tool for our clients! Visit our website at [kirchnerjordancpa.com](http://kirchnerjordancpa.com) for a QR code to download the app.
- 2) **Tax Brackets** – The federal income tax brackets remain unchanged for 2023. They are 12%, 22%, 24%, 32%, 35%, and 37%. Depending on your filing status, the income levels for each bracket vary. We have included these income levels on our website.
- 3) **ERC Credits** – If you are a business owner who received (or are in the process of receiving) Employee Retention Credits (ERC) please give your accountant a breakdown of the ERC credits received. While these funds are not “income” they are considered a reimbursement of expenses and thus increase your income.
- 4) **Venmo/PayPal/Cash App** – The good news on this one is that the IRS still has not figured out how to determine who is using these apps for business, and who is merely using them for personal payments. As a result, they've deferred implementation on the issuance of 1099s from these providers for 2023. We'll update you on developments in 2024.
- 5) **Changes to Underpayment of Estimated Tax** – While the Federal Reserve has been raising rates through 2023, the silent winner in those moves was the IRS. The underpayment penalties imposed on taxpayers are tied to the Federal Reserve's rates, so for 2024 that rate will be 8% of the underpayment. Ouch! For years, taxpayers (& even us, your accountants!) have often taken the stance that “I'd prefer to have my money to use all year, rather than parking it at the IRS, thus I'll just pay the penalty.” That argument is significantly more difficult to justify under these new rates. We've created an easy-to-read flow chart better explaining who has to make estimates and we have published it on our website. We'll also include that in our tax returns for all clients subject to estimated payments in 2024.
- 6) **Itemized Deductions** - The Standard Deduction rose to \$13,850 (single) & \$27,700 for married couples in 2023, an increase of \$900 (single) and \$1,800 (MFJ). Itemized deductions to continue tracking include mortgage interest, property taxes, sales tax on large-item purchases (such as cars, boats, RVs, and appliances), home improvements, medical expenses, and cash and non-cash charitable donations. With the rise in mortgage interest rates, we anticipate a far greater number of individuals to begin itemizing their deductions. Failure to track these expenses could cost you money in taxes. Also, if you have a home mortgage in excess of \$750,000, it is imperative that you make that known to your tax preparer. The IRS has stipulations and additional filing requirements for those deducting expenses related to mortgages in excess of \$750,000.

Key Planning Opportunity: Qualified Charitable Distributions from Your IRA

For taxpayers over 70 ½ who do not itemize, there is a key planning opportunity to get an additional benefit for donations to charity. You can make donations to the same charities you donate to now through your IRA. The IRA funds then become non-taxable to you. These donations also count toward your annual required minimum distribution (RMD) from your IRA once you reach 70 ½. This is a huge opportunity to maximize the higher standard deduction & also deduct your charitable donations at the same time.

- 7) **Increases in Audits** – You've probably heard in the news that the IRS has hired 87,000 new auditors (they didn't) and that this is going to lead to increased audits. While I'd love to tell you that this is media propaganda, our firm has been involved in a handful of new audits again in 2023 and we expect even more in 2024. So, what can you do to reduce your risk of audit? First off, if you are not self-employed, a business owner, or own rental real estate, the risk of audit for you is small. Business owners, high income individuals, and rental property owners, you need to make sure you are keeping good records. If you are concerned about audit risk or means of being prepared in the event you are selected, please consult with your accountant. A few things you can do to set yourself up to do well under audit:
  - a. **Maintain separate bank accounts for business activities.** Do not commingle personal and business funds and avoid “reimbursements” to yourself at all costs. Try and keep all incoming funds and outgoing funds related to that entity within the entity's bank account.
  - b. **Keep as many receipts as possible.** A few of the clients who were audited lost expenses because they were unable to substantiate underlying purchases for their business.

c. **If your company purchases equipment, vehicles, or other large items, make sure that the items are titled to the entity.** We had a client lose the ability to deduct a vehicle because the department of licensing showed it titled to the individual, not the corporation.

