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Accounting | Consulting

Winter 2023

Beyond *the* Numbers

A Crow Shields Bailey PC News Publication

Farewell, 2023!

The past few years have been challenging, to say the least. We have lived through a pandemic, economic crises, rising prices, inflation, and more in a very short amount of time. The world came to a halt in 2020, and many aspects of our lives changed drastically, for better and for worse. As we return to some semblance of normalcy as a society, we seek hope and seek to make a real difference in the world. This begins in our own day-to-day lives.

Opportunities to make a difference abound at the workplace, at home, and out and about - such as spending time with friends and family and letting them know how much you love them, or even talking to a stranger that seems like they are having a hard time. At CSB, we have had a great year, focusing on spending time together as a team whenever we can, giving back to the community, and helping our team grow and learn. This article is not to pat ourselves on the back, as much as it is to reflect on some of the good times and experiences we have had this year, and to recognize the steps we have taken to make a difference and bring some light into the world. We have many things to celebrate this year.

We are very blessed to have a solid team that operates as a family. Many companies claim to

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be a family, but it is rare to find one that actually is. Any time a team member (or one of their family members) is going through an illness, a loss in the family, or any other kind of hardship, our team comes together and provides love and support to them. Any time someone is getting married, having a baby, getting a promotion or accolade, or any other exciting milestone in life, our team comes together to celebrate them and shower them with love.

Giving Back

CSB has contributed monetarily to organizations such as United Way, the Mobile Chamber of Commerce, Camp Rap-A-Hope, Ronald McDonald House, Thomas Hospital, Wounded Warriors, many local schools, and more. For many years, our team members have donated food items needed for a family to cook a Thanksgiving meal and created boxes for The Child Advocacy Center, and CSB matches each box with a Walmart gift card for families to purchase their meat for the meal. This year we were able to provide 15 boxes to the CAC! This is something that we look forward to every year, we love working with CAC. Members of our audit team also got together and served dinner at The Ronald McDonald House. CSB provided dinner from our client, Moe's Original BBQ, and our team served the families.

Supporting Our Veterans

We are proud to have active duty and veteran members of the military on our team. We greatly missed Manny Cedeño, Master Sergeant in the U.S. Air Force Reserve, while he was deployed for a year. We kept in touch with him through email and sent him care packages filled with some of his favorite treats. Manny graciously nominated CSB for the Patriotic Employer Award, presented by Employer Support of the Guard and Reserve (ESGR), which we were very surprised and honored to receive! William Kringel, Ph.D., Chair Emeritus of ESGR, came by to personally present us with the award.

We are also very proud to have Audit Team member Skyler Helman, who is a USAF SSgt veteran with 6 years of experience in security, law enforcement, and training.

Celebrate Good Times, Come On!

Many of our team members had much to celebrate this year, some of which you will see in our Team Member News section! We hosted many baby and wedding showers this year, and it fills our hearts with joy to celebrate these wonderful milestones. We try to have a "Happy Hour" as often as possible at locations central to all three offices, and different holiday parties, at which our entire team can get together and get to know each other better.

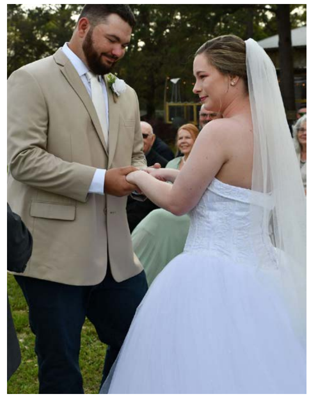
Our Fun Committee did a wonderful job of planning and executing our 2nd annual CSB Fun Day! We had a great time getting out of the office together and playing some games, having a little friendly competition, and enjoying the wonderful selection of food and drinks offered by our client, The Waterfront, in Daphne.

All in all, we are overwhelmed with gratitude to be in the position to give back to the community, and be part of the change we wish to see in the world. We could not do any of this without our amazing team and clients.

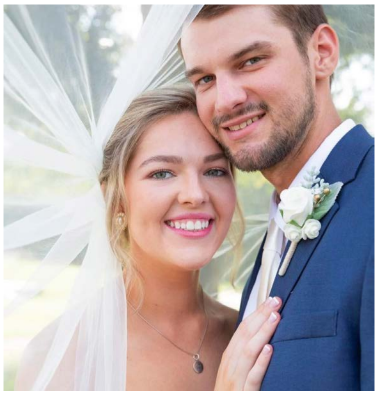
- *Emilee Shuler*

TEAM MEMBER NEWS

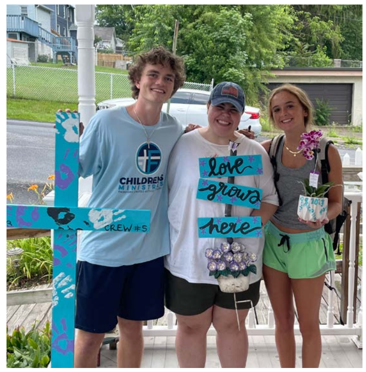
Skiing in North Carolina with Brooke Bunting, Andrew Finnorn and Blake Lamont (client - Walton Construction)! Pictured: Katelyn Finnorn, Andrew Finnorn, Brooke Bunting, Geoffrey Bunting, Mary Claire Lamont, Blake Lamont.



