KRAMER, JENSEN & BAGBY LLC
CERTIFIED PUBLIC ACCOUNTANTS

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Newsletter November 2023

Reconfiguration of Ownership of our Firm

I am pleased to announce the reconfiguration of ownership of our firm. Effective October 17, 2023, we will now be doing business as Kramer, Jensen & Bagby, LLC.

I am excited to introduce you to Aaron Bagby, CPA. Many of our clients have already worked with Aaron since he has been doing excellent work as part of our team for the last two years. Aaron holds a Master of Professional Accountancy degree with a taxation emphasis. Prior to joining us, he began his career at Ernst & Young in their tax department, and later worked as a manager at a regional accounting firm in the Denver metro area.

Along with the reconfiguration of ownership, I will be transitioning out of the day-to-day management and leadership as Aaron takes over the primary supervision and direction of the firm. He is well suited to continue guiding our professional efforts to provide responsive, top-notch tax and accounting services to you. Aaron will serve as your primary point of professional contact at our firm from this point forward, although I will continue to work alongside him through this next tax season, so you can expect the same level of service and continuity. Kramer, Jensen & Bagby, LLC will continue to operate under the same fee structure which will again be outlined to you in written engagement letters coming out in January.

If you have any questions about this exciting news and what it will mean for you, please contact either Aaron or myself at any time. Aaron can be reached at aaronb@kramerjensen.com or 303-741-2253. My contact information remains unchanged.

We are grateful to you not only for giving us the continued opportunity to provide you with tax services, but for your loyalty and friendship.

Sincerely,

Scott A. Jensen, CPA

Obscure and Overlooked Tax Deductions, Credits, and Benefits

As tax time approaches, here are some tax issues that taxpayers frequently overlook, ranging from obscure deductions to overlooked tax credits and benefits. Of course, not everything can be included since the tax law has grown significantly in complexity, and it would take a thick book to list everything. But besides what you are probably accustomed to, here are over 20 issues you may not be aware of and that can save you tax dollars.

Low Income Year – If you are having a low-income year, there are tax strategies you can take advantage of, including the following:

- *Capital Gains Rates* – Capital gain tax rates are zero for taxpayers with low income, so

if you sell stock or other property at a profit in an otherwise low-income year you might be able to benefit from the zero tax rate.
- *Roth Conversions* – A low-income year may present an opportunity to convert some of your traditional IRA funds to a Roth IRA for a low amount of tax.

Limitation on Tax Itemized Deduction – The tax code limits the itemized deductions for state and local taxes to $10,000. Several states have developed work-a-rounds to circumvent that limitation. If you reside in a state that has developed a work-a-round and the total you paid of your state income tax (or state sales tax) and property taxes, substantially exceeds the $10,000 limit, you may wish to consider participating in your state's program.

State Income Tax Refund – For those who took the standard deduction on their 2022 federal return, your state income tax refund received in 2023 is not taxable income. If you itemized your deductions, then the state tax was a federal tax deduction, and to the extent you received a tax benefit from the deduction, the state tax refund you received in 2023 is federally taxable. However, in many cases, the entire refund will be tax-free if you were subject to the alternative minimum tax (AMT) for 2022, the deductible amount was reduced by the $10,000 limit on tax deductions, or part of the deduction pushed your deductions over the standard deduction threshold. Although the Form 1099-G shows the entire amount of the refund, not all of it may be taxable, so you do not want to report more than necessary.

If you owed state income tax on your 2022 return and paid that tax during 2023, then that tax payment can be added to your state tax deduction for 2023, subject to the $10,000 limit for state and local taxes.

Social Security Taxes Deduction – If you are self-employed, you can deduct half of the self-employment tax (Social Security and Medicare tax) that you are liable for on your 2023 net profits. You don't have to itemize on a Schedule A to take the deduction because it is an adjustment to income.

NOL Carryforward – There is no longer an NOL (net operating loss) carryback (except for farmers), so don't overlook a carryforward from a prior year which can be used indefinitely until used up. However, for post-2020 tax years to which an NOL is carried, the amount of taxable income for that year that can be offset by NOLs arising in years after 2017 is limited to the lesser of:
- The aggregate of the NOL carryovers to that year, plus the NOL carrybacks to that year, or
- 80% of the taxable income computed without regard to the NOL deduction for the year.

The 80% limitation does not apply to losses that arose in years before 2018.

Military Reservist Travel Expenses – Armed forces reservists who travel more than 100 miles away from home and stay overnight in connection with service as a member of a reserve component can deduct their travel expenses as an adjustment to gross income (they don't have to itemize deductions). Unreimbursed expenses for the reservist's transportation, meals (subject to the 50% limit), and lodging qualify for the above-the-line deduction, but the deduction is limited to the amount that the federal government pays its employees for travel expenses – i.e., the general federal government per diem rate for lodging, meals, and incidental expenses applicable to the locale as well as the standard mileage rate (65.5 cents per mile for 2023) for car expenses plus parking, ferry fees, and tolls.

