



Tax News and Industry Updates

2023
Volume 11, Issue 1

The Tax Savant LLC
Cedar Knolls - Whippany
973-270-0614
Richard@thetaxsavantllc.com
www.thetaxsavantllc.com



Inside This Issue

Standard Mileage Rate.....	1
Inflation Adjusted Amounts.....	1
Delay for \$600 Reporting Threshold for 1099-Ks.....	2
IRS Completes Automatic Corrections for Excluded Unemployment Compensation.....	3
New Tax Gap Estimates.....	3

Standard Mileage Rate

Cross References

- Rev. Proc. 2010-51
- Announcement 2022-13
- Notice 2023-03

The IRS has released the 2023 standard mileage rates for taxpayers to use in computing the deductible costs of operating an automobile for business, charitable, medical, or moving expense purposes. The following chart reflects the new 2023 standard mileage rates compared to the 2021 and 2022 standard mileage rates.

	2023	Beginning July 1, 2022	Before July 1, 2022
Business rate per mile*	65.5¢	62.5¢	58.5¢
Medical and moving rate per mile**	22.0¢	22.0¢	18.0¢
Charitable rate per mile	14.0¢	14.0¢	14.0¢
Depreciation rate per mile	28.0¢	26.0¢	26.0¢

* A deduction for unreimbursed employee business travel is suspended for tax years 2018 through 2025, unless the deduction is allowed in determining adjusted gross income, such as members of a reserve component of the Armed Forces, state or local government officials paid on a fee basis, or certain performing artists.

** A deduction for moving expenses is suspended for tax years 2018 through 2025, unless the taxpayer is a member of the Armed Forces on active duty who moves pursuant to a military order and incident to a permanent change of station.

Inflation Adjusted Amounts

Cross References

- Rev. Proc. 2022-38
- Notice 2022-55

Each year, a number of provisions in the Internal Revenue Code (IRC) are adjusted for inflation. The IRS recently released the inflation adjusted amounts for 2023. The following chart highlights a number of these adjustments, as they compare to the 2022 amounts.

Tax Provision	2023	2022
Standard deduction – MFJ	\$27,700	\$25,900
Standard deduction – Single	\$13,850	\$12,950
Standard deduction – HOH	\$20,800	\$19,400
Qualifying relative income limit	\$4,700	\$4,400
Maximum EIC for 3 or more qualifying children	\$7,430	\$6,935
Maximum EIC for 2 qualifying children	\$6,604	\$6,164
Maximum EIC for 1 qualifying child	\$3,995	\$3,733
Maximum EIC for no qualifying children	\$600	\$560
Section 179 expense limit	\$1,160,000	\$1,080,000
Section 179 investment limit	\$2,890,000	\$2,700,000
Section 179 SUV limit	\$28,900	\$27,000
Estates basic exclusion amount	\$12,920,000	\$12,060,000
Annual exclusion for gifts	\$17,000	\$16,000
Defined contribution plan contribution limit	\$66,000	\$61,000
401(k) elective deferral limit for under age 50	\$22,500	\$20,500

continued on next page

<i>Tax Provision continued</i>	2023	2022
401(k) elective deferral limit for age 50 and older	\$30,000	\$27,000
SIMPLE elective deferral limit for under age 50	\$15,500	\$14,000
SIMPLE elective deferral limit for age 50 and older	\$19,000	\$17,000
IRA deduction limit for under age 50	\$6,500	\$6,000
IRA deduction limit for age 50 and older	\$7,500	\$7,000
Key employee definition for top-heavy plans	\$215,000	\$200,000
Highly compensated employee definition	\$150,000	\$135,000
Qualified plan compensation limit	\$330,000	\$305,000
Child Tax Credit (per qualifying child)	\$2,000	\$2,000
Refundable portion of child tax credit	\$1,600	\$1,500
QBI threshold amount – MFJ	\$364,200	\$340,100
QBI threshold amount – Single & HOH	\$182,100	\$170,050
QBI threshold amount – MFS	\$182,100	\$170,050
Foreign earned income exclusion	\$120,000	\$112,000
AMT exemption – MFJ & QW	\$126,500	\$118,100
AMT exemption – Single & HOH	\$81,300	\$75,900
AMT exemption – MFS	\$63,250	\$59,050



Delay for \$600 Reporting Threshold for 1099-Ks

Cross References

- IR-2022-226, December 23, 2022

The Internal Revenue Service has announced a delay in reporting thresholds for third-party settlement organizations set to take effect for the upcoming tax filing season.

As a result of this delay, third-party settlement organizations will not be required to report tax year 2022 transactions on a Form 1099-K to the IRS or the payee for the lower, \$600 threshold amount enacted as part of the American Rescue Plan of 2021.

As part of this, the IRS released guidance today outlining that calendar year 2022 will be a transition period for implementation of the lowered threshold reporting for third-party settlement organizations (TPSOs) that would have generated Form 1099-Ks for taxpayers.