**8) Important Notice if You Purchased Insurance Through the State Exchange** - If you purchased health insurance through the state health care exchange, we still need your 1095-A form showing the premiums you paid and the subsidy you received (if applicable). While the penalties for not having insurance went away, you are still liable for the repayment of the subsidy on your insurance if your income level is higher than the estimated income used in your enrollment with the state exchange.

**9) Qualified Business Deduction – 20% Exclusion from Income** - The Qualified Business Income Deduction will continue into tax years 2023 and 2024. This deduction allows small businesses the ability to receive a 20% exclusion on the net income of the business.

**10) IRA/401k Limits Increased** - Individuals were eligible to contribute up to \$22,500 into their 401k plans in 2023 and can contribute \$23,000 in 2024. The \$6,500 IRA contribution limit remains unchanged for 2023 and will increase to \$7,000 for 2024. Taxpayers over the age of 50 continue to receive the “catch up” provision, allowing them to contribute \$30,000 in 2023 to their 401k and \$7,500 to their IRA.

**11) Washington Estate Tax Planning** - We are seeing a huge need for estate planning assistance with our Washington clients. We had several clients in 2023 who did not adequately plan for the Washington Estate Tax, and thus their heirs ended up with significant tax balances due to the state of Washington.

For those of you who are unfamiliar with the Washington Estate Tax, if an individual dies and has a gross estate worth more than \$2.193 million, the state of Washington will impose a tiered tax of up to 20% on all assets over \$2.193 million. As real estate prices continue to soar in Spokane, we are seeing a growing trend of individuals who surpass this amount between real estate holdings, investment and retirement accounts, cash in bank, etc. In 2023, we assisted over 10 clients with Washington Estate Tax filings, and those taxpayers paid more than \$1,000,000 in estate taxes to Washington+. In every situation, proper planning may have reduced this tax to zero. Proper planning is the only way to mitigate this tax.

The federal estate tax limits will rise to \$13.61 million per individual in 2024. As a result, fewer Americans will be subject to federal taxes on their estate at the time of their death. *While the federal exemption continues to grow, Washington’s limit remains consistent. There are huge planning opportunities here between the state and federal tax codes to properly plan and limit your risk to estate tax. Please contact our office to set up a meeting regarding your estate tax situation, specifically in Washington state, if you have concerns.*

**12) Washington Minimum Wage Increase** - Beginning January 1, 2024, Washington’s minimum wage will go from \$15.74 to \$16.28.

**13) Washington Paid Family Leave Increases** - If you own a business and have employees, the rates have changed for the employee deduction. January 1, 2024, the new state rate is 0.74% of gross wages, with the employee being responsible for 71.43% of the premium.

**14) Washington Long Term Care** – As of July 1, 2023, Washington’s Long Term Care tax is in effect. For those of you who obtained exemptions from Washington state for carrying a private plan, make sure you have that exemption on file with your employer and that you are not paying into this tax.

**15) Key Deadlines**

- a. Individual tax filing deadline: April 15, 2024 (extension deadline: October 15, 2024)
- b. S-Corporation and partnership deadline: March 15, 2024 (extension deadline: September 16, 2024)
- c. C-Corporation deadline: April 15, 2024 (extension deadline: October 15, 2024)

**16) Engagement Letters** - Please see the green engagement letter included with this packet. We are required to have this signed engagement letter back from each client. If you can sign and return it when you send your documents in, we’d appreciate it!

**17) Items Needed to File** – As a courtesy reminder, to assist our front office in completing and filing your taxes in a timely manner, the following steps are needed once your return is completed. 1) Taxpayer (& Spouse) need to sign the IRS Form 8879 E-File Authorization. 2) Taxpayer (& Spouse) need to sign our engagement letter. 3) Invoices for services rendered must be paid to the front office before returns can be transmitted to the IRS.

Thank you for your continued trust and confidence in our firm to handle your tax preparation needs. We appreciate your business. Wishing you all a Happy New Year!




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