

TaxUpdate

2023 YEAR END NEWSLETTER

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Season's Greetings

Time to Get Organized

With the 2023 tax filing season right around the corner, here are ideas to help make processing this year's tax return as easy as ever.

Make a list

Create a list of expected tax documents. Do this now by reviewing the documents from last year. Then use the list to check off each one when it is received to ensure you have everything you need.

Check it twice

As soon as you receive a document take a look at it for errors. This is especially important for any 1099-Ks or investment forms (1099-B). Both are common sources of errors in reporting.

Find the naughty

Missing documents are the most common reason why processing a tax return gets delayed. So sort your documentation and look for any missing items. It may be a K-1 being delayed by a business or a missing tuition credit form.

Capture the nice

Review and keep all receipts to support possible deductions for medical expenses, contributions, childcare, and business expenses. Each can help reduce your taxable income.

What's New in 2023

Here are some key changes to the tax code for 2023.

Tax brackets and rates

The income brackets subject to tax are increasing by approximately 7 percent due to inflation. See 2023 brackets below.

Key changes

Increased age for required distributions. If you turn 72 in 2023 or later, you can keep money in a tax-deferred IRA or 401(k) for another 12 months to help the account continue growing before starting to withdraw funds. This retirement benefit is now available thanks to the required minimum distribution age being raised from age 72 to age 73.

Decreased penalty if required distributions aren't taken. The penalty for failing to take a required minimum distribution is reduced from 50% to 25%. If the correction is generally made within two years, the penalty is further reduced to 10%.

New tax credits

Tax credit for new clean vehicles. A credit up to \$7,500 is available if you (or your business) buy a new, qualified plug-in electric vehicle or fuel cell electric vehicle.

Your modified adjusted gross income must not exceed:

- \$300,000 for married couples filing jointly
- \$225,000 for heads of households
- \$150,000 for all other filers

Tax credit for used clean vehicles. A credit up to \$4,000 is available if you buy a previously owned, qualified plug-in electric vehicle or fuel cell vehicle, including cars and light trucks. In addition, your modified adjusted gross income (AGI) must not exceed:

- \$150,000 for married couples filing jointly
- \$112,500 for heads of households
- \$75,000 for all other filers

You can use your modified AGI from the year you take delivery of the vehicle or the year before, whichever is less.

Tax credit for energy efficient home improvements. An annual tax credit up to \$1,200 is available if you make qualified energy improvements to your home (biomass stoves and boilers have a separate annual credit limit of \$2,000).

Income Brackets for 2023 Tax Rates

| Tax Rate | Single | Married Filing Joint/Widow | Head of Household | Married Filing Separate |
|----------|-------------------|----------------------------|-------------------|-------------------------|
| 10% | \$1 – 11,000 | \$1 – 22,000 | \$1 – 15,700 | \$1 – 11,000 |
| 12% | 11,001 – 44,725 | 22,001 – 89,450 | 15,701 – 59,850 | 11,001 – 44,725 |
| 22% | 44,726 – 95,375 | 89,451 – 190,750 | 59,851 – 95,350 | 44,726 – 95,375 |
| 24% | 95,376 – 182,100 | 190,751 – 364,200 | 95,351 – 182,100 | 95,376 – 182,100 |
| 32% | 182,101 – 231,250 | 364,201 – 462,500 | 182,101 – 231,250 | 182,101 – 231,250 |
| 35% | 231,251 – 578,125 | 462,501 – 693,750 | 231,251 – 578,100 | 231,251 – 346,875 |
| 37% | Over \$578,125 | Over \$693,750 | Over \$578,100 | Over \$346,875 |

Great Tax Reduction Ideas

With the much higher standard deduction amounts, those who do not itemize think there are no longer ways to reduce your taxes. Here are some ideas to consider:

- **Maximizing HSA contributions.** If you have qualified high deductible health insurance, contribute as much as possible to a Health Savings Account (HSA). That way you not only reduce your taxable income, but you pay out-of-pocket qualified medical, dental and vision care with pre-tax dollars!
- **Leveraging retirement accounts to their fullest.** There are numerous

retirement tax plans, including 401(k), 403(b), and IRAs. The key is each has an annual contribution limit, and if you don't use that limit for the year, it is gone. So try to take full advantage of the tax benefits within each plan.

- **Donating appreciated assets.** If you itemize deductions, instead of donating cash, consider donating appreciated assets you have owned for more than one year. Your charity gets the same financial value, but you not only get a great charitable donation, you also avoid paying capital gains tax on the investment.

