



An Affiliate of Cedars Sinai

Foundation

Welcome!

Individual Taxation: Wrapping up 2023 and Planning for 2024

January 13, 2024

Taking Care of Your Financial Health



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Torrance Memorial Highlight

Emergency Department Expansion



Holiday 40 YEARS Festival



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Types of Planned Gifts

1. **Bequest** – gift through will, living trust or designation in a qualified retirement plan.
2. **Immediate Charitable Gift Annuity** – Simple contract between donor and the Torrance Memorial Foundation whereby lifetime payments are made to one or two individuals.
3. **Deferred Charitable Gift Annuity** – Annuity payments are deferred until a specified date in the future.
4. **Charitable Remainder Trust** – Trust that provides fixed or variable payments to named beneficiaries for life or a specified term of years.
5. **Retained Life Estate** – Gift of remainder interest in home or farm. Donor retains the right to live in the home for life.
6. **IRA Beneficiary** – Naming Torrance Memorial as the beneficiary of your retirement accounts (percentages can be designated as desired)

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Charitable Gift Annuity (CGA)

Illustrations (based on one life with donation made in January 2024)

Amount	\$20,000	\$20,000	\$20,000
Age at donation	75	78	80
Annuity Rate	7%	7.6%	8.1%
Potential Charitable Deduction	\$8,725	\$9,137	\$9,408
Annual Income Payment	\$1,400	\$1,520	\$1,620
Tax-free portion*	\$909 (12.4 yrs)	\$1,035 (10.5 yrs)	\$1,128 (9.4 yrs)

At maturity, remainder distributed to Torrance Memorial

*Tax-free portion projected for years based on standard life expectancy tables

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Resource for Planned Giving

www.TorranceMemorialFoundation.org/planned-giving

- Learn about the different arrangements available
- Plug in some numbers in the “gift calculator” to get an idea of how this type of gift might work for you
- **Download a FREE estate planning kit**
- Contact Sandy VandenBerge at (310) 784-4843
sandy.vandenberge@tmmc.com



Financial Health articles - www.torrancememorialfoundation.org/News

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How to Donate to Torrance Memorial

Online

<https://www.torrancememorialfoundation.org/Donate>

By Phone

Please call Torrance Memorial Foundation at 310-517-4703

You may charge your gift to your credit card or make a gift pledge

By Mail

Check or credit card information to: Torrance Memorial Foundation

3330 Lomita Blvd

Torrance, CA 90505

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Individual Taxation:
Wrapping up 2023
&
Planning for 2024

January 13, 2024

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New Year's Resolutions

- I will pay attention to mail that refers to important tax information and deal with any notices immediately.
- I will keep good records.
- I will not believe everything on the Internet, including ChatGPT.
- I will listen to my friends and family cautiously.
- I will not open emails or attachments or answer phone calls and provide information, if I am not 100% certain who it is.
- I will ask for help when needed.

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Agenda

- Common Myths
- Tax Tables and AMT
- Income
- Social Security and Retirement
- Cap Gains/Losses and Investment Income
- Credits and Deductions
- Other Miscellaneous Items
- California Specific Changes
- Filing Information

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Common Myths

- "If I do not receive a W-2 or 1099, the income is not reportable."
- "Filing a paper return is the most secure way to file my taxes."
- "I can claim my pets as dependents."
- "Monetary gifts I receive are taxable, and gifts I give to family and friends are deductible as a donation."
- "I can deduct what I would have received as rent as a donation when I donate my vacation home time to a charity."
- "Filing taxes is voluntary."

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2023 Tax Rates / Tables

- The highest tax bracket is still 37% for anyone (single/MFJ)
- For those high-income folks, 37% is their “Marginal Tax Rate,” meaning each additional dollar they make over a certain threshold amount is taxed at 37%
- “Effective Tax Rate” is the average tax rate
- The “marriage” penalty

MFJ=Married Filing Joint

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Tax Tables – Federal Tax Brackets

2023

Bracket	Single	HoH	MFJ
10%	Up to \$11,000	Up to \$15,700	Up to \$22,000
12%	\$11,000 - \$44,725	\$15,700 - \$59,850	\$22,000 - \$89,450
22%	\$44,725 - \$95,375	\$59,850 - \$95,350	\$89,450 - \$190,750
24%	\$95,375 - \$182,100	\$95,350 - \$182,100	\$190,750 - \$364,200
32%	\$182,100 - \$231,250	\$182,100 - \$231,250	\$364,200 - \$462,500
35%	\$231,250 - \$578,125	\$231,250 - \$578,100	\$462,500 - \$693,750
37%	Over \$578,125	Over \$578,100	Over \$693,750

Personal Exemption	\$0	\$0	\$0
Standard Deduction	\$13,850	\$20,800	\$27,700
Add'l Deductions			
- Blind or Elderly	\$1,850	\$1,850	\$1,500
- Blind & Elderly	\$3,700	\$3,700	\$3,000

