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Tax Newsletter

Five Tax Breaks for Families
Tax-saving opportunities in 2023

The current tax law is relatively family-friendly. Just consider the following five tax breaks that are on the books right now.

1. Child Tax Credit: The Child Tax Credit (CTC) is a partially refundable tax credit available to parents with dependent children under age 17. For 2023, the CTC is $2,000 per qualifying child if your modified adjusted gross income (MAGI) is $200,000 or less for single filers; $400,000 for joint filers. The maximum refundable portion is $1,600.

If your MAGI exceeds the annual limits, the credit is reduced by $50 for each $1,000 above the threshold.

2. Dependent care credit: Not to be confused with the Child Tax Credit, the dependent care credit can be claimed for costs of caring for under-age-13 children while you (and your spouse, if married) work.

The credit for parents with an adjusted gross income (AGI) above $43,000 is 20% for the first $3,000 of qualified expenses for one child or $6,000 for two or more children. Thus, the maximum credit is $600 or $1,200, respectively. This credit may also be claimed for qualified care expenses for a dependent relative, such as an elderly parent.

3. Higher education credits: Generally, parents of children in college can choose between one of two higher education credits, subject to phase-outs.

- AOTC: The maximum annual American Opportunity Tax Credit (AOTC) of $2,500 is available for up to four years of study for each student in the family. For example, if you have two kids in college, the maximum AOTC is $5,000.

- LLC: In comparison, the maximum Lifetime Learning Credit (LLC) is $2,000. Also, unlike the AOTC, the LLC applies to each taxpayer. So, for two children in school, the maximum credit remains $2,000. On the plus side, the LLC is available for all years of study—not just four years.

Each credit is phased out. For 2023, the phase-out ranges are between $80,000 and $90,000 of MAGI for single filers; $160,000 and $180,000 for joint filers.

4. Student loan interest: Does your child have student loans for college? The tax law allows a deduction for payments of student loan interest up to an annual limit.

If certain requirements are met, the student can deduct the first $2,500 of interest paid for qualified expenses like tuition and fees. But this deduction is also phased out. For 2023, the phase-out begins at $75,000 of MAGI for single filers; $150,000 for joint filers.

The deduction, which is only available to someone legally obligated to repay the loan, is claimed above-the-line.

5. Adoption credit: For 2023, parents can claim a maximum credit of $15,950 for qualified expenses incurred to adopt an eligible child. An eligible child is one who is under age 18 or physically or mentally incapable of self-care.

The credit begins to phase out for taxpayers with a MAGI above $239,230. Once your MAGI reaches $279,230, your credit is zero.

Generally, the credit is available in the year that qualified expenses are paid or incurred. However, if the adoption is not finalized by the end of the year, the credit may be claimed in a subsequent year.

In summary: These are just five ways a family can save taxes in 2023. Discuss your circumstances with your professional tax advisor.

Seeking Cyber Security for Your firm
Steps to ward off dangerous invasions

Is your small business adequately protected from cyber attacks? Obviously, you are not at the same risk as vital government or military targets, but you should still adopt security measures and update those already in place. Your very livelihood could be at stake.

Just consider the latest statistics. Notably, the total damage caused to the business community by cyber attacks in 2022 was a staggering $6 trillion. It is expected to increase significantly in 2023. Do not think that you are immune.

Background: Essentially, cyber security is devoted to protecting the proprietary information of your firm from various online threats by hackers and other criminals. Because cyber crooks are becoming increasingly sophisticated, the threat is growing. With new and improving technology at their disposal, thieves have learned how to initiate automated attacks at reduced costs. Thus, keeping pace with defensive measures can pose a real challenge.

Cyber attacks take many forms, but here are several common elements to watch out for.

Malware: This is the name given to programs or files that can damage or invade computers and other devices. It includes intrusive methods such as worms, viruses, spyware and Trojan horses.

Ransomware: Ransomware is a version of malware that goes one step further by locking your system's files, typically through encryption. As a result, the crook requires you to pay a "ransom" to decrypt the files and provide access.

Social engineering: As opposed to malware, social engineering is an attack launched through human interaction. Usually, a user is tricked or coerced into violating security procedures to make information available.

Phishing: This is a type of online fraud. In a common variation, you receive an email that looks like it was sent from a reputable and known source, often with a recognizable logo. The email asks you to click on a link. It enables the phisher to hook sensitive data like bank account or credit card logins.

How can you best protect your company? Unfortunately, there is no single proven method, nor does one size fit all. The best approach depends on your exact situation. Nevertheless, there are several practical suggestions you may follow.

- Be proactive instead of reactive. If you wait for cyber attacks to occur and then try to take action, it may be too late. Put a plan in place before an incident occurs.
- Do not assume that your current protection will continue to suffice. This is not a “one and done” situation. Keep security for all electronic devices—including computers, laptops, phones, tablets and servers–up to date. Change passwords regularly.
- Educate employees. They must know about all the risks and dangers. Warn them about clicking on links from sources that cannot be trusted. Emphasize security over expediency.
- Block cyber crooks through technological innovations. Unless you are an experienced professional, rely on security experts to handle the details. Do not try to be a hero!

Last step: There are many products and services to choose from. If a professional is not managing cyber security internally, seek recommendations from your business advisors.

Does a CRT Make Sense for You?
Benefits of estate planning device

The charitable remainder trust (CRT) has remained a viable estate planning option for decades. Now a new law adds an extra twist to CRTs for some donors to consider.

