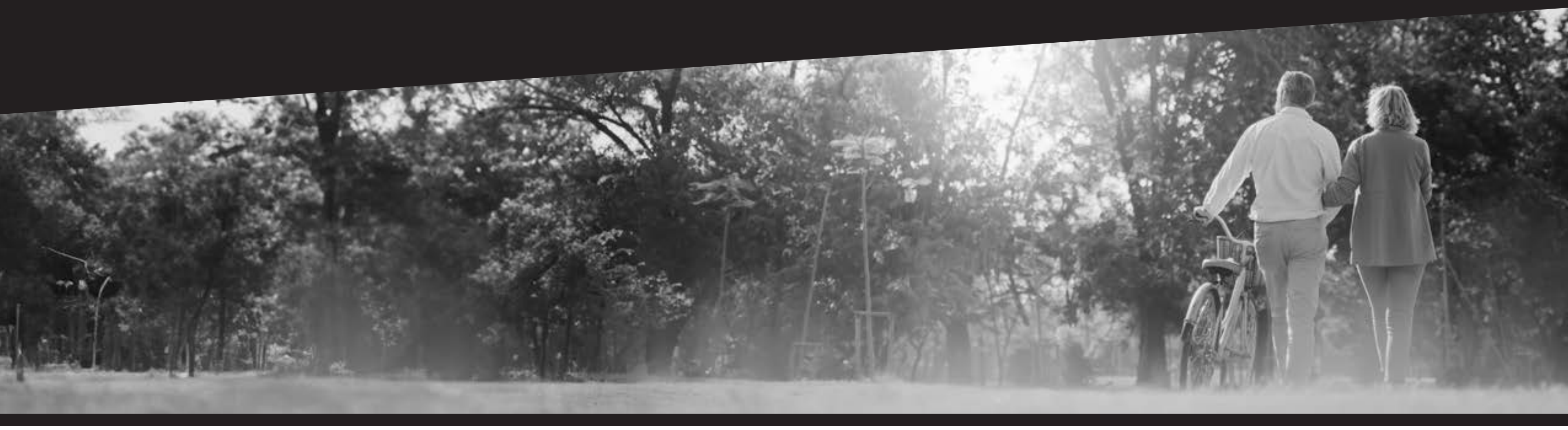
CORNERSTONE
FINANCIAL SOLUTIONS, INC.

Tax Report

MARCH 2024



Gordon Wollman
MS-Financial Planning
CFP®, ChFC, CMFC®, ChFEBC℠, CRPS®, AWMA®, AAMS®
FOUNDER & CEO, CFS
WEALTH ADVISOR, RJFS

If your income is a pie, then the federal government takes a hefty slice each year. A 2020 report from the Tax Foundation found a single average wage earner in the United States pays about 29.8 percent of their income in federal taxes. That's about $18,368 in federal taxes and does not include state and local taxes. The calculations include (https://taxfoundation.org/us-tax-burden-on-labor-2020/):

- INCOME TAX: **15.1%**
- EMPLOYEE PAID PAYROLL TAXES: **7.1%** *(Payroll taxes fund Social Security and Medicare.)*
- EMPLOYER PAID PAYROLL TAXES*: **7.6%**

One of our goals as your wealth management team is to identify as many tax saving opportunities and strategies as possible to help you keep more of what you make. In this special report you'll find information on some of the broader tax laws and tax reduction strategies and suggestions to help you avoid common mistakes. Look it over, circle anything you have questions about, and feel free to share it with your tax professional.

Remember, not all ideas will be appropriate for you. And tax strategies and ideas that have worked in the recent past might not even be available under today's new tax laws. Your tax professional can help you consider how one strategy may affect another and calculate the income tax consequences (both state and federal).

To help reduce the stress of tax season, feel free to have your accountant or tax preparer contact us directly for any needed investment information. We are always happy to coordinate with your other financial professionals to help minimize your workload.

As always, if there's anything we can do to help, please let us know.