Robin Kyle's son Rusty Kyle married Gloria D. Nelson on March 11, 2023!



Robin Kyle's daughter Lakyn Kyle married Evan Mosley on September 23, 2023!



Cairo Plauche' went on a mission trip with 45 high schoolers to Scranton, PA. They served the community through building relationships and assisting with home repairs for the elderly.

Colleen Keleher and husband Maarten van der Giessen visited Munich Germany, Venice Italy and various cities in Tuscany. Yes, that is the leaning tower of Pisa in the background!

Blaine Hennis (son of Deborah Fisher) and wife, Adrienne, welcomed baby Charles Fisher Hennis on August 7, 2023!

Jamison Daughtery, daughter of Kristi and Brian, was on the Freshman homecoming court for St. Michael Catholic School! She also received the Cardinal Award for volleyball excellence on and off the court!

Team Schneider Insurance (a client) won first place in the 2023 St. Ignatius Holy Trinity Gumbo Cook Off! Pictured left to right: Geoffrey Bunting, Brandon Finnorn (head chef), Zach Schneider (client - Schneider Insurance), Andrew Finnorn, Frank Cope, Blake Lamont (client - Walton Construction).

Jacob Deighton, son of Sherri and Joe Deighton, graduated Magna Cum Laude from Marquette University with a degree in Computer Engineering! He also received the WD Bliss Outstanding CO-OP award in his field of study.

John McPhaill, son (one of the twins) of Zhanna McPhaill, married Angela on July 8, 2023 in Kampala, Uganda!

June Bush is expecting a baby boy on May 9, 2024!

Jennifer Lowe's son, Wyntr Knisely, Manager for Daphne Mens Soccer. Daphne Mens Soccer team won second 7A State Championship in Huntsville in April!

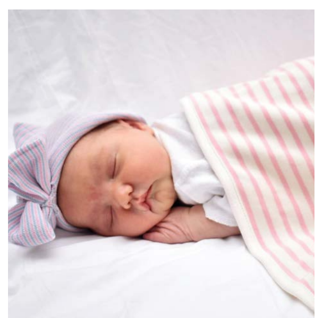
Klaudia Downs and her husband, Austin, welcomed Lydia Jo Downs to their family on March 2, 2023!

Brooke Bunting and her husband Geoffrey spent a week traveling to Italy. The first stop was Rome for a few days, and then they went to the Amalfi Coast to stay in Positano and visit Capri.

Elizabeth and Bradley Russell welcomed their first child, George William Russell, on April 7, 2023. Gina and Pudgy McKellar are proud grandparents!

Lori Blum married Brian Less in Orange Beach, AL on October 29, 2023!

Kenny and Mary Hannah Crow welcomed Anna Rhein Crow to their family on January 27, 2023!



Lindsey and Davis Verneuille welcomed their first baby, Lucille Scout Verneuille, on August 25, 2023!

Extension FAQ for Clients

What does it mean to file an "extension?"

- An extension is a form filed with the IRS for requesting additional time to file your federal tax return.
- Filing an extension grants you additional time to submit your complete and accurate return, but you still need to estimate whether you will owe any taxes and pay that estimated balance by the original due date.
- Extending your return does not increase your chance of being audited by the IRS.

Why does my CPA suggest we extend my tax return?

Filing an extension may be suggested for many reasons, such as:

1. The volume of data or complexity of certain transactions on your return requires additional time.
2. The amount of time remaining in filing season is limited for completing your return by the due date because of late arriving information.

- CSB has a "cutoff" or deadline for clients submitting their tax information so we can plan our workload to ensure completion of all client returns and extensions by the due date. **CSB's due date for individual information is March 1, 2024.**
- An extension may be suggested if pending guidance or legislation affects aspects of your return.
- It provides additional time to file returns without penalty when waiting for missing info or tax documents (such as corrected 1099s). Just remember that an extension provides additional time to file, but not additional time to pay. Penalties and interest may be assessed if sufficient payment is not remitted with the extension.
- You may qualify for additional retirement planning opportunities or additional time to fund certain types of retirement plans (e.g., SEP IRA).
- It is often less expensive (and easier) to file an extension rather than rushing and possibly needing to amend your return later.

Should I do anything differently if I am filing an extension?

