# TaxUpdate

2023 TAX TIPS NEWSLETTER



## Rising Interest Rates... Old Opportunities Are New Again!

With interest rate increases made by the Federal Reserve, it is time once again to actively manage your savings to ensure you are tax efficient with your money. Here are some tips to consider.

**Maximize the kiddie tax opportunity.** Remember, the first $1,250 of your child's unearned income (like interest) is tax-free and the next $1,250 is taxed at your child's tax rate. So leverage this information by using the Unified Gifts to Minors Act to manage a savings account in their name. Just understand when your child reaches adulthood, the account transfers to them.

**Look into tax advantaged bonds.** Most municipal bonds are exempt from federal income tax. In addition, bonds within your home state may also be exempt from state taxes. So with higher interest rates, review the tax benefit of these bonds versus higher interest, taxable alternatives. Also understand any underlying risks of the municipality issuing the bond.

**CDs are making a comeback.** Banks are competing for your deposits once again. What is new this time around are higher, often unpublished, penalties for early withdrawal. So before you leap at that great CD rate, understand the cost if you might need the funds before maturity.

**US Treasury Securities.** US Treasury investments are generally not subject to state or local tax. And investing in Treasury alternatives is now easier than ever by visiting *www.treasurydirect.gov*.

With savings alternatives at 4 – 5% interest rates, savers now have many choices to manage their money. The key message: review your options, apply an after-tax calculation to understand your true return, and know your risks!


## Putting your Refund to Good Use

Three-fourths of filers get a tax refund every year, with the average check weighing in at $2,812* so far this tax season. Here are some tips to put that money to good use:

1. **Pay off debt.** Part (or all!) of your refund could be used to reduce or eliminate debt. With interest on credit cards skyrocketing due to inflation, this is a great place to start. Or make an extra payment on your mortgage or vehicle loan to put more money in your pocket over the long haul.

2. **Save for retirement.** Saving for retirement works like debt, just in reverse. The sooner you set aside money for retirement, the more time you give the power of compound interest to work for you. Consider depositing some of your refund check into a traditional or Roth IRA. You can contribute a total of $6,500 in 2023, plus an extra $1,000 if you are at least 50 years old.

3. **Save for a home.** Home ownership can be a source of wealth and stability. If you dream of owning a home, consider adding your refund to a down payment fund. Or if you own a home, start a maintenance fund to eventually replace an aging roof, furnace, or air conditioner.

4. **Give to charity.** Donating your refund to a charity helps others and gives you a deduction for your next tax return if you itemize.

5. **Fund health care accounts.** Increases in medical care costs are real. If you have a high deductible health insurance plan, use some of your refund to contribute to an HSA account. Just remember to keep track of the contributions to ensure you receive a pre-tax contribution benefit.

6. **Invest in yourself.** Sometimes the best investment isn't financial, it's personal. A course of study that improves your skills or knowledge could be the best use of your money.

Finally, consider saving some of your refund to have a little fun. If you use some of the ideas mentioned here, you can feel comfortable that you are taking a balanced approach with your refund.

**Source: IRS 2023 tax filing season statistics, cumulative through May 12, 2023.*



**Important Tax Information**

# Save those Receipts!
## *They're money in your pocket*

2023 TIPS

When it comes to taking qualified deductions on your tax return, having proper documentation to prove your expense is a must. Here are some typical areas that often fall short, costing plenty during tax filing season and during IRS audits:

- **Cash donations to charity.** To deduct and support your donation to a qualified charity you must have valid documentation. Donations of cash need to be supported by a canceled check or a receipt from the organization. Donations of $250 or more MUST have written acknowledgment from the charity at the time of the donation — a canceled check and bank statement are not sufficient.
- **Non-cash contributions.** Additional support is required for non-cash donations to prove their value. This includes creating a detailed list of items donated, their condition, and estimated fair market value. While this level of detail is not required for small donations, it is always a good practice to take photos and create a detailed listing of items donated.
- **Investment purchases and sales.** If you bought or sold an investment you will need to know the original cost. Today's regulations require brokers to report the cost of sales to the IRS. Many of these historic costs are reported incorrectly. So review your broker accounts and correct any errors. It is very difficult to defend yourself in an audit when records reported to the IRS are wrong.
- **Copies of divorce decrees, alimony and child support agreements.** There are often conflicts between two taxpayers regarding who is claiming a child on their tax return. The same is true with alimony and child support. Do you have the necessary proof to defend your position? Keep these documents in a safe place and be ready to use them if necessary.
- **Copies of financial transactions.** Keep copies of documents from any major financial transaction. This includes real estate settlement statements, refinancing documents and any records of major purchases. These documents are necessary to ensure your cost (basis) in the property is properly recorded. The documents will also help identify any tax-related items like mortgage insurance, property taxes, points and possible sales tax paid.
- **Mileage logs.** Tracking deductible miles is probably one of the most commonly overlooked documentation requirements. Properly recording charitable, medical and business miles can really add up to a large deduction.

If you are not sure whether a document is important, it's best to retain it and file it so you can easily retrieve it if needed.



# Understanding Health Savings Accounts

If Benjamin Franklin were alive today, his famous quote "Nothing is certain, except death and taxes," might include a third item — paying medical expenses. Fortunately a health savings account (HSA) is a great way to cut your spending on these expenses.

## A major tax break

If you have a high deductible health insurance plan (a plan with a deductible of at least $1,500 for an individual or $3,000 for a family), you can establish a special savings account to pay for medical expenses with pre-tax income. Contributions to this account, known as an HSA, are often made via payroll deduction. But you can also contribute directly to the account and deduct it as an adjustment on your tax return. Paying qualified medical bills with pre-tax money effectively reduces your bills by as much as 37 percent!

## Tips to maximize your HSA

Once your HSA is established, consider these tips to take full advantage of this tax-savings vehicle:

1. **Maximize your HSA contributions every year.** Set a goal to contribute the full amount allowable by the IRS into your HSA each year. Unlike other funds, unused balances can remain in the account, giving you a great way to build up an emergency fund over the years. The 2023 total contribution limits are $3,850 for single taxpayers and $7,750 for a family (add $1,000 if you are 55 or older).
2. **Pay for medical expenses with your HSA.** Typically you can pay for medical expenses directly from your HSA account via a debit card. If not, track all payments you make for medical expenses and take matching distributions from your HSA. If you don't have enough in your HSA to cover an expense, make a contribution to your HSA first and then pay the bill. Keep ALL your medical bills and receipts to prove that the distributions are for qualified medical expenses.
3. **Prioritize HSA contributions.** HSA contributions are tax-deductible and distributions are tax-free for qualified medical expenses. Traditional IRA distributions, on the other hand, are taxable. So it often makes sense to maximize HSA contributions before traditional IRA contributions.

Most of us will need money for medical, dental, or vision expenses. Wouldn't it be nice to do this with pre-tax money?

# Tips to Improve your Tax Situation

Taking action now can ensure next year's tax bill is optimized by not paying a dollar more than necessary.

Here are some tips:

**TIP 1 Review paycheck withholdings.** Reviewing and updating withholdings now gives you several months to spread out the tax impact on your daily finances.

**TIP 2 Forecast estimated tax needs.** If you are self-employed, use your 2022 tax return as a baseline to update your quarterly payment needs. Ensure your payments will be sufficient to avoid being subjected to an underpayment penalty.

**TIP 3 Organize last year's tax records.** Create a file to hold your completed tax return, supporting schedules, and documentation. Organize the file so it matches the flow of the Form 1040. Then create a checklist of expected documents and a new file for 2023.

**TIP 4 Schedule a tax planning appointment.** Midyear tax planning is essential to ensure the proper roadmap is in place to realize your tax goals. Getting married or divorced, planning for retirement, having or adopting a child, buying a house, paying for college, starting a new job, or getting a raise are just some of the life changes that can dramatically change your tax situation.

Most of us want to forget the hassle of tax season as soon as the form is filed, but the savvy taxpayer uses this time to prepare and plan for a better tax result next year.

*This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.*