CALL **605-357-8553** in Sioux Falls
CALL **605-352-9490** in Huron
EMAIL **cfsteam@mycfsgroup.com**

NOTE: *State income tax laws could be different from federal income tax laws. Visit https://tax.findlaw.com for a wide range of information and links to tax forms for all 50 states. All examples mentioned in this report are hypothetical and meant for illustrative purposes only.*

INSIDE

TAX LAW UPDATES

- ✓ Tax brackets have been slightly adjusted.
- ✓ Standard deductions have slightly increased.
- ✓ The cap on state and local tax (SALT) deductions remains.
- ✓ Long-term capital gains are still taxed at favorable rates.
- ✓ There is still a 3.8% Net Investment Tax.
- ✓ Charitable donations are available to those who can itemize deductions.
- ✓ You might still be able to contribute to retirement plans.
- ✓ Medical expense deductions are capped at 7.5% of AGI for 2023.

FOUR COMMON

TAX FILING MISTAKES

THAT AMERICANS MAKE

MISTAKE #1

FILING TOO EARLY

It may surprise you, but many people are so anxious to get their filing done they file their taxes before receiving all the proper documentation they need to ensure their information is accurate. This can lead to mistakes and processing delays.

MISTAKE #2

MISSING ELIGIBLE CREDITS AND DEDUCTIONS

You may be eligible for many credits and deductions. But some can be difficult to figure out, like the Earned Income Tax Credit, the Child Tax Credit, energy tax credits, and various itemized deductions. This is one area where working with a good tax professional can really pay off.

MISTAKE #3

FORGETTING TO CONTRIBUTE TO AN IRA

Some taxpayers forget to contribute to an Individual Retirement Account each year. These contributions are tax-deferred, meaning they can help reduce your taxable income. For the 2023 tax year, the contribution limit is $6,500 for those under age 50 and $7,500 for those over.

MISTAKE #4

NOT REPORTING ALL INCOME

Many taxpayers only think of their paycheck when reporting income, forgetting to factor in dividends, bank interest, and other income sources. This information is critical for calculating both the credits and deductions you can take as well as the refund you are entitled to.

2023 TAX RATES

Tax Rate	Single	Married/Joint & Widow(er)	Married/Separate	Head of Household
10%	$0 to $11,000	$0 to $22,000	$0 to $11,000	$0 to $15,700
12%	$11,001 to $44,725	$22,001 to $89,450	$11,001 to $44,725	$15,701 to $59,850
22%	$44,726 to $95,375	$89,451 to $190,750	$44,726 to $95,375	$59,851 to $95,350
24%	$95,376 to $182,100	$190,751 to $364,200	$95,376 to $182,100	$95,351 to $182,100
32%	$182,101 to $231,250	$364,201 to $462,500	$182,101 to $231,250	$182,101 to $231,250
35%	$231,251 to $578,125	$462,501 to $693,750	$231,251 to $346,875	$231,251 to $578,100
37%	$578,126 or more	$693,751 or more	$346,876 or more	$578,101 or more

Source: IRS.gov

Understanding Marginal Tax Rates

Determining your tax bracket is not as simple as just adding up your total income and checking a tax table. First, you need to calculate your income (sometimes referred to as “adjusted gross income”) and then adjust for any deductions to find your final taxable amount.

Once you determine your taxable income amount, it is critical to know that your income will be taxed at different rates. For example, for someone married filing jointly in 2023 with $95,000 of taxable income, the first $22,000 is taxed at 10%, the $67,450 at 12%, and $5,550 at 22%. An important concept to understand is that these same tax filers are in a “marginal tax bracket” of 22%. That is, their last dollar earned is taxed at that 22% tax rate.

If you are not sure how best to file, ask your tax preparer or review IRS Publication 17, Your Federal Income Tax, which is a complete tax resource. It contains helpful information such as whether you need to file a tax return and how to choose your filing status.

