TAX CHANGES FOR 2023

TAXGURU LLC

BUSINESSES: IMPORTANT TAX CHANGES IN 2023

Here's what small business owners need to know about tax law changes and inflation adjustments for the year ahead.

Standard Mileage Rates

In 2023, the rate for business miles driven is 65.5 cents per mile, up 3 cents from the midyear increase setting the rate for the second half of 2022.

Section 179 Expensing

In 2023, the Section 179 expense deduction increases to a maximum deduction of $1,160,000 of the first $2,890,000 of qualifying equipment placed in service during the current tax year. This amount is indexed to inflation for tax years after 2018. The deduction was enhanced under the TCJA to include improvements to nonresidential qualified real property such as roofs, fire protection, and alarm systems and security systems, and heating, ventilation, and air-conditioning systems. Also, of note is that costs associated with the purchase of any sport utility vehicle, treated as a Section 179 expense, cannot exceed $28,900.

Bonus Depreciation

Businesses are allowed to immediately deduct 100% of the cost of eligible property placed in service after September 27, 2017, and before January 1, 2023, after which it will be phased downward over a four-year period: 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027 and years beyond.

Qualified Business Income Deduction

Eligible taxpayers are able to deduct up to 20 percent of certain business income from qualified domestic businesses, as well as certain dividends. To qualify for the deduction business income must not exceed a certain dollar amount. In 2023, these threshold amounts are $182,100 for single and head of household filers and $364,200 for married taxpayers filing joint returns.

Tax Guru's tax planning checklist of additional action items may help you save tax dollars.

Research & Development Tax Credit

Starting in 2018, businesses with less than $50 million in gross receipts can use this credit to offset alternative minimum tax. Certain start-up businesses that might not have any income tax liability will be able to offset payroll taxes with the credit as well.

Work Opportunity Tax Credit (WOTC)

Extended through 2025 (The Consolidated Appropriations Act, 2022), the Work Opportunity Tax Credit is available for employers who hire long-term unemployed individuals (unemployed for 27 weeks or more) and is generally equal to 40 percent of the first $6,000 of wages paid to a new hire.

Employee Health Insurance Expenses

For taxable years beginning in 2023, the dollar amount of average wages is $30,700 ($28,700 in 2022). This amount is used for limiting the small employer health insurance credit and for determining who is an eligible small employer for purposes of the credit.

Business Meals and Entertainment Expenses

Taxpayers who incur food and beverage expenses associated with operating a trade or business are able to deduct 100 percent (50 percent for tax years 2018-2020) of these expenses for tax years 2022 and 2023 (The Consolidated Appropriations Act, 2022) as long as the meal is provided by a restaurant.

Employer-provided Transportation Fringe Benefits

If you provide transportation fringe benefits to your employees in 2023, the maximum monthly limitation for transportation in a commuter highway vehicle as well as any transit pass is $300. The monthly limitation for qualified parking is $300.

Tax Season is Right Around the Corner

While this checklist outlines important tax changes for 2023, additional changes in tax law are likely to arise during the year ahead. Don't hesitate to contact the office if you have any questions about your tax situation or want to get a head start on tax planning for your small business in the year ahead.

HIGHLIGHTS OF THE SECURE 2.0 ACT OF 2022

The $1.66 trillion Consolidated Appropriations Act, 2023 was signed into law on December 29, 2022 by President Biden. Included in the 4,155 page bill is the SECURE Act 2.0 of 2022, which contains a number of tax provisions relating to retirement.

Let's take a look at the highlights:

Automatic Enrollment in Retirement Plans

Employers starting new retirement plans in tax year 2025 or later would be required to automatically enroll their employees in 401(k) and 403(b) plans. Employees would set aside not less than 3 percent but not more than 10 percent of their paycheck. There would be an automatic one percent increase yearly until the employee participant reaches 10 percent. Employees can set aside as much as 15 percent. The new tax provision doesn't apply to businesses in existence less than 3 years. Furthermore, existing businesses with retirement plans in place, employers with fewer than 10 employees, and church and government plans are exempt from the new law.

Starter 401k Plans. For tax years after December 31, 2023, the new law allows employers with no retirement plans to establish starter 401k plans. Workers would be enrolled automatically, contributing at least 3 percent. Catch-up contributions are allowed for workers aged 50 and up.

Federal Match for Saver's Credit

Starting in 2027, lower to middle income taxpayers contributing to a traditional IRA or a 401(k) at their workplace would be eligible for a 50 percent matching contribution of up to $2,000 from the federal government. The federal matching contribution will be directly deposited into their IRS or 401(k) account. Saver's must be aged 18 or older and contribute more than $100 to receive the match. Dependents, full-time students, and nonresident aliens (unless treated taxable as a resident) are not eligible. The match phases out between $41,000 and $71,000 for joint filers, $20,500 to $35,500 for single filers and $30,750 to $53,250 for heads of households.

Emergency Savings Funds and 401k Withdrawals

Emergency Savings Plans. Employers are now able to set up emergency savings plans for employees that are linked to their retirement accounts. Employees would be allowed to contribute 3 percent of their salary or a maximum of $2,500 to the emergency account.