- No, you should still provide whatever information you have as early as possible, or as soon as it becomes available, so we are able to determine if a payment may be due with the extension.
- Expect to pay any anticipated taxes owed by the due date.
- If you are required to make quarterly estimated tax payments, individual first quarter estimated tax payments are due April 15 each year. We may recommend you pay the projected balance due for last year and your first quarter estimated tax payment for this year with your extension. This helps reduce the risk of having a balance due when your return is ultimately filed, and any overpayment can be applied to your current year estimated tax.

Is there anything I can do to avoid filing an extension if I know I am missing some information now?

- If you know you will be waiting until the last minute for one or two documents, you may be able to reduce the chance of having to file an extension by providing all other available documents to us as soon as you receive them. By doing so, we can prepare a draft return for you to review and discuss in advance. We may be able to add the missing piece of data or last minute information and complete your returns by the original due date.

2023 Year-End Income Tax Planning

As we approach the end of another year, we believe it's important to take a moment to review 2023 for year-end tax planning opportunities. Examining your 2023 tax situation before year-end could lead to tax savings when you file your tax returns in 2024. With that in mind, we have included our 2023 year-end income tax planning letter to assist you with this process. We've included selected traditional as well as selected new planning ideas for your consideration. If you have questions or want to discuss planning ideas not included in our letter, please call our firm.

Caution! The IRS continues to release guidance on various important tax provisions. We closely monitor new tax legislation and IRS releases. Please call our firm if you want an update on the latest tax legislation, IRS notifications, announcements, and guidance or if you need additional information concerning any item discussed in this letter.

Be Careful! We suggest you call our firm before implementing any tax planning technique discussed in this letter. You cannot properly evaluate a particular planning strategy without calculating your overall tax liability with and without that strategy. This letter contains ideas for Federal income tax planning only. State income tax issues are not addressed.

Individuals

Possible Legislation Before Year-End

Each year we work to provide you with our year-end planning letter in time to implement possible tax saving strategies before December 31st. As a result, it's possible Congress could pass new legislation between your receipt of this letter and year-end. As of the completion of this letter, it appears an omnibus spending package is the best chance for any provisions that may affect 2023 tax law. However, the Secure Act 2.0 segment of the Consolidated Appropriations Act, 2023 was passed on December 29, 2022, and has many provisions that are first effective in 2023. The following is a discussion of some of those provisions. Please contact our firm if you would like an update on possible legislation and how it could affect you.

Highlights of Provisions Included in SECURE Act 2.0 First Effective After 12/29/22 (Date of Enactment) or After 12/31/22

Increase In Age For Required Minimum Distributions (RMDs). Required Minimum Distributions from IRAs and qualified plan accounts were generally required to begin no later than April 1st following the calendar year in which an individual reached age 72. The Secure Act 2.0 (The Act) provides that for an individual who **attains age 72 after December 31, 2022**, and **age 73 before January 1, 2033,** required minimum distributions from IRAs and qualified plan accounts are generally **required to begin no later than April 1st following the calendar year in which the individual attains age 73**. For an individual who **attains age 74 after December 31, 2032, the applicable age is 75. Planning Alert! Individuals who reach age 72 in 2023 will not have a Required Minimum Distribution for 2023.** An RMD will be required for **2024** and the required beginning date for that RMD is **April 1, 2025**.

Reduction In 50% Excise Tax For Failures To Take Required Minimum Distribution. Beginning with 2023, if the amount distributed from an employer plan or IRA is less than the calculated Required Minimum Distribution, the 50% penalty tax on the amount of the Required Minimum Distribution not distributed is reduced from 50% to 25%.

New Exceptions From 10% Penalty Tax For Certain "Early Distributions" From Retirement Accounts. A 6% excise tax is imposed on "excess contributions" to an IRA. To avoid the 6% excise tax on an excess contribution, the excess contribution, and any net earnings allocable to the excess contribution must be distributed from the IRA on or before the due date of a participant's tax return (including extensions). If the excess contribution plus any earnings is distributed by the due date of the return (including extensions) the contribution amount distributed is treated as not contributed, and therefore is not subject to the 10% penalty tax. However, there was no specific exception from the 10% penalty for the earnings distributed. **Note!** The Act provides that the earnings distributed along with the excess IRA contribution are not subject to the 10% penalty tax. In addition: **1) Distributions** made to a plan participant on or after the date such participant has been certified by a physician as having a **terminal illness** (i.e., an illness or physical condition which can reasonably be expected to result in death in 84 months or less after the date of the certification) will not be subject to the additional 10% tax on early distributions, and **2) Public safety employees** may take distributions from a governmental plan on or after reaching age **50 or 25 years of service** under the plan, whichever is earlier, without a 10% penalty tax.