Capital Gains and Losses

With different tax rates for different types of gains and losses it may pay to familiarize yourself with some of the ordering rules:

- Short-term capital losses must first offset short-term capital gains.
- Long-term capital losses must first offset long-term capital gains.
- If there are net short-term losses, they can be used to offset net long-term capital gains.
- If there are net long-term losses, they can be used to offset net short-term capital gains.
- If all gains and losses net to an overall loss, up to $3,000 can offset ($1,500 if married filing separately) ordinary income.
- Remaining unused capital losses can be carried forward to later tax years and then considered in the same manner as described above.

TAX TIP: Please remember to look at your 2022 income tax return Schedule D (page 2) to see if you have any capital loss carryover for 2023. This is often overlooked, especially if you are changing tax preparers.

2023 LONG TERM CAPITAL GAINS TAX RATES

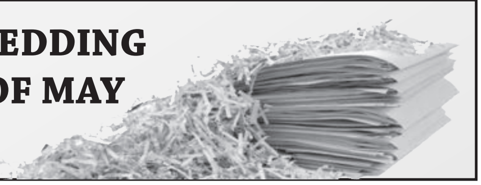
TAX RATE	SINGLE	MARRIED, FILING JOINTLY	HEAD OF HOUSEHOLD
0%	0 to $44,625	0 to $89,250	0 to $59,750
15%	$44,626 to $492,300	$89,251 to $553,850	$59,751 to $523,050
20%	$492,301 and up	$553,851 and up	$523,051 and up

DOUBLE-CHECK YOUR CAPITAL GAINS OR LOSSES.

If you sold an asset outside of a qualified account during 2023, you most likely incurred a capital gain or loss. Sales of securities showing the transaction date and sale price are listed on the 1099 generated by the financial institution. However, your 1099 might not show the correct cost basis or realized gain or loss for each sale. You will need to know the full cost basis for each investment sold outside of your qualified accounts, which is usually what you paid for it, but this is not always the case.

COMPLIMENTARY SHREDDING DURING THE MONTH OF MAY

Bring in a few items or a few boxes!



Long-Term Capital Gains

Investment Income: Long-term capital gains are taxed at more favorable rates compared to ordinary income - for qualified dividends, investors will continue to be taxed at 0, 15% or 20%.

- Review your investments that have unrealized long-term capital gains and sell enough of the appreciated investments to generate enough long-term capital gains to push you to the top of your federal income tax bracket.
- Could be helpful if you are in the 0% capital gains bracket and do not have to pay any federal taxes on this gain.
- You can buy back your investment the same day, increasing your cost basis in those investments. (If you sell them in the future, the increased cost basis will help reduce long-term capital gains.) You do not have to wait 30 days before you buy back this investment—the 30-day rule only applies to losses, not gains.

Note: *This non-taxable capital gain for federal income taxes might not apply to your state.*

TAX TIP: Remember that marginal tax rates on long-term capital gains and dividends can be higher than expected. The 3.8% surtax can raise the effective rate to 18.8% for single filers with income from $200,000 to $492,300 and 23.8% for single filers with income above $492,300 in 2023. It can raise the effective rate to 18.8% for married taxpayers filing jointly with income from $250,000 to $553,850 and to 23.8% for married taxpayers filing jointly with income above $553,850.

Roth IRA Conversions

A Roth IRA conversion - when you convert part or all of your traditional IRA into a Roth IRA - is a taxable event with pros and cons. The amount you converted is subject to ordinary income tax. It might also cause your income to increase, subjecting you to the Medicare surtax.

- Roth IRAs grow tax-free and qualified withdrawals are tax-free in the future, a time when tax rates might be higher.
- You do not have to convert all of your IRA to a Roth, whether you should or not depends on your particular situation. It is best to prepare a tax projection and calculate the appropriate amount to convert.
- Roth IRA conversions are not subject to the pre-age 59½ penalty of 10%.
- Many 401(k) plan participants (if their plan allows) can convert the pre-tax money in their 401(k) plan to a Roth 401(k) plan without leaving the job or reaching age 59½.