- **Student loan interest.** You can deduct up to \$2,500 of student loan interest on your tax return. This includes parents co-signing the loan.
- **Bundling your itemized deductions.** While many taxpayers do not have enough deductions to itemize, if you can bundle two or three years of deductions into one tax year you can maximize your deductions in that particular tax year.

Remember, the end of a tax year and the beginning of a new one are great times to think about these tax saving ideas.

| Standard Deductions | | | |
|--------------------------|----------|----------|----------|
| Item | 2023 | 2022 | Change |
| Single | \$13,850 | \$12,950 | +\$900 |
| Married Joint/Widow | 27,700 | 25,900 | +\$1,800 |
| Head of Household | 20,800 | 19,400 | +\$1,400 |
| Married Filing Separate | 13,850 | 12,950 | +\$900 |
| Elderly/Blind: Married | +\$1,500 | +\$1,400 | +\$100 |
| Elderly/Blind: Unmarried | +\$1,850 | +\$1,750 | +\$100 |

| Maximum Earned Income Tax Credit | | | |
|----------------------------------|-------|-------|--------|
| | 2023 | 2022 | Change |
| No Child | \$600 | \$560 | +\$40 |
| 1 Child | 3,995 | 3,733 | +\$262 |
| 2 Children | 6,604 | 6,164 | +\$440 |
| 3+ Children | 7,430 | 6,935 | +\$495 |

| Mileage Rates | | | | |
|----------------|----------|-------------|-------------|--------|
| Item | 2023 | 2022 | | Change |
| | | eff. 1/1/22 | eff. 7/1/22 | |
| Business | 65.5¢/mi | 58.5¢/mi | 62.5¢/mi | +3.0¢ |
| Medical/Moving | 22.0¢/mi | 18.0¢/mi | 22.0¢/mi | — |
| Charitable | 14.0¢/mi | 14.0¢/mi | 14.0¢/mi | — |

| Section 179 Maximums | | | |
|----------------------|----------------|----------------|------------|
| Limits | 2023 | 2022 | Change |
| Section 179 | \$1.16 million | \$1.08 million | +\$80,000 |
| Property Limit | \$2.89 million | \$2.70 million | +\$190,000 |

| Key Retirement Plan Limits | | | | |
|----------------------------|----------|----------|----------|--------------------------|
| Retirement Plan | 2023 | 2022 | Change | Age 50 or older catch-up |
| 401(k), 403(b), 457 plans | \$22,500 | \$20,500 | +\$2,000 | Add \$7,500 |
| IRA: Roth | \$6,500 | \$6,000 | +\$500 | Add \$1,000 |
| IRA: SIMPLE | \$15,500 | \$14,000 | +\$1,500 | Add \$3,500 |
| IRA: Traditional | \$6,500 | \$6,000 | +\$500 | Add \$1,000 |

ALERT: Form 1099-K reporting change

Because of a late breaking change in November 2023, you could still receive Form 1099-Ks that may need to be reported on your tax return.

This last-minute change (literally 45 days before vendors need to start sending out 1099-Ks) moves the \$600 threshold for receiving a Form 1099-K back to \$20,000 for 2023.

What you should do

- **Save the form.** If you receive a 1099-K, save the form! You will need to account for this information on your tax return or face the possibility of the activity triggering a correspondence audit from the IRS that may lead to a bigger tax bill.
- **It's a business transaction.** If you have activity on sites like Amazon, Etsy, or you are reselling tickets or taking rent payments, you are in business. In the eyes of the IRS, this is true even if you lost money on the transactions. This revenue needs to

be reported even if you don't receive a 1099-K. But you can also include any related business expenses to reduce reportable income.

- **Stay organized.** If you receive any Form 1099-Ks, your tax return will now be a bit more complex. But you can help by staying organized and well documented to explain exactly how you used the third-party payment platform that sent you the form.

1099-K Basics

Here are the basics about Form 1099-K in the event you do receive one:

- **It shows gross payment amounts.** A Form 1099-K reports the gross amount of payments received by you from payment transactions such as credit cards; digital payment services like PayPal, Venmo, and Apple Pay; and online marketplaces like Amazon and Etsy.
- **Personal payments may be included on a 1099-K.** It's possible that a personal payment you received, for example from a friend sending you their share of a restaurant bill, ends up being included on a 1099-K. You will need to account for this.

Remember, though, that whether or not you receive a Form 1099-K, the IRS expects you to report all your taxable income.