

# IRS Tax Updates for 2023 Tax Year

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## Federal Tax Brackets for Filing Your 2023 Tax Year Return

### Married Couples Filing Jointly and Separately

| Tax Rate | Taxable Income         |                           |
|----------|------------------------|---------------------------|
|          | Married Filing Jointly | Married Filing Separately |
| 10%      | Up to \$22,000         | Up to \$11,000            |
| 12%      | \$22,001 to \$89,450   | \$11,001 to \$44,725      |
| 22%      | \$89,451 to \$190,750  | \$44,726 to \$95,375      |
| 24%      | \$190,751 to \$364,200 | \$95,376 to \$182,100     |
| 32%      | \$364,201 to \$462,500 | \$182,101 to \$231,250    |
| 35%      | \$462,501 to \$693,750 | \$231,251 to \$346,875    |
| 37%      | Over \$693,750         | Over \$346,875            |

### Filing Single and Head-of-Household

| Tax Rate | Taxable Income         |                        |
|----------|------------------------|------------------------|
|          | Single                 | Head of Household      |
| 10%      | Up to \$11,000         | Up to \$15,700         |
| 12%      | \$11,001 to \$44,725   | \$15,701 to \$59,850   |
| 22%      | \$44,726 to \$95,375   | \$59,851 to \$95,350   |
| 24%      | \$95,376 to \$182,100  | \$95,351 to \$182,100  |
| 32%      | \$182,101 to \$231,250 | \$182,101 to \$231,250 |
| 35%      | \$231,251 to \$578,125 | \$231,251 to \$578,100 |
| 37%      | Over \$578,125         | Over \$578,100         |

The IRS updated the federal tax brackets for 2023 so you may be in a different tax bracket when you file your 2023 return. For example, in 2022, the Single 12% tax rate applied to taxable income between \$10,275 to \$41,775. In 2023, the 12% tax rate starts at \$11,001. The next section provides an example of how you can estimate your federal tax by applying IRS tax rates.

## Federal Progressive Tax Rate System

The IRS uses a progressive tax formula to calculate taxes. So, to estimate the federal tax you have to do some math. Say your taxable income (salary plus things like interest less deductions) was \$150,000 and you are single. The first \$11,000 is taxed at 10%. The next \$33,725 is taxed at 12%. The next \$50,650 is taxed at 22%. Finally, \$52,625 is taxed at 24%. Therefore, the estimated tax on \$150,000 of taxable income is \$29,400.

| Tax Rate | Taxable Income (Single) | Estimated Tax Amount |
|----------|-------------------------|----------------------|
| 10%      | \$11,000                | \$1,100              |
| 12%      | \$33,725                | \$4,047              |
| 22%      | \$50,650                | \$11,143             |
| 24%      | \$54,625                | \$13,110             |
|          | <b>\$150,000</b>        | <b>\$29,400</b>      |

Filers with higher incomes are subject to an alternative minimum tax (AMT) calculation process. It mostly affects filers with over \$500,000 in income, but even single filers with over \$81,300 in income may be subject to the AMT process. You will pay the higher of ordinary tax or AMT.

The IRS made adjustments to other tax provisions that will impact your deductions and credits. Here's a look at some items that may be of interest to you.

### Standard Deduction Applied to the 2023 Tax Year

- \$13,850 for single taxpayers and married individuals filing separately.
- \$27,700 for married couples filing jointly.
- \$20,800 for head of household.

Your tax professional will help you to determine if the total of certain expenses allowed by the IRS is greater than your standard deduction. Allowable expenses include but are not limited to mortgage interest, charitable contributions, and a portion or all of property taxes paid. You will claim the larger of the standard or your itemized deduction.

### Retirement Savings

#### Key Dollar Limits to retirement plans and IRAs

- In 2023, the maximum contribution limit for 401(k), 403(b), and 457 employer sponsored plans is \$22,500. If you are 50 or older, you can contribute an extra \$7,500 as a catch-up contribution for a total of \$30,000 of your pre-tax income.