Required Minimum Distributions (RMD)

For the purposes of tax year 2023, the Required Minimum Distributions age is 73. It was age 70.50 until the SECURE Act increased it in 2020. The most recent SECURE 2.0 Act increased the age to 73 in 2023. It's scheduled to increase to age 75 in 2033.

Changes To Alternative Minimum Tax (AMT) Exemption Levels

Exemption levels for 2023 are:

SINGLE	MARRIED, FILING JOINTLY
0 to $81,300	0 to $126,500

These exemption levels begin to phase out at $578,150 for single individuals, and $1,156,300 and $1,505,600 for married couples filing jointly.

3.8% Medicare Investment Tax, a.k.a the Medicare Surtax

If you earn more than $200,000 as a single or head of household taxpayer, $125,000 as married taxpayers filing separately or $250,000 as married joint return filers, then this tax applies to either your modified adjusted gross income or net investment income (including interest, dividends, capital gains, rentals, and royalty income), whichever is lower. This 3.8% tax is in addition to capital gains or any other tax you already pay on investment income.

Pay attention to timing, especially if your income fluctuates from year to year or is close to the $200,000 or $250,000 amount. Consider realizing capital gains in years when you are under these limits. The inclusion limits may penalize married couples, so realizing investment gains before you tie the knot may help in some circumstances. This tax makes the use of depreciation, installment sales, and other tax deferment strategies suddenly more attractive.

Medicare Health Insurance Tax on Wages

If you earn more than $200,000 in wages, compensation, and self-employment income ($250,000 if filing jointly, or $125,000 if married and filing separately), the Affordable Care Act levies a special additional 0.9% tax on your wages and other earned income. You'll pay this all year as your employer withholds the additional Medicare Tax from your paycheck. If you're self-employed, plan for this tax when you calculate your estimated taxes.

If you're employed, there's little you can do to reduce the bite of this tax. Requesting non-cash benefits in lieu of wages won't help—they're included in the taxable amount. If you're self-employed, you may want to take special care in timing income and expenses (especially depreciation) to avoid the limit.

HYPOTHETICAL TAX-SAVING STORY

After 24 years in the medical field, Jack retired and he began thinking about his estate and his legacy. He wanted to do more than just bequeath his possessions in a will. So he planned in advance to ensure that his estate, and his family's future, would be protected from losses, especially through taxes.

Working together with his financial advisor, attorney and tax advisor over the years, Jack crafted an estate plan that placed high-value assets vulnerable to income and capital gains taxes into a trust for his family. So while those assets continued to generate income for Jack's beneficiaries, they were no longer part of his taxable estate. Jack also transferred existing life insurance policies into the trusts, naming family members as beneficiaries, to provide the cash needed to settle the estate taxes when it came time to distribute the assets to them. With his days in the ER now over, Jack knew his new phase in life would begin with everything he owned in its rightful place.

DEDUCTIONS AND TAX STRATEGIES

2023 Standard Deduction

As you know, when you file your taxes, you can either claim a standard deduction or dive into the details and itemize your deductions. Married couples filing separately must both take the same type of deduction. Since the passing of the Tax Cuts and Jobs Act back in 2017, most people choose the standard deduction.

Due to inflation, the IRS increased the standard deduction slightly for 2023 taxes:

Single: $13,850 (up from $12,950)
Married couples filing jointly: $27,700 up from $25,900
Heads of households: $20,800, up from $19,400

If you are filing as a married couple, an additional $1,500 is added to the standard deduction for each spouse age 65 and older or blind. If you are single, an additional deduction of $1,850 can be made.

Reinvested Dividends

Not a deduction, but an important calculation that can save investors a bundle. If you have mutual fund dividends that are automatically used to buy extra shares, remember that each reinvestment increases your tax basis in that fund. That reduces the taxable capital gain (or increases the tax-saving loss) when you redeem shares. We recommend you keep good records.

If you forget to include reinvested dividends in your basis, your dividends end up being taxed twice - once in the year when they were paid out and immediately reinvested and later when they are included in the proceeds of the sale.