2024

Bracket	Single	HoH	MFJ
10%	Up to \$11,600	Up to \$16,550	Up to \$23,200
12%	\$11,600 - \$47,150	\$16,550 - \$63,100	\$23,200 - \$94,300
22%	\$47,150 - \$100,525	\$63,100 - \$100,500	\$94,300 - \$201,050
24%	\$100,525 - \$191,950	\$100,500 - \$191,950	\$201,050 - \$383,900
32%	\$191,950 - \$243,725	\$191,950 - \$243,700	\$383,900 - \$487,450
35%	\$243,725 - \$609,350	\$243,700 - \$609,350	\$487,450 - \$731,200
37%	Over \$609,350	Over \$609,350	Over \$731,200

Personal Exemption	\$0	\$0	\$0
Standard Deduction	\$14,600	\$21,900	\$29,200
Add'l Deductions			
- Blind or Elderly	\$1,850	\$1,950	\$1,550
- Blind & Elderly	\$3,700	\$3,900	\$3,100

Personal Exemption is suspended through 2025 per TCJA, but the exemption amount is still adjusted for inflation.

TCJA=Tax Cuts and Jobs Act

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Tax Rates - Single

Example 1 (Think of Layer Cake)

A single taxpayer has taxable income of \$75,000

2023 Tax table	
Not over \$11,000	10%
\$11,000 - \$44,725	12%
\$44,725 - \$75,000	22%

1st Layer	11,000.00
Rate	0.10
10% tax	<u>1,100.00</u>
2nd Layer (\$44,725 - \$11,000)	33,725.00
Rate	0.12
12% tax	<u>4,047.00</u>
3rd Layer (\$75,000 - \$44,725)	30,275.00
Rate	0.22
22% tax	<u>6,660.50</u>
Total Tax	11,807.50

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Tax Rates - Single

Example 1 – Results . . .

Taxable income
\$75,000

Tax
\$11,807.50



Taxable income
\$75,000 x .22 =

Tax
\$16,500



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Tax Rates – Married Filing Joint (MFJ)

Example 2

A Married Filing Joint couple has the following taxable income:

Source	Amount
Wages (W2)	130,000
Wages (W2)	30,000
Interest income	500
Rental income	<u>15,000</u>
Total income	\$175,500

After standard deduction of \$25,900, their taxable income is \$149,600

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Tax Rates - MFJ

Example 2 cont'd...(Think of Layer Cake)

After deductions, their taxable income is \$149,600. Their tax is calculated as follows:

2023 Tax table	
Not over \$22,000	10%
\$22,000 – \$89,450	12%
\$89,450 – \$190,750	22%

			Base	Rate	Tax
1st Layer	22,000.00	0	22,000.00	10%	2,200.00
2nd Layer	89,450.00	(22,000.00)	67,450.00	12%	8,094.00
3rd Layer	149,600.00	(89,450.00)	60,150.00	22%	13,233.00
			Total Tax Liability		23,527.00

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Tax Rates - MFJ

Example 2 – Results . . .

Taxable income
\$149,600

Tax
\$23,527



Taxable income
\$149,600 x .22 =

Tax
\$32,912



Taxable income
\$175,500 x .22 =

Tax
\$38,610



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California Taxes

- CA income tax system is also progressive. As you make more money, that money is taxed at a higher rate.
- Tax rates going as high as 14.4% (SDI unlimited on wages in 2024)



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California Taxes

California Tax Brackets

2023				2024			
Bracket	Single	HoH	MFJ	Bracket	Single	HoH	MFJ
1%	Up to \$10,412	Up to \$20,839	Up to \$20,824	1%			
2%	\$10,412 - \$24,684	\$20,839 - \$49,371	\$20,824 - \$49,368	2%			
4%	\$24,684 - \$38,959	\$49,371 - \$ 63,644	\$49,368 - \$77,918	4%			
6%	\$38,959 - \$54,081	\$63,644 - \$78,765	\$77,918 - \$108,162	6%		TO BE ISSUED SOON	
8%	\$54,081 - \$68,350	\$78,765 - \$93,037	\$108,162 - \$136,700	8%			
9.3%	\$68,350 - \$349,137	\$93,037 - \$474,824	\$136,700 - \$698,274	9.3%			
10.3%	\$349,137 - \$418,961	\$474,824 - \$569,790	\$698,274 - \$837,922	10.3%			
11.3%	\$418,961 - \$698,271	\$569,790 - \$949,649	\$837,922 - \$1,396,542	11.3%			
12.3%	Over \$698,271	Over \$949,649	Over \$1,396,542	12.3%			

California has a Mental Health Services 1% surtax on taxable income above \$1 million (for all filing statuses). This is not reflected in the brackets.

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Alternative Minimum Tax (AMT)

What is AMT?

