INNOVATIVE TAX NEWS TODAY

January 2024 , Winter Issue

Latest news and bulletin updates

Tax Season is Here

Happy New Year and best wishes to all of you and your families. We are looking forward to seeing many of you that have appointments as well as those of you who are either remote or dropping off your tax documents to prepare your tax returns with the best results possible.

As usual there are changes that come up each year and we do our best to communicate those to you with the most current information available. However, we do not speculate or comment on proposed legislation or rumors.

So, on to those changes! First, although the tax rates didn't change, the income tax brackets for 2023 are wider than for 2022. In other words, you might remain in the "lower bracket" of your income longer before you reach the higher bracket. The difference is due to the spike in inflation that the government has calculated using a 12-month term from September 2021 through August 2022. Please see the new brackets for each filing category.

REMEMBER the tax is calculated on your TAXABLE income, not Adjusted Gross Income (AGI). As discussed in last quarter's email issue, your effective tax rate is a blend of all the brackets that your income is a part of. The marginal tax rate is the highest bracket that your income has reached.

2023 TAX BRACKETS FOR SINGLE

10%	UP TO $11,000
12%	$11,001 TO $44,725
22%	$44,726 TO $95,375
24%	$95,376 TO $182,100
32%	$182,101 TO $231,250
35%	$231,251 TO $578,125
37%	OVER $578,125

2023 TAX BRACKETS FOR MARRIED

10%	UP TO $22,000
12%	$22,001 TO $89,450
22%	$89,451 TO $190,750
24%	$191,751 TO $364,200
32%	$364,201 TO $462,500
35%	$462,501 TO $693,750
37%	OVER $693,750

2023 TAX BRACKETS FOR HEAD OF HOUSEHOLD

10%	UP TO $15,700
12%	$15,701 TO $59,850
22%	$59,851 TO $95,350

24%	$95,351 TO $182,100
32%	$182,101 TO $231,250
35%	$231,251 TO $578,100
37%	OVER $578,100

Residential Clean Energy Credit

The big credit this year is installation of alternative energy systems in your home. Solar, wind, geothermal, or fuel cells all qualify for the credit. The credit is significant and is 30% of the cost of equipment and installation. The credit goes through 2032 so there is time to capture this credit before it decreases and expires eventually unless congress renews it in the interim.

Energy-Efficient Home Improvement Credit

In the past, if you recall, there was a $500 lifetime cap on energy improvements made to your primary home, which included insulation, external windows and doors and cost of electric heat pumps and water heaters. Beginning in 2023, this tax credit has been completely revised. First, the credit is now 30% of the cost of insulation, boilers, HVAC systems, windows, doors, etc. Second, the $500 <u>lifetime</u> credit limit is replaced by the $1,200 <u>annual</u> limit in the aggregate – in other words you have to combine expenditures for doors and windows to reach this credit. The credit increases to $2,000 for biomass stove or hot water boiler or heat pumps. Lastly, you can get a credit of up to $150 for the cost of a home energy audit.

Electric Vehicle Credit

The electric vehicle (EV) crazy has reached a fever pitch with many consumers snapping up the cars in an effort to save money at the pump. For 2023, the maximum tax break remains at $7,500, and the criteria to qualify still includes mineral requirement and battery component rules. However, the pool of vehicles has been expanded and there is no longer a manufacturers sales limit (which eliminated Tesla and some Toyotas last year). However, keep in mind two pitfalls that can disqualify you from taking the credit – 1) the retail price of the EV cannot exceed $55K for sedans or $80K for vans, SUV and trucks. Consult the dealer for this price detail. 2) your MAGI (modified adjusted gross income) cannot exceed $300,000 for Married filers; $225,000 for head of household filers or $150,000 for single filers. If you are making more than that, you cannot take the credit. Used EV thresholds are $4,000 or 30% of the sales price and the MAGI thresholds are half of the new price EVs.

PayPal, Venmo, Square and others- *Update*

Following feedback from taxpayers, tax professionals, and payment processors and to reduce taxpayer confusion, the

Internal Revenue Service once again delayed the new $600 Form 1099-K reporting threshold requirement for third party payment organizations for tax year 2023 and is planning a new threshold of $5,000 for 2024 to phase in the new law.

The IRS is making 2023 another transition year to implement the new requirements under the American Rescue Plan that changed the Form 1099-K reporting threshold for payments taxpayers get selling goods or providing a service over $600. The previous reporting thresholds will remain in place for 2023.

But do not panic if you get one and you feel it is erroneous. You might even get one for selling a concert ticket on StubHub for more than the cost or eBay sales or Amazon Store sales. At the end of the day, we still report the income you received in any form or method. The 1099-K will simply confirm that. It should NOT APPLY to those who might use the apps for transferring money to friends and family. However, even if in error, we can address the 1099-K for you and eliminate taxation in that case. The issuer of the 1099-K will not likely be able or willing to amend.