If you are not sure what your basis is, ask the fund or us for help. Funds often report to investors the tax basis of shares redeemed during the year. Regulators currently require that for the sale of shares purchased, financial institutions must report the basis to investors and to the IRS.

HELP A FRIEND

Not all financial planners review annual tax returns to coordinate their client's investments, financial planning, and tax-strategy. Feel free to let your friends and family know it's a valuable service they should get from whoever they work with. Or have them call us for a complimentary, no-obligation financial check-up.

Retirement Account Contributions

To qualify for the full annual IRA deduction you must either:

1. not be eligible to participate in a company retirement plan, or
2. if you are eligible, there is a phase-out from $73,000 to $83,000 of MAGI for singles and from $116,000 to $136,000 for married taxpayers filing jointly.

RETIREMENT PLAN	2023 LIMIT
Elective deferrals to 401(k), 403(b), 457(b)(2), 457(c)(1) plans	$22,500
Contributions to defined contribution plans	$66,000
Contributions to SIMPLEs	$15,500
Contributions to traditional IRAs	$6,500
Catch-up Contributions to 401(k), 403(b), 457(b)(2), 457(c)(1) plans	$7,500
Catch-up Contributions to SIMPLEs	$3,500
Catch-up Contributions to IRAs	$1,000

If you are not eligible for a company plan but your spouse is, your traditional IRA contribution deduction is phased out from $218,000 to $228,000. For 2023, the maximum IRA contribution you can make is $6,500 ($7,500 if you are age 50 or older by the end of the calendar year). For self-employed persons, the maximum annual addition to SEPs and Keoghs for 2023 is $66,000.

Although contributing to a Roth IRA instead of a traditional IRA will not reduce your 2023 tax bill (Roth contributions are not deductible), it could be the better choice because all qualified withdrawals from a Roth can be tax-free in retirement. Withdrawals from a traditional IRA are fully taxable in retirement. To contribute the full $6,500 ($7,500 if you are age 50 or older by the end of 2023) to a Roth IRA, you must have MAGI of $138,000 or less a year if you are single or $218,000 if you are married and file a joint return.

If you have earned income and are past the age of 70 ½ you can contribute to traditional IRAs (since 2020) thanks to the **SECURE Act.**

Contribute to your IRA if you haven't already done so. The deadline to contribute to a traditional IRA (deductible or not) and a Roth IRA for the 2023 tax year is April 15, 2024. You must designate the year for which you are contributing. If you have a Keogh or SEP and you get a filing extension by October 15, 2024, you can wait until then to put 2023 contributions into those accounts. But try not to delay in making contributions so you can start tax-advantaged growth potential as quickly as possible.

If you have any questions on retirement contributions, please call us.

Find easy-to-understand education on financial topics in the blogs and articles on

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5 STEPS TO ESTIMATE RETIREMENT INCOME NEEDS
mycfsgroup.com/retirement-income-needs

Both common sense and industry studies agree - educated investors make better investors. If there's ever anything you don't understand—whether it's a financial term or something you read about online – don't hesitate to ask. We will explain it to you and answer all your questions, so that you never feel lost, confused, or worried.

JUST EMAIL ME...

Many of you have said you'd prefer the convenience of electronic communication! If you'd like to get the Quarterly Newsletters, Tax Reports, and Christmas Newsletter **ONLY by email**, just let us know by emailing gita@mycfsgroup.com.

Insider Tip! *Like us on Facebook – you can find links to many of our communications through our FB posts.*

Student-Loan Interest Paid by Parents

Generally, you can deduct interest only if you are legally required to repay the debt. But if parents pay back a child's student loans, the IRS treats the transactions as if the money were given to the child, who then paid the debt. So, as long as the child is no longer claimed as a dependent, the child can deduct up to $2,500 of student-loan interest paid by their parents each year and is subject to income limitations. *(Parents can't claim the interest deduction even though they actually foot the bill because they are not liable for the debt).*

Child and Dependent Care Credit

Not to be confused with the child tax credit (CTC) of $2,000 for each qualifying child, the Child and Dependent Care Credit is a tax break to help cover the costs of after-school daycare while working. It can also apply to summer day camp costs – day camp only, not an overnight camp. So, in 2023 if you paid a daycare center, babysitter, summer camp, or other care provider to care for a qualifying child under age 17 or a disabled dependent of any age, depending on your income you may qualify for a tax credit of up to 50% of qualifying expenses of $3,000 for one child or dependent, or up to $6,000 for two or more children.