- AMT is a parallel tax system created in the 1960s that operates in the shadow of the regular tax, in which it adds back income that is tax-free and disallows deductions allowed under regular tax code.
- Credits such as Child Care Credit/Adoption Credit/Child Tax Credit, to name a few, can offset AMT.
- AMT is an add-on to the regular amount of tax owed, **NOT** an amount you alternatively pay!
- Tax rates of 26% and 28% applied to determine add-on
- Tax Cut and Jobs Act dramatically lowered taxpayers affected by AMT

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Alternative Minimum Tax (AMT)

AMT Changes

Exemption Amounts

Filing Status	2023	2024
Single, Head of Household	81,300	85,700
Joint, SS	126,500	133,300
Married Filing Separate	63,250	66,650
Estates and Trusts	28,400	29,900

Exemption Phase-out Thresholds

Filing Status	2023	2024
Single, Head of Household	578,150	609,350
Joint, SS	1,156,300	1,218,700
Married Filing Separate	578,150	609,350
Estates and Trusts	94,600	99,700

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Federal Estate, Gift & GST Taxes

- For 2024, the lifetime estate exemption or lifetime gifting amount is \$13.61 million¹ (\$27.22 million for married couples)
- The annual tax-free gift amount is \$18,000
- Higher estate and gift tax exemption will sunset on December 31, 2025 and revert back to ~\$5 million (adjusted for inflation)

Exemption Type	2022	2023	2024
Lifetime Estate Exemption	\$12.06 Mil	\$12.92 Mil	\$13.61 Mil
Tax-Free Gift (per recipient)	\$16,000	\$17,000	\$18,000

¹Generation-skipping transfer

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Income

- Wages (W-2 or 1099)
 - ✓ W-2 issued by employers by January 31
 - ✓ 1099-NEC issued for non-employee compensation > \$600
- Royalties, Rents, Other Income: 1099-MISC issued (> \$10 or \$600)
- Retirement plan distributions: 1099-R issued
- Social Security: SSA-1099
- Investment interest, dividends, gains, etc.: 1099-Int, 1099-Div and 1099-B
- Crowdfunding: 1099-K issued and may be reportable income unless transactions through a 501(c) organization
- Gifts with a *quid pro quo*
- Legal settlements often taxable (unless involving physical injury)
- Tax refund is taxable if claimed as an itemized deduction in the prior year
- Gambling winnings in excess of losses

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Income Court Case

Soler, Jennifer A. v. Comm. (TC Memo 2022-78)

- Mrs. Soler and her husband filed a joint return for tax years 2012 to 2015.
- Mrs. Soler earned an annual salary of \$160,000 and her husband earned income from his consulting and real estate business which was reported on Schedule C.
- They neglected to report the consulting business income for 4 years.
- Mrs. Soler requested “Innocent Spouse Relief” from the tax assessment (included penalties and interest) claiming she did not know about her husband’s activities. Claimed she thought her husband’s income were gifts from her mother-in-law.
- Tax court denied relief as a result that a “Reasonable person” would possess knowledge that the returns were likely incorrect.

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Exclusions from Income

- Gifts and Inheritances (unless income with respect to the decedent)
- Life insurance premiums
- Disaster relief payments
- 14 days or less on rental income (no deductions either)
- Tax-free municipal bonds (check state requirements)
- Most public welfare benefits
- Physical injury legal settlements or wrongful incarceration settlements

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Income Court Case (Settlement Tax Scenario)

2018 Monsanto case vs. Groundskeeper Dewayne Johnson settled where the plaintiff was awarded \$39 million in physical injury compensatory damages and \$250 million in punitive damages.

Hypothetical tax scenario:

- Court costs and attorney fees are roughly half the total award
- Punitive damages of \$250 million will all be taxable
- Physical injury compensatory damages of \$39 million will be tax-free
- Attorney fees not deductible on Federal return (unless related to discrimination, whistleblower or businesses)
- Attorney fees subject to Federal 2% AGI limitation on California return
- Expected \$100 million tax bill for Federal and \$20 million tax bill in California
- Net amount left...Roughly \$25,000,000 back to the plaintiff after legal fees and taxes

Upon Appeal, court decision was reversed in part and damages were reduced.

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Social Security and Retirement Income



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Retirement Income

Required Minimum Distributions (RMDs)

- Yearly RMD Calculation = Retirement Plan Balance divided by a life expectancy factor (table goes up to age "120+")
- Currently must take if you are 73 or older.
- If you turned 73 in 2023, must start RMD (taxpayers born in 1951 through 1958)
- For taxpayers born after 1958, must start RMD at age 75
- Qualified Charitable distribution (QCD) expansion to increase to \$105,000 beginning in 2024 – remainder cannot fund private foundations or donor advised funds – let your tax preparer know if you made a QCD. It is NOT reflected on Form 1099-R

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Secure Act 2.0

- Penalties for failing to take RMD decreased to 25% from 50% of RMD amount. It can be reduced further if correction is made.
- In 2024, RMDs will no longer be required from employer Roth accounts
- Inherited IRAs – generally, entire balance must be distributed within 10 years of date of death, if not an eligible designated beneficiary
- Starting in 2024, employers will be able to match employee student loan payments with matching payments to a retirement account
- 529 Plans: After holding for 15 years, beneficiary can roll over up to \$35,000 into a ROTH IRA (maxed at \$35k per lifetime)

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Social Security

Social Security receives a 3.2% cost of living adjustment in 2024. In 2023, it was 8.7% and in 2022, it was 5.9%.

