2023 TAX NEWS

Reporting Rules for Businesses.

In January 2021, the Corporate Transparency Act was signed into law to help prevent and combat money laundering, terrorist financing, corruption, tax fraud, and other illicit activity. As a result, businesses are now required to become more transparent about their ownership structures.

Starting January 1, 2024, most business entities created in or registered to do business in the United States will be required to report information about their beneficial owners — the individuals who ultimately own or control a company — to the Financial Crimes Enforcement Network ("FinCEN").

A business entity is defined as a corporation, a limited liability company (LLC), or a business entity otherwise created by filing a document with a secretary of state or similar office. Non-LLC sole proprietorships are excluded from this definition.

The reporting procedure goes into effect on January 1, 2024. The due date for the initial report depends on when the entity was created:

1. If your company is created on or after January 1, 2024, then the initial report is due within 30 calendar days of the date the business is created.
2. If the company was formed before January 1, 2024, then the initial report is due no later than January 1, 2025.

In other words, effective January 1, 2024, new entities will have to file a report within 30 days of their creation. Entities already in existence on January 1, 2024, have until January 1, 2025, to file.

Note: As of October 2023, FinCEN is proposing to amend its final BOI Reporting Rule to provide 90 days for reporting companies created or registered in 2024 to file their initial reports, instead of 30 days. The proposed rule would not make any other changes to the final BOI Reporting Rule.

Reports include information about (1) the reporting company, (2) the reporting company's beneficial owners, and (3) "company applicants" who made the filings to create the entity. A beneficial owner is any individual who, directly or indirectly, either exercises substantial control over the company or owns or controls at least 25% of the company's ownership interests.

Electric vehicle credits for new vehicles.

2023 brought some changes to the rules for claiming federal tax credits for purchasing electric vehicles (EV). Some of those changes include:

- Qualifying vehicles must be assembled in North America.
- Increasing percentages of battery minerals and components must be sourced from the U.S. or from one of its free-trade partners.
- The manufacturer vehicle sales caps have been eliminated, meaning brands such as Chevrolet, Tesla and Toyota are eligible for EV credits again starting in 2023.
- Starting in 2024, buyers can take the EV tax credit directly at the point of sale rather than having to wait to claim it on their tax return.

Effective January 1, 2023, the following price and income limits apply:

Price limits for new vehicles:
- SUVs, vans and pickup trucks - $80,000
- Any other qualifying vehicle - $55,000

Income limits for new vehicles (based on MAGI):
- $300,000 - Joint returns or surviving spouse
- $225,000 - Head of household
- $150,000 - Any other filing status

Electric vehicle credits for used vehicles.

A tax credit is also available for eligible used vehicles purchased from a dealer for $25,000 or less. The credit amount is 30% of the vehicle's sale price, up to a maximum credit of $4,000. For this purpose, the credit is maxed out for vehicles purchased for $13,330 or more.

The credit is only available if you use the vehicle, rather than purchase it for resale. Those who qualify as your tax dependents do not qualify for the credit. You can only claim the credit for used vehicles once every three years, and it's only allowed once for any vehicle.
To qualify for this credit, your modified adjusted gross income (increased by certain nontaxed foreign income) for either the sale year or the year preceding it is limited to the following:
- $150,000 or less on a joint return
- $112,500 for a head of household filer
- $75,000 for singles and married filing separately

Energy efficient property credit.
Property owners are eligible for a tax credit for installing energy efficient property in their homes.

The following annual credit limits apply:
- $1,200 per taxpayer per year
- $600 for windows and skylights
- $250 for any exterior door ($500 total for all exterior doors)
- A $2,000 annual limit applies to the cost of specified heat pumps, heat pump water heaters, and biomass stoves and boilers.
- $150 for home energy audits

Residential clean energy credit.

This credit was formerly known as the residential energy efficient property (REEP) credit which was equal to 26% of property place installed in residential homes in years before 2024.

The credit equals:
- 30% - placed in service after Dec. 31, 2021, and before Jan. 1, 2033
- 26% - placed in service after Dec. 31, 2032, and before Jan. 1, 2034
- 22% - placed in service after Dec. 31, 2033, and before Jan. 1, 2035.

Qualified expenditures include the costs incurred for installing qualified solar property for generating electricity and hot water, geothermal heat pumps, fuel cell property biomass fuel property and small wind energy.

Required distributions to plan beneficiaries.