Consider Recent Changes to IRAs and Qualified Retirement Plans

Secure Act Imposes A New 10-Year Pay-Out Requirement. Effective for individuals dying after 2019, the Secure Act generally requires a decedent's entire remaining IRA or qualified account balance to be distributed to a named beneficiary, other than an "eligible designated beneficiary", **by December 31 of the 10th year following** the year of the decedent's death. This required 10-year payout does not apply if the named beneficiary is an "eligible designated beneficiary" which includes the decedent's spouse, or an individual with a qualified disability, who is chronically ill, or is no more than 10 years younger than the decedent. If the named beneficiary is a child under age 21, the 10-year pay-out requirement does not kick in until the child reaches age 21. On February 23, 2022, the IRS issued proposed regulations interpreting this new 10-year rule for beneficiaries that are not "eligible designated beneficiaries." The proposed regulations proposed to require beneficiaries of a decedent dying **on or after the decedent's required beginning date** (April 1st following age 72 or following age 73 for those turning 72 after 2022) to begin required minimum distributions (RMDs) in the calendar year following the year of the decedent's death and also required any remaining account balance of that beneficiary to be distributed to the beneficiary by the end of the 10th calendar year following the year of the decedent's death. However, the proposed regulations allowed beneficiaries who were not "eligible beneficiaries" of a decedent dying **before the decedent's required beginning date** to take distributions in any manner as long as the entire account balance of the beneficiary was distributed by the end of the 10th calendar year following the year of the decedent's death. Most believed a beneficiary that was not an "eligible designated beneficiary" was not required to take a distribution prior to the 10th calendar year following the decedent's death whether the decedent died before or after the decedent's required beginning date. Even the IRS's own publication seemed to say that was the case. The interpretation in the proposed regulations meant that non-eligible beneficiaries of a decedent who died in 2020 or 2021 after the decedent's required beginning date would have a 50% penalty if RMDs were not made in 2021 for beneficiaries of decedents dying in 2020 and in 2022 for decedents dying in 2021. **New Development!** In July of this year, the IRS released **Notice 2023-54** which **says the proposed RMD regs will not be effective any earlier than 2024. Notice 2023-54 taken together with a notice issued by the IRS in 2022 generally provide** that beneficiaries of account owners in IRAs or defined contribution plans that are not "Eligible Designated Beneficiaries" and who are not taking lifetime distributions will not be penalized for failing to take RMDs in 2021, 2022, or 2023 where the account owner or "Eligible Designated Beneficiary" died in 2020, 2021, or 2022 after the employee or account owner's required beginning date and the beneficiary would be subject to the 10-year rule under the proposed regs.

Highlights of Traditional Year-End Tax Planning

Charitable Contributions. Starting in 2018 (with no sunset date), a charitable contribution deduction is not allowed for contributions made to colleges and universities in exchange for the contributor's right to purchase tickets or seating at an athletic event (prior law allowed the taxpayer to deduct 80% as a charitable contribution). **Planning Alert!** If you think your itemized deductions this year could likely exceed your Standard Deduction ($27,700 if filing jointly, $13,850 if filing single and $20,800 if filing head of household) and you want to accelerate your charitable deduction into 2023, please note that a charitable contribution deduction is allowed for 2023 if the check is **"mailed" on or before December 31, 2023**, or the contribution is made by a credit card charge in 2023. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay the note or pledge. In addition, if you are considering a significant 2023 contribution to a qualified charity (e.g., church, synagogue, or college), it will generally save you taxes if you contribute appreciated long-term capital gain property, rather than selling the property and contributing the cash proceeds to the charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, Bitcoin, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. If instead you intend to use "loss" stocks to fund a charitable contribution, you should sell the stock first and then contribute the cash proceeds. This will allow you to deduct the capital loss from the sale, while preserving your charitable contribution deduction.

Casualty Losses. **From 2018 through 2025**, the itemized deduction for personal casualty losses and theft losses has been suspended. However, personal casualty losses attributable to a Federally declared disaster continue to be deductible. **Planning Alert!** Personal casualty losses generally continue to be deductible to the extent the taxpayer has personal casualty "gains" for the same year. In addition, casualty losses with respect to property held in a trade or business or for investment are still allowed.

Limitations On The Deduction For Interest Paid On Home Mortgage "Acquisition Indebtedness." The Tax Cuts And Jobs Act (TCJA) reduced the dollar cap for **Acquisition Indebtedness incurred after December 15, 2017, from $1,000,000 to $750,000** ($375,000 for married filing separately) for **2018 through 2025**. Generally, any Acquisition Indebtedness incurred on or before December 15, 2017, is "grandfathered" and will still carry the $1,000,000 cap. **Planning Alert!** If you think your itemized deductions this year could likely exceed your Standard Deduction, paying your January 2024 qualifying home mortgage payment **before 2024** should shift the deduction on the interest portion of that payment **into 2023**.

