TAX PLANNING GUIDE 2023

ABC

ABC Company
1234 Main Street
City, State 10001
124-456-7891
www.abccompany.com

TABLE OF CONTENTS

TAX PLANNING GUIDE 2023

Even as the pandemic persisted, taxpayers were faced with the highest annual rate of inflation in four decades, pressuring both individuals and businesses trying to keep up with rising prices. On the bright side, inflation triggered significant increases on dollar limits for everything from Social Security payments to retirement plan contribution limits.

These inflation-triggered changes, as well as new tax provisions contained in the recently enacted Inflation Reduction Act, make it necessary to review your investments, estate plans, retirement and business strategies.

When this booklet went to press, Congress had just passed new legislation affecting taxes, but the IRS had not yet published all final rules regarding the new law.

We urge you to consult your tax professional, who can work with you to ensure your strategies consider these changes as you take steps to ensure a financially secure future.

NEW AND NOTEWORTHY

Because of an annual inflation rate that soared higher than any time since 1981, a number of tax features that are indexed to inflation will change in 2023. These increases affect everything from retirement and estate planning to personal and corporate income tax brackets. We'll mention a few of them along with some of the more common tax features, while you can find further details throughout this booklet.

SOCIAL SECURITY

The good news?

Social Security and Supplemental Security Income (SSI) benefits for approximately 70 million Americans will increase 8.7 % in 2023. The average Social Security payment will increase $140 per month. In addition, while not a tax, the monthly premium for Medicare Part B enrollees drops to $164.90 in 2023, a decrease of $5.20, while the annual deductible will also fall slightly.

The bad news?

The maximum amount of earnings subject to the Social Security tax will also increase. See page 11 for the details.

DEDUCTIONS, BRACKETS AND LIMITS RISE

Inflation soared in 2022, increasing dozens of federal income tax deductions and limits that are indexed to inflation. According to the IRS, there are more than 60 tax adjustments for 2023.

While you can see the details on the following pages, a few of the highlights for tax year 2023 include an $1,800 increase in the standard deduction to $27,700, an increase in all marginal tax brackets (where rates remain the same) and a bump up in the foreign earned income exclusion to $120,000 from $112,000 in 2022.

Also, the federal estate tax exclusion amount of $12,920,000 is up from $12,060,000 in 2022, while the annual exclusion for gifts rises to $17,000 for calendar year 2023, up from $16,000 for calendar year 2022.

RETIREMENT PLAN LIMITS INCREASE

Thanks to the highest rate of inflation in four decades, most retirement plan limits increased in 2023. For example, the limit on IRA contributions jumped from $6,500 in 2022 to $7,000 in 2023, while limits for employee contributions made to 401(k) plans, 403(b) plans and 457 plans increased to $22,500 from $20,500 in 2022, subject to plan documents and a variety of federal tax rules and restrictions.

CLEAN VEHICLE CREDIT

The Inflation Reduction Act features credits for green vehicles. The Act extends the Clean Vehicle Credit until the end of 2032, while changing some eligibility rules and creating new credits for previously-owned clean vehicles and qualified commercial clean vehicles.

Tax credits include up to:

• $7,500 for the purchase of new, qualified clean vehicles;

• $40,000 for vehicles over 14,000 pounds;

• Up to 30% of a used electric vehicle's cost or $4,000, whichever is greater.

Limits apply on the suggested retail price of the vehicle and the adjusted gross income (AGI) of buyers. For single or married taxpayers filing separately, the AGI limit is $150,000. Heads of household have a $225,000 limit, and taxpayers who are married filing jointly and surviving spouses have a $300,000 AGI limit. Used vehicle buyers receive a tax credit based on smaller income limits.

These new tax credits are generally available only for qualifying electric vehicles whose final assembly occurred in North America and purchased after August 16, 2022. Different rules apply for clean vehicle purchases, typically for plug-in vehicles, made before this date. You can learn if your purchase qualifies for the new credit by searching for manufacturing sites using the vehicle identification number (VIN) at *www.nhtsa.gov/vin-decoder*.

Starting in 2024, the Inflation Reduction Act will allow dealers to directly reduce the purchase price of a vehicle by the amount of the buyer tax credit, making buying a clean vehicle easier for consumers.

INHERITED IRA 10-YEAR RULE

Some non-spouse beneficiaries of IRAs must withdraw all funds from inherited accounts within ten years, although the only annual required minimum distribution is the last one. This rule does not apply to a surviving spouse, a disabled or chronically ill individual, an individual who is not more than 10 years younger than the IRA owner or a child of the IRA owner who has not reached the age of majority.