“The IRS and Treasury heard a number of concerns regarding the timeline of implementation of these changes under the American Rescue Plan,” said Acting IRS Commissioner Doug O’Donnell. “To help smooth the transition and ensure clarity for taxpayers, tax professionals and industry, the IRS will delay implementation of the 1099-K changes. The additional time will help reduce

confusion during the upcoming 2023 tax filing season and provide more time for taxpayers to prepare and understand the new reporting requirements.”

The American Rescue Plan of 2021 changed the reporting threshold for TPSOs. The new threshold for business transactions is \$600 per year; changed from the previous threshold of more than 200 transactions per year, exceeding an aggregate amount of \$20,000. The law is not intended to track personal transactions such as sharing the cost of a car ride or meal, birthday or holiday gifts, or paying a family member or another for a household bill.

Under the law, beginning January 1, 2023, a TPSO is required to report third-party network transactions paid in 2022 with any participating payee that exceed a minimum threshold of \$600 in aggregate payments, regardless of the number of transactions. TPSOs report these transactions by providing individual payee’s an IRS Form 1099-K, *Payment Card and Third-Party Network Transactions*.

The transition period described in Notice 2023-10, delays the reporting of transactions in excess of \$600 to transactions that occur after calendar year 2022. The transition period is intended to facilitate an orderly transition for TPSO tax compliance, as well as individual payee compliance with income tax reporting. A participating payee, in the case of a third-party network transaction, is any person who accepts payment from a third-party settlement organization for a business transaction.

The change under the law is hugely important because tax compliance is higher when amounts are subject to information reporting, like the Form 1099-K. However, the IRS noted it must be managed carefully to help ensure that 1099-Ks are only issued to taxpayers who should receive them. In addition, it’s important that taxpayers understand what to do as a result of this reporting, and tax preparers and software providers have the information they need to assist taxpayers.

Additional details on the delay will be available in the near future along with additional information to help taxpayers and the industry. For taxpayers who may have already received a 1099-K as a result of the statutory changes, the IRS is working rapidly to provide instructions and clarity so that taxpayers understand what to do.

The IRS also noted that the existing 1099-K reporting threshold of \$20,000 in payments from over 200 transactions will remain in effect.



IRS Completes Automatic Corrections for Excluded Unemployment Compensation

Cross References

- IR-2023-02, January 6, 2023

The Internal Revenue Service recently completed the final corrections of tax year 2020 accounts for taxpayers who overpaid their taxes on unemployment compensation they received in 2020.

The American Rescue Plan Act of 2021, which became law in March 2021, excluded up to \$10,200 in 2020 unemployment compensation from taxable income calculations (up to \$10,200 for each spouse if married filing joint). The exclusion applied to individuals and married couples whose modified adjusted gross income was less than \$150,000.

To ease the burden on taxpayers, the IRS took steps to review the Forms 1040 and 1040-SR that were filed prior to the law's enactment to identify taxpayers who had already reported unemployment compensation as income and were eligible for the correction. The IRS determined the correct taxable amount of unemployment compensation and tax.

Some taxpayers received refunds, while others had the overpayment applied to taxes due or other debts. In some cases, the exclusion only resulted in a reduction in their adjusted gross income. The IRS mailed a letter to these taxpayers to inform them of the corrections. Taxpayers should keep that letter with their tax records.

The IRS corrected approximately 14 million returns. This resulted in nearly 12 million refunds totaling \$14.8 billion, with an average refund of \$1,232.

Many of the adjustments included corrections to the:

- Earned Income Tax Credit.
- Recovery Rebate Credit.
- Additional Child Tax Credit.
- American Opportunity Tax Credit.
- Premium Tax Credit.
- Advance Premium Tax Credit.

If a taxpayer is eligible for the unemployment compensation exclusion and their account was not corrected by the IRS, they may need to file an amended 2020 tax return to claim the exclusion and any applicable non-refundable or refundable credits impacted by the exclusion.

Taxpayers should not file an amended return if they previously filed one claiming the exclusion. For more information about this, including eligibility requirements, taxpayers should read the 2020 Unemployment Compensation Exclusion FAQs on IRS.gov.

If they do need to amend tax year 2020 Forms 1040 and 1040-SR, taxpayers can file Form 1040-X, *Amended U.S. Individual Income Tax Return*, electronically with tax filing software.

Taxpayers can view their 2020 tax records in their On-line Account or request that a 2020 tax account transcript be mailed to them.



New Tax Gap Estimates

Cross References

- IR-2022-192, October 28, 2022

The Internal Revenue Service has released a new set of tax gap estimates on tax years 2014 through 2016 showing the estimated gross tax gap increased to \$496 billion, a rise of over \$58 billion from the prior estimate.

The gross tax gap is the difference between estimated 'true' tax liability for a given period and the amount of tax that is paid on time. As discussed below, it is important to note that the tax gap estimates cannot fully account for all types of evasion.