Contributing The Maximum Amount To Your Traditional IRA. As your income rises and your marginal tax rate increases, deductible IRA contributions generally become more valuable. Also, making your deductible contribution to the plan as early as possible generally increases your retirement benefits. As you evaluate how much you should contribute to your IRA, consider the following limitations. If you are married, even if your spouse has no earnings, you can generally deduct in the aggregate up to **$13,000 ($15,000 if you are both at least age 50 by the end of the year)** for contributions to you and your spouse's traditional IRAs. You and your spouse must have combined earned income at least equal to the total contributions. However, no more than **$6,500 ($7,500 if at least age 50)** may be contributed to either your IRA account or your spouse's IRA account for 2023. If you are an active participant in your employer's retirement plan during 2023, your IRA deduction is reduced ratably as your adjusted gross income increases from **$116,000 to $136,000** on a joint return (**$73,000 to $83,000** on a single return). However, if you file a joint return with your spouse and your spouse is an active participant in his or her employer's plan and you are not an active participant in a plan, your IRA deduction is reduced as the adjusted gross income on your joint return goes from **$218,000 to $228,000**. **Caution!** Every dollar you contribute to a deductible IRA reduces your allowable contribution to a nondeductible Roth IRA. The sum of your contributions for the year to your Roth IRA and to your traditional IRA may not exceed the $6,500/$7,500 limits discussed above. For 2023, your ability to contribute to a Roth IRA is phased out ratably as your adjusted gross income increases from **$218,000 to $228,000** on a joint return or from **$138,000 to $153,000** if you are single. **Planning Alert!** Unlike the rule for traditional IRA contributions, the amount you may contribute to a Roth IRA is reduced if your adjusted gross income falls within these phase-out ranges regardless of whether you or your spouse is a participant in another retirement plan. In addition, contributions to a Roth IRA are not deductible. **Planning Alert!** You have until **April 15, 2024**, to make a 2023 traditional IRA contribution.

If You Are 70½ Or Older By December 31st, Consider A Qualified Charitable Distribution (QCD). A Qualified Charitable Distribution (QCD) allows a donation to a charitable organization of up to $100,000 from a traditional IRA. These contributions are excluded from income and count toward your RMD for 2023. **Caution!** These contributions are not deductible as itemized deductions. However, if you normally take the standard deduction, a QCD could be even more beneficial since the distribution will be excluded from your income.

Use The IRS Tax Withholding Estimator To Avoid Surprises. As you get to the end of 2023, it's a good idea to revisit your withholding and estimated tax payments to avoid an unexpected tax bill which could include penalties and interest. The IRS encourages taxpayers to use its Tax Withholding Estimator at https://www.irs.gov/individuals/tax-withholding-estimator to ensure they have the correct amount of taxes paid-in before December 31st. **Planning Alert!** It is especially important to review your withholding if you have had a significant event occur during 2023 such as a job change or loss, additional income stream, marriage, divorce, etc. If you believe your tax liability has been affected because of a significant event, and you have questions, **please call our firm** so we can discuss.

Businesses

Highlights of Provisions Included in SECURE Act 2.0 First Effective After 12/29/22 (Date of Enactment) or After 12/31/22

First Year Elective Deferral For Sole Proprietor Who Is Only Participant In 401(k) Plan May Be Made By Initial Due Date Of Return. If an employer adopts a stock bonus, pension, profit-sharing, or annuity plan after the close of a taxable year but before the due date of the tax return for the taxable year (including extensions), **the employer may elect to treat the plan as having been adopted as of the last day of the taxable year.** However, participants in a 401(k) plan were not able to make elective deferral contributions to such plans for that first plan year if the plan was established after the end of the taxable year. **Good News!** SECURE 2.0 provides that an individual who **owns the entire interest in an unincorporated trade or business and who is the only employee of such trade or business**, may make elective contributions to the business's 401(k) plan on or before the due date (**excluding extensions**) of the owner's tax return for the tax year ending after or with the end of the plan's first plan year. Such elective deferrals are deemed made before the end of the first plan year. **This provision only applies to the plan year in which the plan is established. Caution!** This provision only applies to plans established by sole proprietors where the proprietor has no employees.

Summary Of Selected Other Changes Made To Retirement Plans By SECURE 2.0. The following is a brief summary of selected provisions of SECURE 2.0 first effective for 2023. **Caution!** A business wishing to implement any of these provisions should consult with the attorney handling the business's qualified plan since these provisions may require plan amendments.

Qualified Retirement Plans, §403(b) Plans, And §457(b) Plans May Permit Participants To Designate Employer Matching Contributions Or Nonelective Employer Contributions As Designated Roth Contributions After 12/29/22.

SIMPLE Plans And SEP Plans May Allow Employees To Make Roth Contributions For Taxable Years Beginning After 2022.

For Tax Years Beginning After 2022 SECURE 2.0 Provides An Up To 100% Credit For Plan Startup Costs For Employers With 50 Or Fewer Employees. The credit is available for the first three years of the plan. SECURE 2.0 also provides an additional credit of up to $1,000 of employer contributions for each employee. The full $1,000 per employee credit only applies to employers with 50 or fewer employees.