The ten-year rule also applies to trusts that receive IRA assets on behalf of beneficiaries, except for certain trusts named as an IRA beneficiary. Beware that a conduit trust must forward all IRA income to income beneficiaries, which potentially exposes the inherited IRA assets to heirs' creditors and any bankruptcy or divorce proceedings.

You should consult an attorney to determine if you will need to redraft the conduit trust to allow the trust to retain the assets, rather than distribute income to beneficiaries. Distributing assets in this way, however, typically results in less favorable trust tax rates.

REQUIRED MINIMUM DISTRIBUTIONS (RMD) START AT AGE 73

Taxpayers must begin taking required minimum distributions if turning age 72 in tax year 2022. However, new legislation changed the RMD starting age to 73 starting in 2023, and to 75 in 2033. When individuals turn 73, they must take their first distribution no later than April 1 of the following year. The distribution for subsequent years must be made by December 31 of each year. Failure to do so results in a 50% penalty taken in 2022 and a 25% penalty in 2023 on the required amount not taken.

RELIEF AFTER NATURAL DISASTERS

Drought and other disasters can create havoc for businesses and individuals alike, and the IRS periodically gives extra time to take care of taxes in these situations. Farmers and ranchers living in designated drought areas who were forced to sell livestock between 2015 and 2021 were given four years instead of two years to replace livestock from a forced sale. A one-year extension due to the 2022 drought conditions is now included, maintaining the provision until the end of their first tax year after the first drought-free year to replace the sold livestock.

Taxpayers may also receive extra time to file taxes in areas affected by Hurricanes Ian and Fiona and other storm conditions across the nation in 2022. If you live in an area affected by natural disaster, talk to your tax professional to learn if you qualified for a penalty-free extension to file.

TEACHERS AND EDUCATORS

Teachers can use the educator expense deduction to deduct up to $300 ($600 for a married couple) in qualified unreimbursed education expenses, including certain COVID-19 protective items, from 2022 income. You don't need to itemize to deduct these expenses.

MEDICAL EXPENSES

Taxpayers who itemize generally can deduct unreimbursed medical expenses exceeding 7.5% of adjusted gross income. Travel expenses related to medical care, such as parking, mileage and public transportation costs, can also be included among those expenses. Typically, taxpayers may want to itemize medical expenses if they total more than the standard deduction.

PENALTY-FREE WITHDRAWALS FOR NEW PARENTS

Thanks to the SECURE Act, which became law in 2020, new parents may qualify for an exception to the 10% penalty that normally applies to early distributions (prior to age 59½) from IRA or 401(k) accounts. You can take the withdrawal within a year of a qualified birth or adoption of up to $5,000 per parent, per eligible retirement account. You have the option to repay at a later date, but repayment isn't required. Consider consulting your financial professional before withdrawing funds early.

PART-TIME EMPLOYEES MAY PARTICIPATE IN 401(K)

The SECURE Act also made it easier for part-time workers to contribute to their employers' 401(k) plan. Employees age 21 and older are eligible to contribute once they have worked 500 hours for three consecutive 12-month periods after January 1, 2021. Employers are not required to match contributions. Some employees, including seasonal and union workers, may not be eligible to participate. Consult your tax advisor as there are several elements to consider.

DIGITAL ASSET REPORTING

Digital assets will require informational reporting for the 2023 tax year, starting January 1, 2024. The provision will require taxpayers who own cryptocurrency to receive a tax document from their broker summarizing their digital activity for the tax year.

ABLE ACCOUNTS

Achieving a Better Life Experience (ABLE) accounts are designed to help people with disabilities save and pay for disability-related expenses. Now through 2025, eligible individuals can roll over money from a qualified 529 plan into their ABLE account. The annual contribution limit is $16,000 for 2022 and $17,000 for 2023.

EDUCATIONAL EXPENSE DEDUCTION

Taxpayers who itemize may receive a tax deduction for tuition, fees, books and supplies when attending an eligible educational institution. Students who attend school at least half-time may also deduct certain room and board expenses.

WASH SALES

Equity markets were volatile in 2022, but taxpayers who experienced investment losses may see lower capital gains taxes. However, keep the wash sale rules in mind. These rules prevent you from taking a loss on a security if you buy a substantially identical security within 30 days of the sale.

You can avoid triggering the wash sale rules while maintaining the same portfolio allocations by selling the security and waiting at least 31 days before repurchasing it or selling the security and buying shares in a mutual fund that holds similar securities.

Currently, the wash sale rules don't apply to digital assets, including cryptocurrency. But that could change in the future.