"These findings underscore the importance of ensuring fairness in our nation's tax system," said IRS Commissioner Chuck Rettig. "The increase in the tax gap estimates reflects that the IRS needs to do more, both in improving taxpayer service as well as working to improve tax compliance. The IRS remains committed to ensuring fairness and helping taxpayers while also working to better identify emerging compliance issues that contribute to the tax gap. The recent funding addition will help the IRS in many ways, increasing taxpayer education, significantly improving service to all taxpayers and focusing on high-income/high-wealth non-compliance in a fair and impartial manner supporting compliant taxpayers."

After late payments and IRS efforts collected an additional \$68 billion, the IRS estimated the net tax gap was \$428 billion. This increase in the tax gap can be attributed to economic growth.

Between the two periods, 2011–2013 and 2014–2016, the estimated tax liability increased by more than 23 percent.

The tax gap estimates translate to about 85% of taxes paid voluntarily and on time, which is in line with recent levels. The new estimate is a slight improvement from 83.7 percent in a revised tax year 2011–2013 estimate, which dipped slightly from the original estimate released earlier. After IRS compliance efforts are taken into account, the estimated share of taxes eventually paid is 87% for 2014–2016.

The gross tax gap comprises three components:

- Nonfiling (tax not paid on time by those who do not file on time, \$39 billion),
- Underreporting (tax understated on timely filed returns, \$398 billion), and
- Underpayment (tax that was reported on time, but not paid on time, \$59 billion).

A particular challenge for tax gap estimation is the time it takes to collect compliance data, especially data on underreporting that come from completed examinations (audits). To address this issue, the current release includes estimated tax gap projections for tax years 2017–2019.

Based on the projections for 2017–2019, the estimated average gross tax gap is projected to be \$540 billion per year. The associated voluntary compliance rate is projected to be 85.1 percent. The projection of enforced and other late payments is \$70 billion, which yields a net tax gap projection of \$470 billion. The associated non-compliance rate projection is 87.0 percent.

The gross tax gap nonfiling, underreporting, and underpayment component projections for Tax Years 2017–2019 timeframe are \$41 billion, \$433 billion, and \$66 billion respectively.

As part of the larger effort to reduce the actual tax gap, the IRS will continue to fairly enforce the tax laws. In 2021, the latest year for which data is available, the IRS currently collected more than \$4 trillion in taxes, penalties, interest and user fees.

Tax gap studies through the years have consistently demonstrated that third-party reporting of income significantly raises voluntary compliance with the tax laws. And voluntary compliance rises even higher when income payments are also subject to withholding. The IRS also has an array of other taxpayer service programs aimed at supporting accurate tax filing and helping address the tax gap. These range from working with businesses and partner groups to a variety of education and outreach efforts.

The voluntary compliance rate of the U.S. tax system is vitally important for the nation. A one-percentage-point increase in voluntary compliance would bring in about \$40 billion in additional tax receipts.

The tax gap estimates provide insight into the historical scale of tax compliance and to the persisting sources of low compliance.

“Keeping the voluntary compliance rate as high as possible ensures that taxpayers believe our system is fair,” Rettig said. “The vast majority of taxpayers strive to pay what they owe on time. Those who do not pay their fair share ultimately shift the tax burden to those people who do, which fuels the tax gap. The IRS will continue to

direct our resources to help educate taxpayers about the tax requirements under the law while also focusing on pursuing those who avoid their legal responsibilities.”

Estimating the tax gap; offshore, digital assets, other categories not fully represented. Given the complexity of the tax system and available data, no single approach can be used for estimating each component of the tax gap. Each approach is subject to measurement or nonsampling error; the component estimates that are based on samples are also subject to sampling error. For the individual income tax underreporting tax gap, Detection Controlled Estimation is used to adjust for measurement errors that results when some existing noncompliance is not detected during an audit. Other statistical techniques are used to control for bias in estimates based on operational audit data. Because multiple methods are used to estimate different subcomponents of the tax gap, no standard errors are reported. In addition, those reviewing this data should be mindful of these limitations when using these estimates.

Given available data, these are the best possible estimates of the tax gap components presented, although they do not represent the full extent of potential non-compliance. There are several factors to keep in mind.

- The estimates cannot fully represent noncompliance in some components of the tax system including offshore activities, issues involving digital assets and cryptocurrency as well as corporate income tax, income from flow-through entities, illegal activities because data are lacking.
- The tax gap associated with illegal activities has been outside the scope of tax gap estimation because the objective of government is to eliminate those activities, which would eliminate any associated tax.
- For noncompliance associated with digital assets and other emerging issues, it takes time to develop the expertise to uncover associated noncompliance and for examinations to be completed that can be used to measure the extent of that noncompliance.

The IRS continues to actively work on new methods for estimating and projecting the tax gap to better reflect changes in taxpayer behavior as they emerge.