New Credit For Military Spouse's Participating In Employer's Plan For Employers With 100 Or Fewer Employees For Preceding Year. For each of the first three years of a military spouse's participation, the credit is **1)** $200 plus **2)** up to $300 of employer's contributions to the plan for the military spouse (other than elective deferrals).

Other Selected Recent Developments

IRS Suspends Processing ERC Claims Received On Or After September 14, 2023. The IRS released the following statement: *"Amid rising concerns about a flood of improper Employee Retention Credit claims, the Internal Revenue Service today announced an immediate moratorium through at least the end of the year on processing new claims for the pandemic-era relief program to protect honest small business owners from scams. IRS Commissioner Danny Werfel ordered the immediate moratorium, beginning today, to run through at least Dec. 31 following growing concerns inside the tax agency, from tax professionals as well as media reports that a substantial share of new claims from the aging program are ineligible and increasingly putting businesses at financial risk by being pressured and scammed by aggressive promoters and marketing." [Emphasis added] The IRS says payouts for ERC claims received before September 14 will continue during the moratorium period but at a slower pace. IRS says, "With the stricter compliance reviews in place during this period, existing ERC claims will go from a standard processing goal of 90 days to 180 days – and much longer if the claim faces further review or audit. The IRS may also seek additional documentation from the taxpayer to ensure it is a legitimate claim. The IRS is increasingly alarmed about honest small business owners being scammed by unscrupulous actors, and we could no longer tolerate growing evidence of questionable claims pouring in, Werfel said. 'The further we get from the pandemic, the further we see the good intentions of this important program abused. The continued aggressive marketing of these schemes is harming well-meaning businesses and delaying the payment of legitimate claims, which makes it harder to run the rest of the tax system. This harms all taxpayers, not just ERC applicants.'"*

The IRS has now provided a special procedure to withdraw unpaid ERC claims for those who have filed an ERC claim, but the claim has not been processed. **This option will allow the taxpayers to avoid possible repayment issues.** The IRS says *"Claims that are withdrawn will be treated as if they were never filed. The IRS will not impose penalties or interest."* IRS also suggests taxpayers *"Work with a trusted tax professional if you need help or advice on this process or on the ERC."* Details, generally in the form of FAQs are available at irs.gov. These withdrawal procedures generally allow ERC claims to be withdrawn where the claim was made on an amended payroll tax return and either the IRS has not paid the claim or it has paid the claim, but the taxpayer has not cashed the check.

Traditional Year-End Tax Planning Techniques

Planning With Timing Of Income And Expenses. It goes without saying that, for most business owners, the last several years have been challenging. Dealing with the pandemic, disruptions in the supply chain, and hiring and retaining good employees has caused many business owners to face issues they've never experienced. One traditional year-end tax planning strategy for business owners includes reducing current year taxable income by deferring it into later tax years and accelerating deductions into the current tax year. This strategy has been particularly beneficial where the income tax rate on the business's income in the following year is expected to be the same or lower than the current year. For businesses that have done well during the current tax year, this strategy would still generally be advisable. **Caution!** In the following discussions we include "timing" suggestions as they relate to traditional year-end tax planning strategies that would cause you to accelerate deductions into 2023, while deferring income into 2024. However, for businesses that expect their taxable income to be significantly lower in 2023 than in 2024, the opposite strategy might be more advisable. In other words, for struggling businesses, a better year-end planning strategy could include accelerating revenues into 2023 (to be taxed at lower rates), while deferring deductions to 2024 (to be taken against income that is expected to be taxed at higher rates). Please keep that in mind as you read through the following timing strategies for income and deductions.

First-Year 168(k) Bonus Depreciation Deduction. Traditionally, a popular way for businesses to maximize current-year deductions has been to take advantage of the **First-Year 168(k) Bonus Depreciation deduction**. Beginning **with 2023**, the §168(k) deduction is **80%** and reduced as follows for property placed in service: **1)** During **2024 - 60%**, **2)** During **2025 - 40%**, **3)** During **2026 - 20%**, and **4) After 2026 - 0%** (with an additional year for long-production-period property and noncommercial aircraft). **Planning Alert! Used property temporarily qualifies for 168(k) bonus depreciation** for qualifying property acquired and placed in service **after September 27, 2017, and before 2027**. Property that generally qualifies for the 168(k) Bonus Depreciation includes new or used business property that has a depreciable life for tax purposes of **20 years or less** (e.g., machinery and equipment, furniture and fixtures, sidewalks, roads, landscaping, computers, computer software, farm buildings, and qualified motor fuels facilities). Vehicles used primarily in business generally qualify for the 168(k) Bonus Depreciation. However, there is a dollar cap imposed on business cars, and on trucks, vans, and SUVs that have a **loaded vehicle weight (GVWR) of 6,000 lbs. or less**. For qualifying vehicles placed in service in **2023** and used 100% for business, the annual depreciation caps are as follows: **1st year - $12,200; 2nd year - $19,500; 3rd year - $11,700; fourth and subsequent years - $6,960**. Moreover, if the vehicle (new or used) otherwise qualifies for the 168(k) Bonus Depreciation, the first-year depreciation cap (assuming 100% business use) is **increased by $8,000 (i.e., from $12,200 to $20,200 for 2023). Planning Alert!** If a new or used truck, van, or SUV (which is used 100% for business) has a **GVWR over 6,000 lbs., 80% of its cost** (without a dollar cap) could be deducted in **2023** as a **168(k) Bonus Depreciation deduction.**