- Can only earn 4 credits per any one year
- Once earn 40 credits, eligible for social security upon reaching retirement age
- Benefits based on the average of highest 35 years of income, adjusted for inflation

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Social Security

- Benefits can be taken at any time upon reaching age 62
- Medicare eligibility at age 65
- Entitled to full Primary Insurance Amount at age of 67

- Delay or not delay????
 - Earn a delayed earnings credit (8% annually) to wait until you are 70 years old
 - Per 2022 Social Security Trustees Report, “Social Security’s total cost is projected to be higher than its income in 2022 and all later years.”
 - Consider spending habits, life expectancy and necessity

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Working and Social Security Benefits

Retirement age = 66 for people born 1943-1954
1955 and on = add two months for each year until 67 is reached
1960 or later = 67

- Younger than retirement age
 - \$1 reduction for every \$2 of income* above the annual limit. The 2024 income limit is \$22,320.
- In the year of full retirement age
 - \$1 reduction for every \$3 of income* above the annual limit. The 2024 income limit is \$59,520.
- Once full retirement age is reached
 - No reduction in benefits, no matter how much you earn

* Not included in the income calculation: interest, pension, annuities and investment income.

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Medicare

Medicare Premiums

One-off events like selling a home for a large gain can trigger a Medicare surcharge

2024 Medicare Parts B and D Premium Surcharge

If 2023 Modified AGI is ...

Single	Married	2024 Part B monthly premium	2024 Part D monthly premium
\$103,000 or less	\$206,000 or less	\$174.70	Plan premium
\$103,000–\$129,000	\$206,000–\$258,000	\$244.60	Plan premium + \$12.90
\$129,000–\$161,000	\$258,000–\$322,000	\$349.40	Plan premium + \$33.30
\$161,000–\$193,000	\$322,000–\$386,000	\$454.20	Plan premium + \$53.80
\$193,000–\$500,000	\$386,000–\$750,000	\$559.00	Plan premium + \$74.20
\$500,000 and above	\$750,000 and above	\$594.00	Plan premium + \$81.00

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Retirement

IRA contribution is \$6,500 in 2023 and \$7,000 in 2024 (\$1,000 catch-up for age 50 and older)

- IRA contributions only up to earned income (which now includes alimony)
- SECURE Act also added fellowships, stipends and IHSS payments as income qualifiers
- Deductible IRA Contributions made after age 70½ will reduce QCD made in later years
- Spousal IRA contribution allowed even if spouse does not earn income

Back door Roth conversion still an option

- Allows high-income individuals to make nondeductible contributions to Roth IRAs
- Also a useful tool in low-income years to reduce future RMDs and take advantage of low tax rates

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Capital Gains and Dividends

Dividend and capital gains rates unchanged

The top tax bracket for qualified dividends and capital gains is 20% (23.8% if the net investment income tax applies)

0%	15%	20%
SINGLE ≤ \$44,625 HoH ≤ \$59,750 MFJ ≤ \$89,250 Estates/Trusts ≤ \$3,000	SINGLE: \$44,626 to \$492,300 HoH: \$59,751 to \$523,050 MFJ: \$89,251 to \$553,850 Est/Tst: \$3,001 to \$14,650	SINGLE: Over \$492,301 HoH: Over \$523,051 MFJ: Over \$553,851 Estates/Trusts: \$14,651

Note! CA does not have a reduced capital gains rate

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Capital Losses

- Losses netted against capital gains.
- Net Capital Losses are deducted against ordinary income up to \$3,000 per year (limit since 1978) and carried over until exhausted. Some planning tips:
 - ✓ Tax Harvesting
 - ✓ Gifting appreciating stock to lower income children/parents in 0% tax bracket
 - ✓ Donate appreciated stocks and avoid gain (also deduct fair market value of stock)
- Nonbusiness bad debt loss

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Additional 3.8% surtax on Net Investment Income (NII)

Additional 3.8% tax on unearned income such as:

- Interest, dividends, annuities, royalties, rents
- Income from trade that is passive

A 3.8% tax is imposed on the lesser of:

- Net investment income for the tax year OR
- Modified adjusted gross income over the threshold amounts:

Single/HOH	\$200,000
MFS	\$125,000
MFJ	\$250,000

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What is Net Investment Income?