If you are a non-spouse beneficiary of an IRA, you are required to take annual minimum distributions from the inherited IRA regardless of your age. The amount of the distribution varies depending on whether the decedent was already taking distributions.

If the deceased IRA owner died before his or her required beginning date, one of two rules apply:

(1) For a non-spouse beneficiary who is (a) disabled or chronically ill, (b) a child of the deceased IRA owner who has not reached the age of majority, or (c) no more than 10 years younger than the deceased IRA owner, distributions must begin by Dec. 31 of the year after the year in which the deceased owner died. The distributions must be made over the beneficiary's life expectancy, or over a period not extending beyond his or her life expectancy.

(2) For beneficiaries other than those above, distributions must be completed within ten years of the death of the IRA owner. The beneficiary can, but doesn't have to, take distributions before the tenth anniversary of the IRA owner's death.

If the IRA owner died on or after his or her required beginning date, then:

(I) For a non-spouse beneficiary who is (a) disabled or chronically ill, (b) a child of the deceased IRA owner who has not reached the age of majority, or (c) no more than 10 years younger than the deceased IRA owner, the required minimum distributions for years after the year of the owner's death must be based on the longer of the life expectancy of the inheritor, or the deceased owner's life expectancy.

(II) For beneficiaries other than those listed above, distributions must be completed within ten years of the death of the IRA owner. Distributions must be made by Dec. 31 each year beginning the year following the year of death.

Student loan debt.

The maximum amount of student loan interest you can deduct each year is $2,500. The deduction is phased out if your adjusted gross income (AGI) exceeds certain levels.

For 2023, the deduction is phased out for taxpayers who are married filing jointly with AGI between $155,000 and $185,000 ($75,000 and $90,000 for single filers).

Standard Mileage Rate.

Taxpayers can use the standard mileage rate instead of actual expenses when computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups, or panel trucks) for business purposes.

The following rates (cents per mile) are applicable for tax year 2023:

Business	.655
Medical	.22
Moving	.22*
Charitable	.14

*Applies to members of the Armed Forces on active duty who move pursuant to a military order.

Retirement plan contribution limits for 2023.

The qualified plan and IRA contribution limits for 2023.

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $22,500.

The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), and most 457 plans, is increased to $7,500. Therefore, if you are 50 and older you can contribute up to $30,000, starting in 2023.

The limit on annual contributions to an IRA increased to $6,500. The IRA catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

New Rule Allows Rollover of 529 Accounts to Roth IRAs.

Tax-advantaged educational savings accounts, also known as 529 plans, provide a way for parents to help their children or other family members save for college or to pay other educational expenses. However, not every beneficiary uses the full amount they paid into the plan. Beginning in 2024, the SECURE 2.0 Act allows beneficiaries to roll over unused funds into a Roth IRA without having to pay a penalty. However, there is a lifetime limit of $35,000 per beneficiary and the 529 account must have been open for at least 15 years. The rollover amount cannot exceed the beneficiary's annual IRA contribution limit.

IRS Seeks Reporting of Digital Asset Sales.

Regulations proposed by the IRS this summer would require brokers to report the sale or exchange of digital assets by customers to the agency beginning in 2025. Under current law, taxpayers owe tax on gains and may be entitled to deduct losses on digital assets when sold, but for many taxpayers it is difficult and costly to calculate their gains. A new Form 1099-DA, issued by brokers, will help these taxpayers determine whether they owe taxes. Entities that would be required to issue Forms 1099-DA include digital asset trading platforms, digital asset payment processors and certain digital asset-hosted wallet providers. The proposed regulations would also require "real estate reporting persons" to report digital assets used in the purchase of real estate. Real estate reporting persons would include real estate brokers, title companies, closing attorneys and mortgage lenders.

Employee Retention Credit Scams Still Common.

The employee retention credit (ERC) was a help businesses that kept paying their employees during pandemic-related business disruptions. While the ERC helped many businesses weather the pandemic, confusion over how the program worked and who was eligible for the credit resulted in unscrupulous promoters pushing ineligible companies to claim the credit. Because the ERC can still be claimed retroactively, many of these scammers are still active and pushing unwary businesses to claim credits in return for a fee of up to 25% of the claimed credit. Unfortunately, if the IRS discovers that an ineligible employer has claimed the credit, it is the business that is required to repay the credit, plus interest and penalties.

Due to the high number of potentially ineligible claims, it is receiving, the IRS is warning businesses to be on the lookout for aggressive promoters misleading taxpayers about their eligibility. There and many companies do not qualify.