401k Withdrawals for Emergency Personal Expenses Another option employers can offer is a one-time withdrawal from their employees' 401k plans. Employees would be permitted one (1) distribution per calendar year for a maximum amount of $1,000. This tax provision goes into effect in 2024.

Student Loan Payments Count as Retirement Contributions

Starting in 2024, employees that make student loan payments to loan servicers qualify for matching contributions from their employer to a retirement plan - even if the employees themselves do not make contributions of their own.

Part-time Workers

Starting in 2025, part-time workers are eligible to participate in their employer's 401(k) retirement plans after two years instead of three (SECURE Act 2.0, 2019). Each 12-month period for which the employee has more than 500 hours of service shall be treated as a year of service.

IRA Catch-up Contributions

Indexed to inflation. For taxable years beginning after December 31, 2023, the $1,000 catch-up contribution amount will be indexed to inflation with the amounts rounded down to the nearest multiple of $100.

Higher catch-up contributions. Starting in taxable years after December 31, 2024, catch-up contributions for workers aged 60, 61, 62, and 63 increase to $10,000 or 150 percent of the regular catch-up amount that year, whichever is greater. Cost of living adjustments will be in effect for years after December 31, 2024.

Required Minimum Distributions (RMDs) Increase to Age 73

For individuals who reach age 72 after December 31, 2022, and age 73 before January 1, 2033, the applicable age for starting RMDS is 73. For individuals who attain age 74 after December 31, 2032, the applicable age is 75. The new rules apply to distributions required to be made after December 31, 2022, with respect to individuals who attain age 72 after such date.

Roth IRAs

New Rules for Roth 401ks. Effective January 1, 2023, employers have the option to let employees choose between having a company match in a Roth 401k or a regular 401k. Under current law, employer matching contributions must go into a regular 401k even if a taxpayer puts money in their Roth 401k.

Catch-up Contributions for Higher Earners. Starting in 2024, catch-up contributions for workers aged 50 and up who earn more than $145,000 must be put into a Roth retirement account, rather than a traditional pretax retirement account such as a 401k. The $145,000 threshold amount will be indexed for inflation starting in 2025 and rounded down to the lowest multiple of $5,000.

Special Rules for 529 rollovers. Starting in 2024, 529 college savings plans that have been maintained for at least 15 years can be rolled over to a Roth IRA. The rollover must be trustee to trustee and there is a $35,000 lifetime limit per account beneficiary.

Help is Just a Phone Call Away

If you have questions about any of the tax provisions in the SECURE 2.0 Act or 2022, or any other tax-related topic, do not hesitate to contact the office.

STANDARD MILEAGE RATES FOR 2023

Beginning on January 1, 2023, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be as follows. These rates apply to electric and hybrid-electric automobiles, as well as gasoline and diesel-powered vehicles.

- 65.5 cents per mile driven for business use, up 3 cents from the midyear increase setting the rate for the second half of 2022.
- 22 cents per mile driven for medical or moving purposes for qualified active-duty members of the Armed Forces, consistent with the increased midyear rate set for the second half of 2022.
- 14 cents per mile driven in service of charitable organizations; the rate is set by statute and remains unchanged from 2022.

The standard mileage rate for business use is based on an annual study of the fixed and variable costs of operating an automobile, including depreciation, insurance, repairs, tires, maintenance, gas, and oil. The rate for medical and moving purposes is based on the variable costs.

Impact of the Tax Cuts and Jobs Act. Taxpayers cannot claim a miscellaneous itemized deduction for unreimbursed employee travel expenses. Taxpayers also cannot claim a deduction for moving expenses, unless they are members of the Armed Forces on active duty moving under orders to a permanent change of station.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

Taxpayers can use the standard mileage rate but generally must opt to use it in the first year the car is available for business use. Then, in later years, they can choose either the standard mileage rate or actual expenses.

Leased vehicles. Leased vehicles must use the standard mileage rate method for the entire lease period (including renewals) if the standard mileage rate is chosen.

Please contact the office if you have any questions about standard mileage rates or which driving activities you should keep track of as the new tax year begins.

REPORTING OF $600 THIRD-PARTY PAYMENTS DELAYED

Due to concerns regarding the implementation timeline, reporting thresholds for third-party settlement organizations that were set to take effect on January 1, 2023, have been delayed. As such, 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.

Instead, calendar year 2022 will be a transition period for implementation of the lowered threshold reporting for third-party settlement organizations (TPSOs) including Venmo, PayPal and CashApp that would have generated Form 1099-Ks for taxpayers. 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. This change under the law is important because tax compliance is higher when amounts are subject to information reporting, like the Form 1099-K.

Taxpayers should note, however, that the existing 1099-K reporting threshold of $20,000 in payments from over 200 transactions remains in effect. Taxpayers should also know that 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.

Background

The American Rescue Plan of 2021 changed the reporting threshold for TPSOs. The new threshold for business transactions is $600 per year; a change from the previous threshold of more than 200 transactions per year, exceeding an aggregate amount of $20,000. 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*.