Net Investment Income does not include:

- Wages, unemployment, social security, and alimony
- Items taken into account in determining self-employment income (ie. and operating income from active businesses)
- Distributions from qualified employee benefit plans
- Interest on tax-exempt or tax-deferred vehicles such as:
 - Municipal bonds
 - Life insurance
 - Veteran's benefits
 - Excluded gain from sale of a personal residence
 - Other items otherwise excluded from gross income

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Other Net Investment Income (NII)

NII is the sum of gross income from:

- Trade or business that is passive with respect to the taxpayer, a trade or business of trading in financial instruments, or a trade or business of trading in commodities.
- Net gain attributable to the disposition of property other than property held in any trade or business not described above
- Gain on the sale of personal residence in excess of the allowable exclusion (\$250,000 for single filers and \$500,000 for joint filers)

NII is reduced by any deductions allowable to such income

- Investment advisory fees – **not allowed for 2018-2025**
- Investment Interest (to the extent allowed)
- State income tax (allocated between investment & other income) – only portion deducted on Schedule A

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Foreign Reporting

Foreign bank account reporting (Form 114 – FBAR)

Any U.S. person must report annually to the IRS certain information about an account if the following conditions apply:

1. The U.S. person has a financial interest in or signature authority (or other authority that is **comparable to signature authority**) over any financial account in a foreign country; and
2. The aggregate value of all foreign financial accounts **exceeds \$10,000** (as measured in U.S. currency) **at any time during the calendar year.**

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Foreign reporting (cont'd)

FBAR Penalties

- **Non-willful failure:** \$15,611
 - **Willful failure:** **greater of** \$156,107 or 50% of balance in account
- * U.S. Supreme Court ruled penalty is imposed on per return *not* per account basis (**Bittner v. U.S.**). Saved Bittner from a \$2.7 million penalty
- * Aroeste v. United States: Taxpayer used tax treaties between U.S. and Mexico to avoid \$100k Penalties

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Foreign reporting (cont'd)

Example

Rico is a U.S. citizen, and his brother Pete maintains bank accounts in Mexico on Rico's behalf. The accounts are in Pete's name, but Pete only accesses the accounts upon Rico's instructions.

Solution

Rico has a **financial interest** in the Mexican bank accounts for FBAR reporting purposes. If Pete is a U.S. citizen or resident, Pete also will report the same accounts on his own FBAR filing.

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Federal Credits

- Child Tax Credit: Up to \$2,000 per qualifying child
- Other Dependent Credit: Up to \$500 non-refundable credit per dependent
- Child and Dependent Care Credit (% and amount significantly raised in 2022)
- Adoption Credit (up to \$15,950 in 2022)
- Saver's Credit up to \$2,000
- Premium Tax Credit for health insurance coverage obtained by low-income individuals
- Earned Income Tax Credit for low-income workers (ie. max \$63k income with 3 kids)
- Education Credits to include American Opportunity Tax Credit (up to \$2,500) and the Lifetime Learning Credit (up to \$2,000)
- Foreign Tax Credits

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Inflation Reduction Act of 2022

- Largest effort in history to promote reductions in greenhouse emissions
- Incentives for individuals and for businesses. For individuals:
 - **Clean Vehicle Credit**
 - ✓ Up to \$7,500 credit for EV, hybrid plug-ins and hydrogen vehicles
 - ✓ No longer has a 200,000 unit limit per manufacturer
 - ✓ Restricted to final assembly in North America and AGI restrictions (\$300k max for MFJ, \$225k for HOH and \$150k for all others)
 - ✓ Retail price limit (\$80k for SUV/Truck and \$55k for other vehicles)
 - ✓ Leased and used vehicles also eligible for credit
 - ✓ Credit transferable to dealer
 - ✓ Two-Vehicle limit per year
 - ✓ Keep at least 30 days and do not cancel the order

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Inflation Reduction Act of 2022 (cont'd)

- **Energy Efficient Home Improvement Credit**
 - ✓ 2022: Up to 10% of property with lifetime credit limit of \$500 (\$200 for windows)
 - ✓ 2023: Increasing to 30% of cost with up to a \$1,200 *annual* credit for qualified energy property (ie. insulation, windows and doors) and \$150 for home energy audits
 - ✓ 2023: Additional \$2,000 aggregate yearly limit on heat pumps and biomass stoves/boilers
- **Residential Clean Energy Credit**
 - ✓ Primarily solar, fuel cells and heat pumps
 - ✓ Full 30% credit on price (taken in year the system put into service)
 - ✓ California has rebates/grants but no comparable tax credit

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Deductions

Standard vs. Itemized Deductions

- Medical and Dental Expenses (above 7.5% of AGI)
- State and local taxes (\$10k max per year)
- Qualified residence interest (based on purchase date)
- Investment Interest expense
- Charitable contributions
- Personal property taxes (ie. DMV)
- Gambling losses (offset gains)
- Casualty and theft losses (only from federally declared disaster areas; PV landslide n/a)
- Miscellaneous deductions subject to 2% AGI (suspended until Jan 1, 2026)
- **CAN'T TAKE BOTH ITEMIZED AND STANDARD**

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Medical and Long-Term Care

Medical Expense Deduction

- 7.5% of AGI expense threshold to be deductible (now permanent threshold per the COVID Relief Bill)
- Deductions include medical premiums, copays, vision, surgeries, dental care, medications, glasses, at-home care, hearing aids, mileage, etc.
- Cannot deduct purchases for general health/cosmetic
- In 2023, up to \$5,960 in premiums paid for long-term care insurance per person qualifies as a deductible expense
- Retirement communities move-in high costs can be partly allocated to this deduction
- In-home pools, air conditioning, gym, wellness and saunas...