Section 179 Deduction. Another popular and frequently used way to accelerate deductions is by taking maximum advantage of the up-front Section 179 Deduction ("179 Deduction"). For 2023 the 179 Deduction **limitation is increased to $1,160,000** and the **phase-out threshold for total purchases** of 179 property is **$2,890,000.** To maximize your 179 Deductions for 2023, it is important for your business to determine which depreciable property acquired during the year qualifies as 179 Property. Generally, "depreciable" property qualifies for the **179 Deduction** if: **1)** It is purchased **new or used**, **2)** It is "tangible personal" property, **and 3)** It is used primarily for business purposes (e.g., machinery and equipment, furniture and fixtures, business computers, etc.). **Planning Alert!** The 179 Deduction **is now allowed** for otherwise qualifying property used in connection with lodging (e.g., the cost of furnishing a home that the owner is renting to others would now qualify). New or used business vehicles generally qualify for the 179 Deduction, provided the vehicle is **used more-than-50% in your business**. **Planning Alert!** As discussed previously in the 168(k) Bonus Depreciation segment, there is a dollar cap imposed on business cars and trucks that **have a vehicle weight of 6,000 lbs. or less**. If applicable, this dollar cap applies to both the 168(k) Bonus Depreciation and the 179 Deduction taken with respect to the vehicle. Trucks, vans, and SUVs that have a loaded **weight (GVWR) of more than 6,000 lbs.** are exempt from the annual depreciation caps. In addition, these vehicles, if used more-than-50% in business, will also generally qualify for a **179 Deduction of up to $28,900** if placed in service in 2023 (**$30,500** if placed in service in 2024). **Planning Alert!** The $28,900 cap applies only for purposes of the 179 Deduction. This $28,900 cap **does not apply** with respect to the 168(k) Bonus Depreciation deduction taken on vehicles weighing over 6,000 lbs. **Tax Tip!** A business may be able to deduct most of the cost of the vehicle or other qualifying assets placed in service in 2023 by using a 179 deduction, then the 168(k) deduction for 80% of the remaining cost when applicable. Neither the **179 Deduction** nor the 168(k) Bonus Depreciation deduction requires any proration based on the length of time that an asset is in service during the tax year. Therefore, your calendar-year business would get the benefit of the **entire 179 or 168(k) Deduction** for 2023 purchases, even if the qualifying property **was placed in service as late as December 31, 2023!**

Be Careful with Employee Business Expenses

Un-Reimbursed Employee Business Expenses Are Not Deductible. For 2018 through 2025, "un-reimbursed" employee business expenses are not deductible at all by an employee. For example, an employee **may not deduct** on the employee's income tax return any of the following business expenses **incurred as an "employee", even if the expenses are necessary for the employee's work - Automobile expenses** (including auto mileage, vehicle depreciation); Costs of travel, transportation, lodging and meals; Union dues and expenses; Work clothes and uniforms; Otherwise qualifying home office expenses; Dues to a chamber of commerce; Professional dues; Work-Related education expenses; Job search expenses; Licenses and regulatory fees; Malpractice insurance premiums; Subscriptions to professional journals and trade magazines; and Tools and supplies used in your work.

Generally, employee business expenses reimbursed under an employer's qualified "Accountable Reimbursement Arrangement" are deductible by the employer (subject to the 50% limit on business meals), and the reimbursements are **not taxable to the employee**. **Planning Alert!** Generally, for a reimbursement arrangement to qualify as an **"Accountable Reimbursement Arrangement"**: **1)** The employer must maintain a reimbursement arrangement that requires the employee to substantiate covered expenses; **2)** The reimbursement arrangement must require the return of amounts paid to the employee that are in excess of the amounts substantiated; and **3)** There must be a business connection between the reimbursement (or advance) and the business expenses. **Caution!** If an employer reimburses an employee's deductible business food and beverage expense under an Accountable Reimbursement Arrangement, the employer could deduct 50% of the reimbursement.

Other Selected Year-End Planning Considerations for Businesses

No Deduction For Expenses Of A "Hobby". Previously, otherwise deductible trade or business expenses attributable to an activity that was "not engaged in for profit" (i.e., a hobby loss activity) were deductible: **1)** only as miscellaneous itemized deductions, and **2)** only to the extent of the activity's gross income. Since these hobby loss expenses are classified as miscellaneous itemized deductions, no deduction is allowed for these expenses ***from 2018 through 2025***. **Planning Alert!** This makes it even more important for owners engaged in activities commonly subject to IRS scrutiny, to take steps to demonstrate the business is operated with the intent to make a profit.