Transition Period

The transition period delays the reporting of transactions in excess of $600 to transactions that occur after calendar year 2022. It 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.

Taxpayers who may have already received a 1099-K as a result of the statutory changes, should know that the IRS is working rapidly to provide instructions and clarity so that taxpayers understand what to do. Additional details on the delay will be available in the near future along with additional information to help taxpayers and the industry; however, don't hesitate to call the office with any immediate concerns or questions.

WATCH OUT FOR HOLIDAY GIFT CARD SCAMS

There's never an off-season when it comes to scammers and thieves who want to trick people into scamming them out of money, stealing their personal information, or talking them into engaging in questionable behavior with their taxes. While scam attempts typically peak during tax season, taxpayers need to remain vigilant all year long. As such, it is once again time to remind taxpayers that while gift cards make great presents for loved ones, they cannot be used to pay taxes.

Nonetheless, that doesn't stop scammers from targeting taxpayers by asking them to pay a fake tax bill with holiday gift cards. Scammers may also use a compromised email account to send emails requesting gift card purchases for friends, family, or co-workers.

How the Scam Works:

- The most common way scammers request gift cards is over the phone through a government impersonation scam. However, they will also request gift cards by sending a text message, email, or through social media.
- A scammer posing as an IRS agent will call the taxpayer or leave a voicemail with a callback number informing the taxpayer that they are linked to some criminal activity. For example, the scammer will tell the taxpayer their identity has been stolen and used to open fake bank accounts.
- The scammer will threaten or harass the taxpayer by telling them that they must pay a fictitious tax penalty.
- The scammer instructs the taxpayer to buy gift cards from various stores.
- Once the taxpayer buys the gift cards, the scammer will ask the taxpayer to provide the gift card number and PIN.

How to Know if it's Really the IRS calling:

The IRS will never:

- Call to demand immediate payment using a specific payment method such as a gift card, prepaid debit card, or wire transfer. Generally, the IRS will first mail a bill to any taxpayer who owes taxes.

- Demand that taxpayers pay taxes without the opportunity to question or appeal the amount they owe. All taxpayers should be aware of their rights.
- Threaten to bring in local police, immigration officers, or other law enforcement to have the taxpayer arrested for not paying.
- Threaten to revoke the taxpayer's driver's license, business licenses or immigration status.

If You've Been Targeted by a Scammer:

- Contact the Treasury Inspector General for Tax Administration to report a phone scam. Use their IRS Impersonation Scam Reporting webpage. They can also call 800-366-4484.
- Report phone scams to the Federal Trade Commission. Use the FTC Complaint Assistant on FTC.gov. They should add "IRS phone scam" in the notes.
- Report threatening or harassing telephone calls claiming to be from the IRS to phishing@irs.gov. Please include "IRS phone scam" in the subject line.

TAX CREDIT FOR HIRING LONG-TERM UNEMPLOYED WORKERS

With many businesses facing a tight job market, employers should know about a valuable tax credit available to them for hiring long-term unemployment recipients and other groups of workers facing significant barriers to employment. If your business is hiring right now, the Work Opportunity Tax Credit (WOTC) may help.

Background

Legislation enacted in December extended the WOTC through the end of 2025. This long-standing tax benefit encourages employers to hire workers certified as members of any of ten targeted groups facing barriers to employment. Millions of Americans have been out of work at one time or another since the pandemic began, but one of these targeted groups is long-term unemployment recipients who have been unemployed for at least 27 consecutive weeks and have received state or federal unemployment benefits during part or all of that time.

Eligible Employees

The other groups include certain veterans and recipients of various kinds of public assistance, among others. Specifically, the 10 groups are:

- Temporary Assistance for Needy Families (TANF) recipients,
- Unemployed veterans, including disabled veterans,
- Formerly incarcerated individuals,
- Designated community residents living in Empowerment Zones or Rural Renewal Counties,
- Vocational rehabilitation referrals,
- Summer youth employees living in Empowerment Zones,
- Supplemental Nutrition Assistance Program (SNAP) recipients,
- Supplemental Security Income (SSI) recipients,
- Long-term family assistance recipients,
- Long-term unemployment recipients.

Qualifying for the Credit

To qualify for the credit, an employer must first request certification by submitting IRS Form 8850, *Pre-screening Notice and Certification Request for the Work Opportunity Credit*, to their state workforce agency (SWA). Do not submit this form to the IRS.

Form 8850 must be submitted to the SWA within 28 days after the eligible worker begins work. Eligible businesses claim the WOTC on their federal income tax return. It is generally based on wages paid to eligible workers during the first year of employment. The credit is first figured on Form 5884, *Work Opportunity Credit*, and then is claimed on Form 3800, *General Business Credit*.

Though the credit is not available to tax-exempt organizations for most groups of new hires, a special rule allows them to claim the WOTC for hiring qualified veterans. These organizations claim the credit against payroll taxes on Form 5884-C, *Work Opportunity Credit for Qualified Tax Exempt Organizations*.

If you're a small business owner who wants to take advantage of this tax saving credit, but aren't sure you qualify, help is just a phone call away.