<https://www.irs.gov/individuals/frequently-asked-questions-about-medical-expenses-related-to-nutrition-wellness-and-general-health>

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Mortgage and Property/Local Taxes

State and Local taxes (SALT) limit

- Federal deduction is still limited to \$10,000; California is under old rules
- 2021 saw many states (including California) allow a loophole tax payment through passthrough entities to essentially enable an exceedance of \$10,000
- Inquire with your accountant if you have business entity that is not disregarded

Qualified Residence Interest

- Deduction is limited to new mortgages (after 12/31/2017) of \$750,000 for MFJ
- Old limit mortgage is \$1,000,000 or \$1,100,000 for California
- Primary Residence and/or a Second Home
- Automatic paper audits if interest deduction looks a bit too much
- Voss Case...

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Mortgage Court Case

Voss vs. Commissioner (2015)

- Two unmarried co-owners of real property both claimed up to \$1 million of home acquisition debt and \$100,000 of home equity debt (\$2.2 million total deduction)
- IRS argued the deduction should be limited to only \$1.1 million total, not each.
- IRS Lost
- The Court stated, “We...agree the debt limit provisions result in a marriage penalty.”

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Charitable Contributions

IRAs & Charity (Qualified Charitable Distribution)

- Individuals 70½ and older may make tax-free distributions (up to \$100,000) to public charities in lieu of required minimum distributions (RMDs)
 - ✓ Reduces AGI which changes rules for phase-outs
 - ✓ Not subject to charitable contributions 50% limitation
 - ✓ Does not apply to private foundations
 - ✓ 1099-R does not report QCDs (**DO NOT include in income**)
- \$100k limit to index for inflation starting in 2024 (\$105,000)

AGI=Adjusted Gross Income

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Charitable Contributions

IRAs & Charity (Qualified Charitable Distribution)

- Secure Act 2.0 allows for one-time QCD up to \$50,000 to a charitable gift annuity, charitable remainder unitrusts and charitable remainder annuity trusts
 - ✓ \$50k counts toward overall \$100k limit (\$105k limit in 2024)
 - ✓ Deduction is limited based on payment structure

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Charitable Contributions

50%, 30% or 20%

- 50% limit applies to most donations to 501(c) organizations such as churches, schools, hospitals, government entities, scientific and other causes
- 30% limit applies to gifts of capital gain property or gifts to certain veteran organizations, fraternal societies and certain private foundations
- 20% limit applies to gifts of capital gain property to non-50% charities (i.e. most family-funded private foundations)
- Carried over 5 years within each category or 15 years for qualified conservation contributions

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Charitable Contributions

Documentation for charitable contributions has been tightened up

- The IRS is challenging many taxpayers' charitable contribution deductions
- It is imperative to maintain receipts for qualified charitable contributions such as a cancelled check, receipt or a letter showing the name of the charity, date of contribution and amount
- Check registers, credit card statements or personal notations are no longer sufficient to support charitable contributions (IRC Section 170(f)(8))
- Contributions of \$250 or more must have written acknowledgement dated before the end of the year from the donee (upon audit, must have letter dated by tax return filing)

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Charitable Contribution Substantiation Information Required		
Amount	Documentation	Substantiation
Cash donations of less than \$250	Bank record	Includes canceled check, bank, credit union, or credit card statement showing name and transaction posting date (credit card)
	Written communication from charity	Name of charity, date, and amount of contribution
	Payroll deduction	Pledge card and pay stub, W-2 wage statement, or other document furnished by employer, including total amount withheld for charity
Cash donations of \$250 or more	Written acknowledgment from the charity for each donation	Name of charity, date, amount paid, description, and estimate of value of goods or services provided by the charity
Noncash contributions of less than \$250	Receipt from donee or reliable records	
Property donations greater than \$250 and not more than \$500	Contemporaneous written acknowledgment	Name of charity, date, amount paid, and description (but not value) of goods or services provided by the charity
Property donations greater than \$500 and not more than \$5,000	Written acknowledgement	All of the above, plus: <ul style="list-style-type: none"> • How you got the property; • Date you got the property; and • Cost or other basis Must file Form 8283
Donations of \$5,000 or more excluding stock, certain works of art, and autos	Qualified appraisal	Attach appraisal to return and complete page 2 of Form 8283

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Charitable Contributions

Tax Court Cases

- **Brown v. Comm., TC Memo 2016-39:** Church founder and pastor was denied charitable deductions above limits as he only had after-the-fact generated receipts.
- **Albrecht v. Comm, TC Memo 2022-53:** Taxpayer donated 120 Native American artifacts to a museum but did not properly document the donation per Section 170. The deduction was denied.