Child's Private School Expenses – If your child is attending a private school, up to $10,000 per year of Sec. 529 college savings plan funds can be used to pay tuition for kindergarten through grade 12. However, tapping your college savings plan for these expenses may be detrimental to your overall long-term savings plan to pay for college tuition.
Student-Loan Interest – If parents pay back a non-dependent child's student loans, the IRS treats the transactions as if the money were a gift to the child and the child made the payment. Thus, the child is deemed as having paid any interest included in the payment and can deduct it as student-loan interest, which is deductible without having to itemize deductions, up to the annual limit of $2,500. However, the deduction may be phased out depending on the amount of the taxpayer's modified adjusted gross income.

Home Energy Improvement Credit - This tax benefit goes all the way back to 2006,

providing a tax credit for making energy-saving improvements to a taxpayer's home. This tax credit was supposed to expire after 2021, but has been extended and enhanced by 2022 legislation.

Prior to 2023, the credit had a lifetime cap of $500, which many taxpayers had taken advantage of at some time in the previous 16 years, while others could not remember if they had used the entire lifetime credit during those years. As a result, with a lifetime tax benefit of only $500, and a small credit rate of only 10%, the credit had become less of a motivator for taxpayers to make energy saving improvements to their homes and was frequently disregarded.

The enhancements to this credit create a meaningful incentive for taxpayers to make energy-saving improvements to their homes. The credit now has an annual limit of $1,200 and an increased credit rate of 30%.

Home Solar Credit - The Inflation Reduction Act gave new life to the federal tax credit for the purchase and installation costs of residential solar-power systems and battery systems. The credit will now not begin to phase out until 2033 and will continue to be 30% until then.

The Inflation Reduction Act of 2022 amended the tax code by adding and defining the term "qualified battery storage technology expenditure." This change clarifies that for expenditures made after December 31, 2022, battery storage technology which is installed in connection with a dwelling unit in the United States that is used as a residence by the taxpayer, and has a capacity of not less than 3 kilowatt hours, will now qualify for the credit.
Home residents who already have a solar installation can add a storage battery and/or expand their existing capacity and qualify for the additional solar credit.

Clean Vehicle Credit – The qualifications for the electric vehicle credit have gotten more restrictive, but now do include both new and used vehicles.

- *New Clean Vehicles* – To determine which new vehicles qualify and the amount of the credit, consult with the **U.S. Department of Energy website.** To be eligible for the credit a vehicle's manufacturer's suggested retail price (MSRP) must be less than $80,000 for vans, pickups. and SUVs, and $55,000 for others. Another qualification requirement is that the buyer's modified adjusted gross income cannot exceed $300,000 for married taxpayers filing jointly and surviving spouses. For those filing with the head of household status the limit is $225,000, and for all others it is $150,000.

- *Pre-Owned Clean Vehicles* - To determine which pre-owned vehicles qualify consult with the **IRS index of qualified manufacturers and previously owned clean vehicles**. The credit is the lesser of $4,000 or 30% of the vehicle's sale price, and the vehicle must be purchased from a dealer for a price not exceeding $25,000. For this credit the buyer's modified adjusted gross income cannot exceed $150,000 for married taxpayers filing jointly and surviving spouses. For those filing head of household, the limit is $112,500 and for all others it is $75,000.

- *Dealer Report* – For both credits, the dealer selling the vehicle is required to provide the buyer with a report, a copy of which goes to the IRS, that includes the amount of the available credit, the vehicle identification number, and other details.

Gambling Losses – Gambling losses up to the extent of one's gambling winnings are allowed as a deduction and can help to offset gambling winnings, provided the taxpayer itemizes deductions. Good documentation of the amounts of winnings and losses is essential.

Live in a State Without a State Income Tax? –Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming are the states that do not have an income tax. Because for federal purposes you can choose to deduct either state income tax or sales tax when you itemize your deductions, if you live in one of these no-income-tax states your only choice will be sales tax.

The sales tax that can be deducted is the actual amount paid during the year, which can be determined by the larger of the following:

1. Actual receipts for purchases **OR**
2. The amount from the IRS's income-based table PLUS sales tax paid when purchasing

motor vehicles, boats, and other items specified by the IRS.

Spousal IRA – If one spouse works and the other does not, the tax law allows the non-working spouse to base his or her contribution to an IRA on the working spouse's income. This tax benefit is frequently overlooked when spouses have been working for years and basing their individual contributions on their own income, and then one of the spouses retires or otherwise stops working. Even if the working spouse has a pension plan at work and his or her income precludes making a deductible IRA contribution, the non-working or retired spouse may still make a contribution based on the working spouse's income. Spousal contributions can also be made to Roth IRAs if the spouses' joint income does not exceed IRS limits. There is no longer an age limitation for making contributions to IRAs.