State and Local Tax (SALT) Deduction

Under the 2017 Tax Cuts and Jobs Act (TCJA) state and local tax deductions (SALT) remain capped at a combined total of $10,000 (or $5,000 for married taxpayers filing separately). This deduction limitation is set to sunset at the end of 2025.

Medical Expense Deduction

The 2023 threshold for deducting medical expenses remains 7.5% of your AGI. You must itemize your deductions to deduct these medical expenses. The IRS website, www.IRS.gov, provides a long list of expenses that qualify as "medical expenses" so it can be a good idea to keep track of yours if you think they may qualify.

Charitable Gifts and Donations

- You have to itemize deductions on Schedule A in order to claim this deduction.
- Through 2025, the 60% of AGI ceiling on charitable cash contributions remains unchanged but is scheduled to revert to 50% thereafter.
- To qualify for the 60% limitation, the charitable gift must be cash (or cash equivalent) made to a qualified charity (501(c)(3)).
- You must have made the contribution on or before December 31, 2023.
- If you gifted $250 or more to any charitable organization the recipient must send you a written acknowledgment of the gift upon request. This should also state whether the recipient provided any goods or services in consideration for the contribution. If so, the acknowledgment must include a good faith estimate of the value of those goods or services.
- Don't forget about noncash donations. You can't deduct the value of your time spent volunteering, but you can deduct the cost of supplies you buy for a group as an itemized charitable donation.
- You can also claim a charitable deduction for the use of your vehicle for charitable purposes, such as delivering meals to the homebound in your community or taking your child's Scout troop on an outing. For 2023, the IRS will let you deduct that travel at .14 cents per mile.

Helpful Tax Time Reminders

✓ Don't assume anything and let your tax preparer decide whether something is or is not deductible. Keep all receipts you think are even possibly tax-deductible.

✓ Be careful not to overpay Social Security taxes. If you received a paycheck from two or more employers and earned more than $160,200 in 2023 you may be able to file a claim on your return for the excess Social Security tax withholding.

✓ Don't forget items carried over from prior years because you exceeded annual limits, such as capital losses, passive losses, charitable contributions, and alternative minimum tax credits.

✓ Check your 2022 tax return to see if there was a refund from 2022 applied to 2023 estimated taxes.

✓ Calculate your estimated tax payments for 2024 very carefully. To avoid paying penalties for underpayment of estimated income taxes many computer tax programs automatically assume your income tax liability is the same as the prior year. That might not be correct, especially if 2023 was an unusual income tax year due to the sale of a business, unusual capital gains, the exercise of stock options, or even winning the lottery! A qualified tax professional should be able to help you with a tax projection for 2024.

✓ IRS.gov can be a valuable online resource for tax information.

ASK AN ADVISOR

Submit your question to teri@mycfsgroup.com

Submit your questions to teri@mycfsgroup.com and our Wealth Management Team will choose one or more to be answered in our upcoming newsletters, all-client emails, potentially in our Weekly Market Update email and on social media.

Your name won't be published. But, to be considered your question must include your first and last name. This helps us ensure we're answering client questions first and/or can follow up if needed.

General questions only please. If you have a question about your individual financial plan, please contact us at 605-357-8553 in Sioux Falls, 605-352-9490 in Huron, or via email at cfsteam@mycfsgroup.com.

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Following two years with an April 18 deadline, this year returns to the more traditional **APRIL 15 DEADLINE**.

If you file for an extension, the due date is October 15.

SOURCES
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