ADDITIONAL INCOME-TRIGGERED TAXES

If your modified adjusted gross income (MAGI) exceeds certain levels that included investment gains, you may owe a 3.8% net investment income tax above and beyond any capital gains tax paid. Taxpayers who are married and file jointly and widowed spouses pay the tax if their MAGI exceeds $250,000. Single individuals and heads of household owe the tax after $200,000 in MAGI, while the threshold for married taxpayers filing separately is $125,000.

You will also owe an extra 0.9% for the Additional Medicare Tax if you earned more than $200,000 in a calendar year, regardless of filing status. Employers are typically responsible for withholding the extra tax.

TELECOMMUTING EMPLOYEES

While many people returned to their employers' offices in 2022, a large number of Americans still work from home. Beware, however, that you may be subject to additional taxes if you worked remotely from home located in a state outside of your company's primary office location.

With COVID-era rules expiring, watch for states that tax income to the employer's office location and not the state where you work from home. Talk to your tax professional to learn if you are affected.

NEW 1099-K REQUIREMENTS

Taxpayers earning income from selling goods or providing services may receive Form 1099-K for payment card transactions and third-party payment network transactions of more than $600 beginning in tax year 2023.

Previously, Form 1099-K was issued for third party payment network transactions only if the total number of transactions exceeded 200 for the year and the aggregate amount of these transactions exceeded $20,000. Now a single transaction exceeding $600 in 2023 can trigger a 1099-K.

Earnings from part-time work, side jobs and the sale of goods, is still taxable and must be reported as income unless it is excluded by law.

PLAN FOR RETIREMENT

The steps you take today preparing for retirement will shape your financial picture in retirement.

There are a variety of retirement savings vehicles to which you can contribute, depending on your employment. They include traditional and Roth IRAs, Simplified Employee Pensions (SEPs), SIMPLE plans, and 401(k), 403(b) and 457 plans.

Contributing to most of these retirement vehicles reduces your taxable income today while your money potentially grows tax-deferred over time. It is time that is key. The longer you contribute, the more likely you will prepare for a retirement of your choosing. At a bare minimum, take advantage of the maximum match your employer may make to your 401(k) account.

> ***When changing jobs, roll over any retirement funds directly into an IRA to avoid tax and potential early withdrawal penalties.***

ROTH IRAs

Roth IRAs offer a number of advantages you can't find in other retirement accounts. While contributions are made after tax, qualified distributions are tax-free and there are no required minimum distributions during your lifetime.

Contributing to a Roth IRA makes sense if you do not need the tax deduction now or want tax-free distributions later. Tax-free income from a Roth IRA may permit you to leave other retirement accounts alone until you must take RMDs from them.

You may also want to consider rolling over a traditional IRA to a Roth IRA to avoid paying higher tax rates in the future. This makes sense for people who may have a relatively down income year, but have the liquidity to pay the tax bill for that year without tapping a retirement account. If you are in a higher tax bracket now and planning to retire soon, a rollover may not make sense for you.

BRACKETS AND RATES

The tax brackets for 2023 were adjusted for inflation. All federal income tax brackets are based on taxable income. You can use the IRS' tax withholding calculator at *www.irs.gov/individuals/tax-withholding-estimator* to see if you are withholding an adequate amount.

MARRIED FILING JOINTLY & SURVIVING SPOUSES

TAX RATE	2022 INCOME	2023 INCOME
10%	$0–$20,550	$0–$22,000
12%	$20,551- $83,550	$22,001 - $89,450
22%	$83,551 - $178,150	$89,451 - $190,750
24%	$178,151 - $340,100	$190,751 - $364,200
32%	$340,101 - $431,900	$364,201 - $462,500
35%	$431,901 - $647,850	$462,501 - $693,750
37%	$647,851 or more	$693,751 or more

MARRIED FILING SEPARATELY & SINGLES & HEAD OF HOUSEHOLD

TAX RATE	MARRIED FILING SEPARATELY INCOME		SINGLE INCOME		HEAD OF HOUSEHOLD INCOME	
	2022	2023	2022	2023	2022	2023
10%	$0– $10,275	$0 – $11,00	$0– $10,275	$0– $11,000	$0– $14,650	$0 – $15,700
12%	$10,276– $41,775	$11,001 – $44,725	$10,277– $41,775	$11,001 – $44,725	$14,651 - $55,900	$15,701 - $59,850
22%	$41,776 - $89,075	$44,726 - $95,375	$41,776 - $89,075	$44,726 - $95,375	$55,901 - $89,050	$59,851 - $95,350
24%	$89,076 - $170,050	$95,376 - $182,100	$89,076 - $170,050	$95,376 - $182,100	$89,051 - $170,050	$95,351 - $182,100
32%	$170,051 - $215,950	$182,101 - $231,250	$170,051 - $215,950	$170,051 - $215,950	$164,901- $209,400	$182,101 - $231,250
35%	$215,951 - $323,925	$231,251 - $346,875	$215,951 - $539,900	$231,251 - $578,125	$215,951 - $539,900	$231,251 - $578,100
37%	$323,926 or more	$346,876 or more	$539,901 or more	$578,126 or more	$539,901 or more	$578,101 or more