Reinvested Dividends – If you are invested in a mutual fund, you are probably reinvesting the annual dividends. Reinvested dividends add to the basis of your investment, and when you sell the mutual fund, having a higher basis will reduce the gain. Mutual funds are required to track your basis for mutual fund shares purchased after 2012. Some even track the basis and reinvested dividends going further back. However, some do not, and it would be your responsibility to track the reinvested dividends so that you get the benefit of all reinvested dividends when you sell.

Worthless Stock – If you are like most investors, you occasionally will pick a loser that declines in value. Sometimes, a security can even become totally worthless when the issuing company goes out of business. Whatever you do, don't wait until it's too late to claim your loss. If the IRS challenges the loss and the security is found to have become worthless in an earlier year, then the current year's loss will be denied.

Lifetime Learning Credit – The American Opportunity Credit (AOTC) is the education credit most familiar to taxpayers because it is available for the first four years of post-secondary education and provides a higher credit. It also requires the student to attend the college or university on at least a half-time basis and to pursue a program leading to a degree or other recognized educational credential. On the other hand, the Lifetime Learning Credit (LLC) is available for all years of post-secondary education and for courses to acquire or improve job skills. The student doesn't need to be pursuing a program leading to a degree or other recognized education credential, and it is available for one or more courses. Many individuals who do not qualify for the AOTC overlook the LLC.

Charity Volunteer Tax Breaks – If you volunteer your time for a charity or governmental entity, then you probably qualify for some tax breaks. Although no tax deduction is allowed for the value of services performed for a qualified charity or a federal, state, or local governmental agency, some deductions are permitted for out-of-pocket costs incurred while performing the services, such as away-from-home travel, lodging, and meals; automobile travel; and uniforms.

Self-Employed Travel Expenses – If you are self-employed and travel for business, don't overlook highway tolls, porter fees, airline baggage fees, tips, taxi fares, Uber/Lyft fees, car rentals, laundry, cleaning, or other incidentals while away, in addition to the normal meal, lodging, and transportation expenses.

Self-Employed Health Insurance Deduction – A self-employed individual (or a partner or a more-than-2%-shareholder of an S corporation) can generally deduct, as an above-the-line expense, 100% of the amount paid during the tax year for medical insurance on behalf of themself, their spouse, and their dependents, limited to the self-employed taxpayer's net income from self-employment.

However, no deduction is allowed for any month when the self-employed individual is eligible to participate in a subsidized health plan maintained by their employer, or the employer of their spouse, any dependent, or their child who hasn't attained age 27 as of the end of the tax year. The term "subsidized" means that the employer pays at least 50% of the coverage's cost.

The health insurance premiums claimed as an above-the-line self-employed health insurance expense cannot also be claimed as a Schedule A medical expense.

Summer Camp – If you are single and working, or married and both you and your spouse

work, you may not realize that the costs of day camp during the summer generally count as expenses toward the child and dependent care credit allowing you to work. A day camp or similar program may qualify even if the camp specializes in a particular activity, such as soccer or computers. The credit ranges from 20% to 35% of the day camp's cost with an expense limit of $3,000 for one child or $6,000 for two or more. Overnight camps do not count.

Medical Dependent – When you itemize your deductions you can include your medical expenses and those of your spouse (if jointly filing) and dependents, provided the total medical costs exceed 7.5% of your adjusted gross income. You may not realize that you can include in the medical expenses deduction what you paid for certain individuals who are not your dependents. One such situation involves divorced parents, in which the non-custodial parent can deduct medical expenses they pay for their child, even when the other parent claims the child as a dependent. Another situation, which we refer to as a medical dependent, involves paying the expenses for someone who would qualify as your dependent except that their gross income is too much, which under normal circumstances would disqualify them. For 2023, the gross income limitation is $4,700.

- *Example – The taxpayers' adult son was seriously injured in a motorcycle accident and did not have medical insurance. His parents paid all his medical expenses for the year. Their son meets all of the dependent qualifications, except that his gross income of $20,000 exceeds the gross income limit, which disqualifies him. However, under the exception, the parents can still include his medical expenses on their 1040 Schedule A.*

Income in Respect of a Decedent (IRD) – One of the most overlooked tax deductions is what is referred to as the IRD deduction. IRD is the acronym for income in respect of a decedent. IRD income is income that is taxable to the decedent's estate and also taxable to the estate's beneficiaries. Thus, it is double taxed; as a result, the beneficiaries generally receive a deduction equal to the difference between the decedent's estate tax figured with and without the taxed income. Beneficiaries will only have this deduction if the decedent's estate was large enough to be subject to the estate tax.

If you have questions about how these or other tax issues apply to your particular tax circumstances, please give this office a call.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Aaron Bagby
Kramer, Jensen & Bagby, LLC

The contents of this newsletter are intended to convey general information only and not to provide accounting or tax advice or opinions. The content should not be construed as, and should not be relied upon for, accounting or tax advice in any particular circumstance or fact situation. We recommend you contact us to discuss the application to any specific situation.

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