Self-Employed People

For those self-employed, expect some changes for you as well. Some good changes include a slight uptick in the income threshold to receive the 20% QBI credit that you are accustomed to getting that reduces your taxable profit. That means higher profit earners can qualify.

Next is the increase in mileage rate. In 2022, the mileage rate changed halfway through the year due to a spike in rising fuel costs. The difficulty for our clients was to log and track mileage for the first half of the year and second half of the year separately. Often times, clients were not aware that the split had to be tracked making mileage driven data difficult to compile. For 2023, there is yet another change, but this time it is just one rate of $0.655/mile for business miles. Mileage driven for charitable and medical reasons remains unchanged.

Some of the not-so-good news is that the Bonus type of depreciation is being ratcheted down to 80% write-off instead of 100%. Consult with us for an explanation of what that could mean for you.

Lastly, and most popular deduction is the business meal expense. A temporary allowance of 100% of qualifying business meals was allowed for 2021 and 2022 due to COVID – but that was temporary. The deduction returns to 50% reverting back to old pre-COVID rules. Remember, the meals must be: a) reasonable and not lavish and b) with clients or personnel to qualify. You should not be deducting your Starbucks or Dunkin' Donuts drive thru pick up coffee for yourself.

Medical Stuff

Those with HSA (Health Savings Accounts), will have a slight change in maximum contribution for 2023. The maximum contribution for single coverage rose from $3,650 to $3,850 and from $7,300 to $7,750 for family coverage. Those of us who are born before 1969 can contribute an additional $1,000.

Participants in FSA (Flexible Spending Accounts) can contribute $3,050, up from the $2,850 maximum in 2022. The maximum carryover to the following year for unused balances is $610, a $40 increase from 2022.

Retirement and Beyond

RMD Changes

As mentioned in our Fall letter, the good news for retirees is the age when RMDs (Required Minimum Distributions) begin. The **Secure Act 2.0** increases the age for required minimum distributions (RMDs) to 73, beginning on January 1, 2023, and to age 75 on January 1, 2033, for certain individuals. If you reach age 72 in 2023, the required beginning date for your first RMD is actually April 1, 2025, for the 2024 tax year. Financial institutions are to notify IRA owners no later than April 28, 2023, that no RMD is required for 2023.

RMD Penalties

In addition, the excise tax for not taking the RMD actually <u>**decreases**</u> from 50% to 25% of the RMD amount, and 10% for IRAs if corrected timely.

401k, 457, SIMPLE, 403b plans

For those of us still saving in retirement plans like 401k, 457 and 403b, the contribution limits do in fact increase an extra $2,000 to $22,500 and up to $30,000. SIMPLE plan participants is also increased from $14,000 to $15,500 and an extra $3,000 for those over the age of 50.

Individual Traditional and ROTH IRAs

Again, more good news for savers as the ceiling for IRA contributions rises to $6,500 and an additional $1,000 catch up allowance for those 50 and up.

For Roth IRA contributors, a key point to keep in mind is that the income phase out is $228,000 for married filers and $153,000 for single filers. That means if you are making that amount of money, you will not be allowed to save money in a Roth and defer taxes and if you do, it could result in a taxable event for you indefinitely until the money is taken back out. The idea is that the government does not want high earners to stash away money that cannot be taxed afterwards (of course that is why 😠).

Income phase-outs also pertain to traditional IRAs whose incomes are between $116,000- $136,000 for married filers and $73,000-$83,000 for single filers. Incomes in excess of those maximum amounts will not qualify for an IRA deduction amount.

Social Security 85% Conundrum

It might come as a surprise to some people, but Social Security benefits are sometimes not entirely tax-free. Depending on your income level, <u>you could be taxed up to 85% of your Social Security benefit</u>. It all depends on other income shown on your tax return. That includes retirement distributions, interest and dividends, capital gains and other income from wages or self-employment. Generally speaking, the following guideline can be used to determine taxability:

- Combined income <$25K for Single or $32K for Married, there is no tax on your Social Security.
- Combined income $25K-$34K for Single or $32K-$44K for Married, up to 50% of your Social Security can be taxed.
- Combined income >$34K for Single or $44K for Married, up to 85% of your Social Security can be taxed.

So, if you find yourself in one of the two taxable tiers and not wishing you owe tax, perhaps you should consider filing a W-4V to ask Social Security to withhold some Federal tax. They do have some weird withholding rates:

7%, 10%, 12% or 22%

Social Security will not withhold State tax – many states do have provisions to exclude some if not all that income anyway.