ALTERNATIVE MINIMUM TAX

The exemption for taxpayers subject to the Alternative Minimum Tax (AMT), which limits allowable deductions for some higher-income taxpayers, increased significantly in 2023. If you believe your taxable income could trigger the AMT, increasing tax-deferred contributions to qualified retirement plans could help lower your AMT or even help you avoid the alternative tax altogether.

AMT EXEMPTION AMOUNTS		
STATUS	**2022**	**2023**
Exemption for Singles	$75,900	$81,300
Exemption for Married Filing Separately	$59,050	$63,250
Exemption for Married Filing Jointly	$118,100	$126,500
Phase-out for Singles & Married Filing Separately	$539,900	$578,150
Phase-out for Married Filing Jointly	$1,079,800	$1,156,300

KIDDIE TAX

In 2022, the first $1,150 of a minor child's unearned income qualified for the standard deduction. The next $1,150 was taxed at the child's income tax rate. A child (or young adult's) unearned income beyond $2,300 was taxed at the parent's normal tax bracket. In 2023, the limits rise to $1,250 and $2,500.

SOCIAL SECURITY TAX WAGE BASE INCREASED

Beginning in 2023, the maximum earnings subject to Social Security tax will rise to $160,200 from $147,000 in 2022. Currently, the employer and employee each pay half of the 12.4% Social Security tax due. Workers also pay a Medicare tax of 1.45% each year, plus an extra 0.9% on wages earned over $200,000. Self-employed workers must pay the full 12.4% Social Security tax.

CAPITAL GAINS TAX

You pay capital gains taxes on realized gains from long-term investments held longer than one year, and ordinary income tax on realized short-term gains from investments held for a year or less.

CAPITAL GAINS TAX BRACKETS				
TAX RATE	MARRIED FILING JOINTLY		FILING SINGLE	
	2022	2023	2022	2023
0%	$83,350	$89,250	$41,675	$44,625
15%	$83,351 - $517,200	$89.251 - $553,850	$41,676 - $459,750	$44,626 - $492,300
20%	$517,201 and up	$553,851 and up	$459,751 and up	$492,301 and up

> ***Consider gifting appreciated stock or mutual funds to relatives in lower tax brackets. They will pay less or no tax on the long-term capital gains when the shares are sold.***

TREATMENT OF LOSSES

With stock markets exhibiting volatility in 2022, this may be a good time to use capital losses to lower your taxable income. A capital gain or loss is the difference between your basis, which is typically the cost of buying an asset adjusted by previous deductions for depreciation and depletion and what you get for selling it.

If your investments have a net capital loss, you can deduct up to $3,000 of the loss against your income annually if filing jointly, ($1,500 married when filing separately). If your losses exceed the annual limit, you may carry losses forward to future years, deducting up to $3,000 per year against your income until your capital losses are exhausted.

A WORD ABOUT DIVIDENDS

Qualified dividends are eligible for more favorable capital gains tax rates, while unqualified dividends are taxed as ordinary income.

HEALTH SAVINGS ACCOUNTS

Limits for Health Savings Accounts (HSAs) and their companion High-Deductible Health Plans (HDHPs) increased significantly for 2023, thanks to high inflation.

HEALTH SAVINGS ACCOUNTS AND HIGH DEDUCTIBLE HEALTH PLANS		
	2022	**2023**
HSA contribution limit*	Self-only: $3,650 Family: $7,300	Self-only: $3,850 Family: $7,750
HSA catch-up contribution	$1,000	$1,000
HDHP minimum deductible	Self-only: $1,400 Family: $2,800	Self-only: $1,500 Family: $3,000
HDHP maximum out-of-pocket expenses	Self-only: $7,050 Family: $14,100	Self-only: $7,500 Family: $15,000

**Combined employer and employee contributions*

The ability of HDHPs to provide first-dollar coverage for remote health care services was extended through 2022, but will expire in 2023 unless Congress acts to continue this benefit.