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IRS Dirty Dozen

Annual list of tax scams

- Employee Retention Credit claims
- Phishing and Smishing (IRS contacts you initially by mail, not email/phone)
- Online account setup help
- False fuel tax credit claims
- Fake charities
- Unscrupulous tax return preparers (“Ghost” preparers)
- Social media advice
- “Offers in Compromise” tax mills
- Syndicated Conservation Easements (abusive treatment)
- Offshore Schemes
- Monetized Installment sales
- Cybersecurity attacks (spoofing and/or filing false returns)

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Other Miscellaneous Items

Virtual Currency

- Per Notice 2014-21, Virtual Currency is treated as property, not as currency.
- 1040 form requires all taxpayers to answer a question if they owned, received as gift, sold or disposed of virtual currency during the 2023 tax year (top of 1040)
- Year 2023 and later, brokers must report crypto transactions to the IRS and the investor on Form 1099-B.
- SEC just approved bitcoin ETFs on 1/20/2024.
- In 2021, federal courts in California and Massachusetts agreed with the IRS that crypto exchanges have to release detailed personal information from 2016 on:
 - ✓ “Soft” warning letters being issued by the IRS (Letter 6173 and 6174)
 - ✓ CP2000 letters indicate prior amounts due (do not ignore)
- Jarrett v. US (2023): Taxpayer tried to argue against the property classification.
He lost.

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California

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California

- California has not yet enacted a wealth tax or a long-term care insurance tax...yet
- **One-Time Penalty Abatement:** In 2022, AB194 enacted a one-time late-filing or late-payment penalty abatement program for individual taxpayers (once in a lifetime)
- **Individual Health Care Mandate:** Required for all California residents to have health insurance unless exempted (Indian tribe member, foreigners, etc.). Penalty is \$900 per adult and \$450 per child with annual max of \$2,700.
- **Calsavers:** By June 30, 2022, employers with five or more employees are required to have a retirement plan in place for workers. By December 31, 2025, requirement increases to one or more employees.
- **AB150:** Helped pass-through business owners to pay a 9.3% tax on net income to apply to increase tax deduction above \$10,000 SALT limitation.

SALT – State and Local Taxes

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California Retirement and Remote Work

Retirement Outside California

- California laws prohibit taxing nonresident's income from pension and retirement plans, even if earned/contributed while a resident, if you move out of state prior taking \$.
- Also applies to nonqualified deferred compensation plans or deferred payments (Think Shohei Ohtani)

Remote Work

- Remote W2 employees working outside the state for a California company also are not subject to CA income tax.
- 1099 contractors...different story. Sourcing rules apply

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California Community Property Laws

Community Property State

- Income generated from community property is community income (50/50 split)
- Separate property is property owned prior to marriage or received during marriage by gift/inheritance.
- Need valid separate (pre-/post-nuptial) agreement to adjust.
- Situations arise with student loan forgiveness, divorce, living in different states, etc.
- Split returns with community property almost always problematic with the IRS and FTB. Please use a professional preparer.

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Property in California

- **Measure ULA:** As of April 1, 2023, “Mansion Tax” puts a 4% tax on Los Angeles property sales above \$5 million and 5.5% tax on property sales above \$10 million.
- **Short-Term Rentals:** Starting in 2024, owners of short-term rentals will need to complete Form BOE-571-STR to report business personal property and get taxed on it.
- **Proposition 19:** Passed in 2020, dramatically limited property tax relief on generational property transfers.
 - Receiving child must now use residence as principal within 1 year of transfer to exclude only the first \$1 million of assessed value for property taxes (and stays living there)
 - Beginning in 2023, this \$1 million exclusion is indexed for inflation.
 - Does not apply to residences held by entities (ie. LLCs) or irrevocable trusts. It does apply to residences in living trusts though.
 - No limit in number of transferred homes.

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Property in California

➤ **Proposition 19:** 55 year-old+

- Taxpayers over 55 years, severely/permanently disabled, victim of wildfire or other natural disaster can transfer their property tax adjusted base-year value to a replacement property
- Transfer allowed up to 3 times (unlimited for disaster victims)
- Applies to replacement properties with higher FMV now as well:
 - Lower FMV than original property: Base assessed value only.
 - Higher FMV than original property: Base plus the difference in FMV

Appealing Property Tax valuation comes with Risk:

- RAR2 Villa Marina Center case v. Los Angeles
- Shopping Center valuation set at \$94 million by assessor after \$100 million purchase. Taxpayer argued for \$48 million and assessor settled at \$113 million.