Don't Forget To Properly Document And Provide Details For Charitable Contributions. It is important to provide the IRS with all the necessary documentation for any charitable contributions made during 2023 in order to deduct them against taxable income. The IRS recently denied Hobby Lobby's charitable contributions in the amount of $84.6 million because the fair market value and basis of each item contributed was not properly reported on Form 8283. **Please call our firm** for help if you are concerned about what documentation you need to deduct a contribution.

Final Comments

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

TAX TIDBITS

F.I.C.A. Wages and Self-Employment Earnings

The amount of wages subject to FICA tax at 6.2% (12.4% if self-employed) for 2024 is $168,600 ($8,400 increase from 2023). The FICA-Medicare Tax of 1.45% (2.9% if self-employed) continues to apply to all wages and self-employment income.

Additional Medicare Tax Withholding

There is an additional .9% Medicare tax that employers must withhold on employee wages in excess of $200,000. There is no employer share.

Social Security Earnings Limit

There is a limit on how much you can earn and not affect your Social Security benefits, if you are under normal full retirement age. That limit for 2024 is $22,320. Earn more than this and your benefits are cut $1 for every $2 earned above the limit. The limit for 2023 was $21,240.

Retirement Plan Limits

	2023	2024
IRA	$6,500	$7,000
IRA catch-up (age 50+)	1,000	1,000
SEP maximum contribution	66,000	69,000
401(k) 403(b) employee	22,500	23,000
401(k) 403(b) catch-up	7,500	7,500
Simple 408(p)(2)(E)	15,500	16,000
Simple 408(p)(2)(E) catch-up	3,500	3,500
Defined contribution limit	66,000	69,000
Annual compensation limit	330,000	345,000

Estate and Gift Tax Lifetime Exemption

2023	$12,920,000	(40% rate over amount)
2024	$13,610,000	(40% rate over amount)

Gift Tax Annual Exclusion

The gift tax annual exclusion for 2024 will be $18,000 per donee, an increase of $1,000 from 2023. The exclusion is $36,000 per donee for married couples that elect split gifting.

Standard Mileage Rate (Cents Per Mile)

2023	
Business	65.5
Charitable	14
Medical	22
Moving	22

Standard Deductions

2023	
Married Filing Joint (MFJ)	$27,700
Head of Household (HOH)	20,800
Married Filing Separately (MFS)/Single	13,850
Dependent	1,250
Add if Blind/+65 (MFJ)	1,500

Capital Gains and Qualified Dividend Rates

2023 Married Filing Joint and Surviving Spouses

If Taxable Income is Over	But Not Over	Tax Rate
$0	$89,250	0%
89,251	553,850	15%
553,851	--	20%

2023 Single

If Taxable Income is Over	But Not Over	Tax Rate
$0	$44,625	0%
44,626	492,300	15%
492,301	--	20%

Tax Tables

2023 Married Filing Joint and Surviving Spouses

If Taxable Income is Over	But Not Over	Tax is		% on Excess	Of the Amount Over
$0	$22,000	$0	+	10%	$0
22,000	89,450	2,200		12%	22,000
89,450	190,750	10,294		22%	89,450
190,750	364,200	32,580		24%	190,750
364,200	462,500	74,208		32%	364,200
462,500	693,750	105,664		35%	462,500
693,750	--	186,602		37%	693,750

2023 Single

If Taxable Income is Over	But Not Over	Tax is		% on Excess	Of the Amount Over
$0	$11,000	$0	+	10%	$0
11,000	44,725	1,100		12%	11,000
44,725	95,375	5,147		22%	44,725
95,375	182,100	16,290		24%	95,375
182,100	231,250	37,104		32%	182,100
231,250	578,125	52,832		35%	231,250
578,125	--	174,238		37%	578,125

Alabama Overtime Exemption Reporting Guidance

For the tax year beginning on or after January 1, 2024, overtime pay received by a full-time hourly wage paid employee for hours worked above 40 in any given week are excluded from gross income and therefore exempt from Alabama state income tax. Tied with this exemption are employer reporting requirements to The Alabama Department of Revenue. Employers are required to report the total aggregate amount of overtime paid and the total number employees who received overtime pay. For more information, contact your accountant and/or read full details at Alabama Department of Revenue:

https://www.revenue.alabama.gov/individual-corporate/overtime-exemption/

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Tax Time Reminder

With the end of 2023 approaching, it's time to get a jump on collecting your tax information to maximize your year-end planning. For your convenience, CSB will send out tax organizers around the beginning of January to help with organizing important information.

Have your income or expenses significantly changed?
Please call our office right away to maximize year-end tax planning.

Want to gauge your 2023 tax situation and prepare a tax savings strategy?
Make an appointment with us today!