In 2024, the maximum contribution is \$23,000, with \$7,500 catch up.

- In 2023, the maximum contribution limit for Traditional IRAs is \$6,500. If you are 50 or older, you can contribute an extra \$1,000 for a total of \$7,500.

In 2024, the maximum contribution is \$7,000, with \$1,000 catch up.

Ask your tax professional about Roth limits and phase-out limits on traditional IRA contributions, which are not covered here.

### Required Minimum Distributions (RMDs)

RMDs apply to your retirement plans. That includes profit-sharing plans, 401(k) plans, 403(b) plans, and 457(b) plans, traditional IRAs and IRA-based plans such as SEPs, SARSEPs, and SIMPLE IRAs. Are you aged 73 or older? If you reached age 73 in 2023, you were 72 in 2022. You should have taken your first RMD by April 1, 2023. You must take your second RMD by December 31, 2023.

How much do you need to withdraw? The distribution amount changes from year to year. Generally, the RMD for any year is the account balance on December 31 of the preceding calendar year divided by a life expectancy factor determined by the IRS.

Note that Roth IRAs *do not* require withdrawals until after the death of the owner. However, Designated Roth accounts in a 401(k) or 403(b) plan are subject to the RMD rules for 2023. Good news - for 2024 and later years, RMDs are no longer required from designated Roth accounts. Plan accordingly.

More good news - beginning in 2023, the SECURE 2.0 Act raised the age that you must begin taking RMDs to age 73. If you reach age 72 in 2023 – and therefore 73 in 2024, the required beginning date for your first RMD is April 1, 2025.

### Capital Gains

If you sell investments (or assets like your home) for more money than the amount you paid for it, you have a capital gain. The length of time you held the investment before selling determines if it is a short- or long-term capital gain. Investments held for a year or less are taxed at the same rate as ordinary income, while investments you have owned for more than a year are taxed at various rates as shown below.

#### Long-term Capital Gain Rates for 2023 Tax Year

| Tax filing status         | Long-term Capital Tax Rate |                       |             |
|---------------------------|----------------------------|-----------------------|-------------|
|                           | 0%                         | 15%                   | 20%         |
| Single                    | Up to \$44,625             | \$44,626 to \$492,300 | \$492,301+  |
| Married filing jointly    | Up to \$89,250             | \$89,251 to \$553,850 | \$553,851 + |
| Married filing separately | Up to \$44,625             | \$44,626 to \$276,900 | \$276,901 + |
| Head of household         | Up to \$59,750             | \$59,751 to \$523,050 | \$523,051 + |

## Health Related Saving Accounts

### Health Savings Accounts (HSAs)

If you are enrolled in a high-deductible health plan you met a key requirement to be eligible to contribute to an HSA. For 2023, the maximum contribution to an HSA is \$3,850 for self-only coverage and \$7,750 for family coverage. If you are 55 or older you can contribute an extra \$1,000.

For 2024, the maximum contribution to an HSA is \$4,150 for self-only coverage and \$8,300 for family coverage. If you are 55 or older you can contribute an extra \$1,000.

### Flexible Spending Arrangements (FSAs)

For 2023, the limit on employee contributions to a healthcare FSA is \$3,050. Your employer's plan may permit carryover; if so, the maximum carryover amount is \$610.

For 2024, the limit on employee contributions to a healthcare FSA is \$3,200. Your employer's plan may permit carryover; if so, the maximum carryover amount is \$640.

## Gift Tax Exclusion

In 2023, you can give up to \$17,000 to anyone without having to file a gift tax return.

In 2024, you can give up to \$18,000 to anyone without having to file a gift tax return.



### Tax Deadlines

Your 2023 federal tax year return is Due Monday, April 15, 2024.

If you need an automatic 6-month extension of time to file your federal return (Oct. 15), you must pay what you estimate you owe in tax to avoid penalties and interest. Different requirements for some military.

**Tax professionals with Anna Saez, CPA are ready to help you with your personal taxes. Contact Anna at [accountingBot.com](https://accountingBot.com)**