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Filing Requirements

Individual Income Tax Return must be filed if:

- Self-employment income is \$400 or more, or
- Income is over the standard deduction
- MFS if taxpayer's gross income is at least \$5 (standard deduction n/a)
- Taxpayer received HSA or MSA distributions
- Taxpayer owes any special taxes reported on Schedule 2

Nanny Tax must be prepared if:

- Payments exceed \$2,600 (\$2,700 for 2024) on Schedule H/Payroll
- Applies to all household employees (health care, maids, drivers, gardeners, babysitters, etc.)

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Filing Requirements - Dependents

Filing Requirements for Dependents		
Filing status	Dependent's income consists of ...	
	(A) Only earned income	(B) Only unearned income
Single		
Under age 65 and not blind	\$13,850	\$1,150
Either age 65 or older or blind	\$15,700	\$2,900
Age 65 or older and blind	\$17,550	\$4,650
Married*		
Under age 65 and not blind	\$13,850	\$1,150
Either age 65 or older or blind	\$15,350	\$2,550
Age 65 or older and blind	\$16,850	\$3,950
* If a dependent's spouse itemizes deductions on a separate return, then the dependent must file a return if the dependent has \$5 or more of gross income (earned and/or unearned)		

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Tax Returns 2023

- The IRS will **begin** accepting and processing **electronically** filed tax returns on **Monday, January 29** and will issue refunds within ~21 days
- Paper tax returns will take much longer to process
- IRS Free File available for taxpayers with annual incomes of \$79,000 or less (California offers CalFile, but look at restrictions)

Normal Filing deadline for 2023 tax returns (unless extended)

Monday, April 15, 2024

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Tax Organizer

PDFs available to help plan for taxes this year



2021

Questions (Page 1 of 5)

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The following questions pertain to the 2021 tax year. For any question answered Yes, include supporting detail or documents.

Personal Information:

	Yes	No
Did your marital status change?	<input type="checkbox"/>	<input type="checkbox"/>
Are you married?	<input type="checkbox"/>	<input type="checkbox"/>
If Yes, do you and your spouse want to file separate returns?	<input type="checkbox"/>	<input type="checkbox"/>
If No, are you in a domestic partnership, civil union, or other state-defined relationship?	<input type="checkbox"/>	<input type="checkbox"/>
Can you or your spouse be claimed as a dependent by another taxpayer?	<input type="checkbox"/>	<input type="checkbox"/>
Did you or your spouse serve in the military or were you or your spouse on active duty?	<input type="checkbox"/>	<input type="checkbox"/>

Dependents:

Were there any changes in dependents from the prior year?	<input type="checkbox"/>	<input type="checkbox"/>
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Note: Include non-child dependents for whom you provided more than half the support.

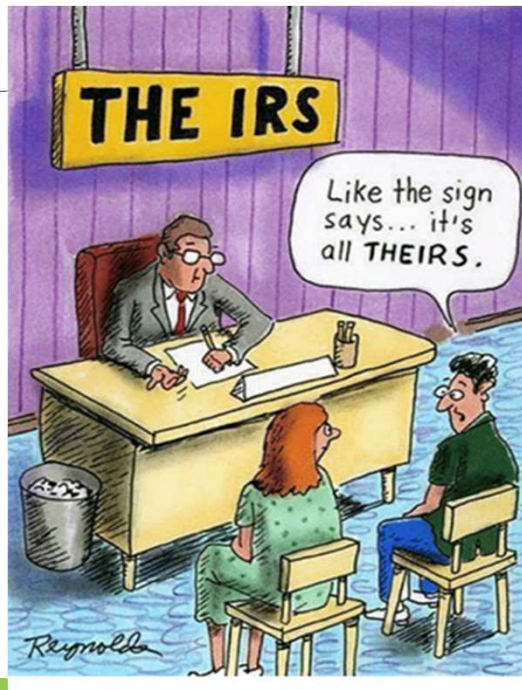
ITEMS YOUR CLIENT SHOULD BRING TO A TAX INTERVIEW

1. IRS Notice 1444-C and information regarding the amount of the third stimulus check.
2. IRS Letter 6419 and information regarding the amount of Advanced Child Tax Credit payments received.
3. 1099-Ks for merchant charges. Reconcile amounts on 1099s to amounts reported by the client for Schedules C or E (or business entity return).
4. 1099-Bs for sales of stock or securities. Reconcile amounts on 1099s to amounts shown on client reports, if any.
5. Property tax statements: Look at property tax bills and estimate of value of real property in California to verify that the county has properly computed tax based on reduced property values.
6. Property tax statements: Look for items that are not deductible as property taxes, such as HERO or PACE payments.
7. *Revised government documents (W-2, 1099s) for federal/California differences. Also be*

Some printed copies available on back table. Can also request from Sandy as needed.

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Thank you!

Questions?

Disclosure

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. To determine what is appropriate for you, please consult a qualified professional.

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