How it works: Briefly stated, you transfer appreciated property like a business interest to the CRT and designate a beneficiary to receive income from the trust for life or a period of years. For instance, you might name yourself or your spouse as the income beneficiary of the trust. The beneficiary pays tax on the amounts received from the trust. At the end of the term, the property goes to the charity named in the trust documents.

This can accomplish both long-term and short-term objectives. For instance:

- A donor who itemizes deductions can claim a current tax deduction for the value of the remainder interest that passes to the charity. The value of the donation is based on government tables.

- The donor may also avoid a potentially large capital gains tax on the sale of appreciated property. Currently, the maximum tax rate on long-term capital gains is 20% (15% for certain taxpayers).

- The designated beneficiary can rely on a steady stream of income from the CRT to sustain them in retirement.

- The CRT may be combined with a "wealth replacement trust" to achieve additional estate planning benefits.

Suppose the tax savings generated by the CRT fund a wealth replacement trust in whole or in part. The trust can then use the money to purchase life insurance to replace the wealth donated to charity. When all is said and done, your heirs come out even or ahead of where they would have been if you had not set up the CRT in the first place.

Although there are several variations, the two main types of charitable remainder trusts are **CRATs** (charitable remainder annuity trusts) and **CRUTs** (charitable remainder unitrusts). No matter which one you use, the income beneficiary must be entitled to an annual payment each year for life or for a period of no more than 20 years.

With a CRAT, the payment must be a fixed amount of at least 5% of the initial value of the trust property, while a CRUT requires payment of a fixed percentage (not less than 5%) of trust assets. In either event, a trust will not qualify as a CRT if the annual payout exceeds 50%. Also, the charity must receive at least 10% of the donated assets.

New tax incentive: An individual age 70½ or older can transfer tax-free up to $100,000 directly from an IRA to a charity tax-free. It counts as a required minimum distribution (RMD). Under the new SECURE 2.0 law, you may include in this technique a one-time gift up to $50,000 to a CRT or charitable gift annuity, beginning in 2023. This amount will be adjusted for inflation.

Finally, be aware that a CRT is **irrevocable**. In other words, you cannot change your mind and take your assets back. Also, there are fees for establishing and maintaining the trust.

Reminder: CRTs are not for everyone. Consult with your professional advisors concerning your situation.

Three Top Sources of Retirement Income
Will you have enough to live on?

Where is the income you need to sustain you though retirement going to come from? If you are like most people, there are three primary sources that may be able to sustain you.

1. Social Security benefits: Generally, the size of your retirement benefit is based on your earnings throughout your working years and the age when you retire. For instance, if you retire at age 62, you will receive only 75% of the full amount of retirement benefits available to you at full retirement age (FRA). The FRA for someone turning age 62 in 2023 is 67 years old.

You can obtain more details about your personal status from the Social Security Administration (SSA). The SSA will tell you what you will receive in Social Security benefits when you retire. Similarly, you can obtain an estimate of your spouse's benefits, if you are married.

Note: If you continue to work during retirement, you may lose some of your Social Security benefits, based on the "earnings test." For those attaining their FRA after 2023, the annual exempt amount is $21,240. You forfeit $1 for every $2 over this limit. For those attaining their FRA in 2023, the annual exempt amount is $56,520. You forfeit $1 for every $3 over this limit until you reach FRA.

2. Qualified retirement plans: One of the best ways to save for retirement is through a qualified retirement plan. Usually, the contributions accumulate earnings tax-deferred until the money is withdrawn. In addition, you can take advantage of favorable tax provisions for some distributions. These plans come in many different shapes and sizes. The list includes popular 401(k) plans, pension and profit-sharing plans and plans targeted to small businesses like SIMPLEs (Savings Incentive Match Plans for Employees) and SEPs (Simplified Employee Pensions).

Be aware that the exact rules and contribution limits vary from plan to plan. Obtain expert advice with respect to your situation.

3. Individual savings/investments: Assuming Social Security and retirement benefits are not enough—and there is a good chance they will not be—the balance of your retirement income may have to be supplied by savings and investments. For example, you may be able to feather a retirement nest egg by investing money in stocks and bonds, mutual funds, money market funds, annuities, real estate or other investment vehicles.

Do not overlook amounts you have stashed away in bank accounts and U.S. Savings Bonds. In addition, you may continue to receive income from existing business interests. You also may be able to tap into the cash value of a life insurance policy (with certain limitations).

Finally, if you sell your principal residence when you retire, you may benefit from a special tax exclusion. If certain requirements are met, the first $250,000 of profit may be excluded from federal income tax by a single filer or $500,000 by joint filers.

Practical advice: Do not put off saving for the future. The longer you wait, the harder it will be to secure a comfortable retirement.

Facts and Figures
Timely points of particular interest

NTA Reports In—As mandated by law, **National Taxpayer Advocate** (NTA) Erin M. Collins has released a mid-year report to Congress. No surprise—the NTA is once again urging the IRS to upgrade its technology, even though tax-filing season went relatively smoothly. Notably, as of April 23, 2023, the IRS had received 1.2 million paper returns, down from 6.2 million the previous year. The NTA's report also establishes objectives for the upcoming fiscal year. Stay tuned.

Making Your Pitch—Domingo German of the New York Yankees pitched the 24th perfect game in major league baseball history on June 28. What does it mean for the Dow Jones Industrials Average (DJIA)? According to Barron's, the DJIA has been higher for the year following a perfect game 81% of the time, averaging almost a 13% return for that time. **Caution:** It is fun to play with the numbers, but rely on sound fundamentals for actual investments.