

2023 Tax Update

Here we are again!

The IRS will start accepting 2023 individual tax Returns on **January 29, 2024**. The IRS began accepting business tax returns on **January 11, 2024**. The deadline to submit 2023 individual tax returns is **Monday, April 15, 2024**.

Here are some of the 2023 tax changes that will impact your taxes in 2024.

Boosted Standard Deduction!

The standard deduction (STD) which in some cases is higher than an itemized (Schedule A) amount is the amount that is deducted from Adjusted Gross Income (AGI) before arriving at a tax liability, that is, again if you do not *itemize*.

Previous Amount: The STD for married filing jointly or Qualifying widow(er) was \$25,900; \$12,950 if you are single or filing married filing separate; and, \$19,400 if you claim head of household.

New Amount: The STD for married filing jointly or Qualifying widow(er) is \$27,700; \$13,850 if you are single or filing married filing separate; and, \$20,800 if you claim head of household.

Some Popular Tax Credits —EITC/CTC

Most tax payers claiming Earned Income Tax Credits (EITC) and Child Tax Credits (CTC) will receive smaller increases in 2023.

For 2023 tax year and depending on Adjusted Gross Income (AGI) limitations,

- ◆ Those with one dependent will get \$3,995 in 2023 and CTC, if eligible, will get \$2,000 for the 2023 tax year.
- ◆ For the EITC, eligible taxpayers with no children will receive roughly \$600.
- ◆ The Child Tax Credit is a tax benefit granted to taxpayers with children under the age of 17 as of the end of the year. For the 2023 tax year (the tax return filed in 2024), the credit is \$2,000 for each qualifying child .

Charitable Contribution

Charitable contributions are normally deducted on Schedule A if you itemize your deductions. These are some of the contributions you cannot deduct.

1. A contribution to a specific individual,
2. A contribution to a non-qualified organization,
3. The part of a contribution from which you receive or expect to receive a benefit,
4. The value of your time or services,
5. Your personal expenses,
6. A qualified charitable distribution from an individual retirement arrangement (IRA),
7. Appraisal fees,
8. Certain contributions to donor-advised funds, or
9. Certain contributions of partial interests in property.

State and Local Tax Deductions (SALT)

The SALT deduction is still capped at \$10,000 (\$5,000

for couples filing married filing separate).

Mortgage Deductions

Home Equity Line of Credit (HELOC) Loans Interest -

Interest on a home equity line of credit (HELOC) or a home equity loan is tax deductible if you use the funds for renovations to your home—the phrase is “buy, build, or substantially improve.”

- ◆ To be deductible, the money must be spent on the property in which the equity is the source of the loan.
- ◆ Taxpayers can only deduct interest on up to \$750,000 of residential loans (up to \$375,000 for a married taxpayer filing a separate return), which includes all residential debt—mortgages as well as home equity loans or HELOCs. Older mortgages may be covered under the previous \$1 million limit (or \$500,000 for a married taxpayer filing a separate return).

Capital Gains Tax Rate

Capital gains are profits realized from the sale of assets such as stocks or real estate.

The profits on the sale of the assets held for more than one year are eligible for tax breaks. The tax rate on most net capital gain is **0%, 15% or 20% depending on your bracket**. For most individuals some or all net capital gains may be taxed at **0%** if your taxable income is less than or equal to \$44,625 for single and married filing separately, \$89,250 for married filing jointly or qualifying surviving spouse or \$59,750 for head of household.

However, a net capital gain tax rate of **20%** applies to the extent that your taxable in-

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come exceeds the thresholds set for the **15%** capital gain rate.

There are a few other exceptions where capital gains may be taxed at rates greater than **20%**:

1. The taxable part of a gain from selling section 1202 qualified small business stock is taxed at a maximum **28%** rate.
2. Net capital gains from selling collectibles (such as coins or art) are taxed at a maximum **28%** rate.
3. The portion of any unrecaptured section 1250 gain from selling section 1250 real property is taxed at a maximum **25%** rate.

Note: Net short-term capital gains are subject to taxes as ordinary income at graduated tax rates.

Estate Tax

Estates of decedents who died during 2023 have a basic exclusion amount of 12,920,000 or \$25,840,000 if you are married and filing jointly.

Individual Taxes Short Takes

Parking Fees - For tax year 2023, the monthly limitation for the qualified transportation fringe benefit and the monthly limitation for qualified parking increases to \$300.

Health Care Flexible Spending - For the taxable years beginning in 2023, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements increases to \$3,050 and \$3,200 in 2024. The limit increased by \$150.00. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$610.

Pass-Through Business Taxes - A pass-through business is one that pays taxes according to the individual income tax code rather than through the corporate tax code. Income from the business passes through to be reported on the owner's personal tax return. Sole proprietorships, S corporations, partnerships, and limited liability companies (LLCs) are all pass-through businesses. C corporations are not.

Pass-through business owners can deduct 20% of their business income under the TCJA under the terms of the Qualified Business Income (QBI) deduction. However, professional services business owners such as lawyers, doctors, and consultants filing as single taxpayers and earning more than \$182,100 in 2023 are not considered to be qualified businesses. The threshold is \$365,200 for those who file joint returns with their spouses.

Education Credits - The modified adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit is phased out at modified adjusted gross income in excess of \$90,000 (\$180,000 for joint returns).

Foreign Earned Income Exclusion Increases - For tax year 2023, the foreign earned income exclusion is \$120,000 up from \$112,000 for tax year 2022.

Gift Tax Annual Exclusion Increases - The annual exclusion for gifts increases to \$17,000 per individual for calendar year 2023. The donor is responsible for paying the gift tax; however, the recipient may agree to pay the tax instead.

New US EV Tax Credit Rules Take Effect, With Fewer Models Qualifying

The U.S. Treasury Department and the Internal Revenue Service's (IRS) guidelines released Dec. 1, 2023, require that qualifying electric vehicles do not contain battery components manufactured or

assembled by a "foreign entity of concern (FEOC)," including China, Russia, Iran, and North Korea.

Some of Tesla Inc.'s models, along with several other electric vehicles (EVs), lost eligibility for consumer tax credits of up to \$7,500. Please check with the manufacturer to ensure you are entitled to the credit.

SIDE NOTE

Please ensure you have a recordkeeping system – electronic or paper – that keeps important information in one place. This includes year-end income documents like

- Forms W-2 from employers,
- Forms 1099 from banks or other payers,
- Form 1099-K from third party payment networks,
- Form 1099-NEC for nonemployee compensation,
- Form 1099-MISC for miscellaneous income, or
- Form 1099-INT if you were paid interest, as well as records documenting all digital asset transactions.

Ensuring tax records are complete before filing helps avoid errors and amended returns that lead to processing delays. When you have all your documentation, you will be in the best position to file an accurate return and avoid processing or refund delays or IRS letters

For more information or questions please contact our office.

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