> ***HSAs are triple tax-advantaged with tax-deferred contributions, tax-free potential earnings and tax-free withdrawals for qualified medical expenses, and you can roll over any balance to the next year.****
>
> ****Nonqualified withdrawals incur a tax penalty before age 65. After reaching 65, you can take penalty-free withdrawals for any reason, but must pay income tax on the nonqualified amount.***

HEALTH REIMBURSEMENT ARRANGEMENTS

Employers who offer a Health Reimbursement Arrangement (HRA) can offer employees a maximum of $1,950 in HRA benefits in 2023, up from $1,800.

DEDUCTIONS AND CREDITS

Tax credits are subtracted directly from taxes owed, while tax deductions lower your taxable income. The following includes some federal tax credits and deductions.

STANDARD DEDUCTION

Indexed to inflation, the standard deduction, which reduces your taxable income, rose sharply in 2023.

For 2022, the standard deduction amount is $25,900 in 2022 ($27,700 in 2023) for married taxpayers filing jointly, $19,400 in 2022 ($20,800 in 2023) for those who file as heads of household, and $12,950 ($13,850 in 2023) for those who file as single or married filing separately.

CHILD TAX CREDIT

For tax years 2022 and 2023, the Child Tax Credit reverts back to a limit of $2,000 for every dependent under age 16. The credit begins to phase out for single filers with a modified adjusted gross income (MAGI) above $200,000 and $400,000 MAGI for joint filers.

CHILD AND DEPENDENT CARE TAX CREDIT

This credit in 2022 is less than in 2021, when a one-year boost increased the credit. For 2022 and 2023, the child and dependent care credit is 35% up to $3,000 of eligible expenses for one dependent and $6,000 for more than one. The credit is not refundable. In other words, you would get a $1,050 credit for $3,000 in expenses at 35% or $2,100 for 35% of $6,000 in expenses. The full credit phases out beginning at $15,000 in annual income.

ITEMIZED DEDUCTION LIMIT GONE

Itemized deductions, which were previously phased out for taxpayers with higher incomes, have no income-based limit in 2022 or 2023. Deduction limits were eliminated by the Tax Cuts and Jobs Act.

EMPLOYEE BUSINESS EXPENSE DEDUCTION

Most employees cannot claim unreimbursed business expenses as itemized deductions, but there are exceptions. Eligible employees include Armed Forces reservists, qualified performing artists, fee-basis state or local government officials and employees with impairment-related work expenses. All expenses must be paid or billed during the tax year.

HOME LOANS

Married taxpayers filing jointly may deduct the interest on a mortgage of up to $750,000 of principal. The deduction is limited to half of that for single taxpayers. Interest on home equity loans, home equity lines of credit (HELOCs) and second mortgages may be deducted only when used to buy, build or substantially improve the taxpayer's primary or secondary qualified residence that secures the loan, subject to limits.

REAL ESTATE SECTION 1031 LIKE-KIND EXCHANGES

The treatment of investment property for Section 1031 exchanges is now limited to real property, including land and permanent structures on that land. Properties are of like-kind if they're of the same nature or character, even if they differ in grade or quality. You may be able to defer taxable gains when you sell investment property. You have 45 days after the sale to identify other income-producing property that you will purchase within 180 days of the sale, or by the due date of your tax return, including extensions. Your tax professional can give you more information.

SALT TAXES

Taxpayers are limited to $10,000 of state and local tax (SALT) deductions. This provision is especially harsh on homeowners in high-tax states, where state income and property taxes can easily exceed this figure. As before, buying SALT credits is not allowed. As with all charitable contributions, you'll have to reduce the amount of your contribution by the value of anything you receive.

If you are a partner in a partnership or owner of an S-corporation, discuss the pass-through entity tax with your tax professional as a workaround to the $10,000 SALT tax deduction limit.

RETIREMENT & HEALTH SAVINGS PLAN CONTRIBUTION LIMITS

PLAN	
401(k) 403(b) 457	Employee Contribution Limit
	Catch-Up Contributions (Age 50+)
	Combined Employer / Employee Contribution
Traditional IRA / Roth IRA	Contribution Limit
Traditional IRA Limits for Deductible Contributions (Based on Adjusted Gross Income, not taxable income.)	Catch-Up Contribution Limit (Age 50+)
	Single or Head of Household Income Limit
	Married Filing Jointly Income Limit
Roth IRA Income Limit (Based on Adjusted Gross Income, not taxable income.)	Single or Head of Household
	Married Filing Jointly
SIMPLE IRA	Elective Contribution Limit
	Catch-Up Contribution (Age 50+)
	Employer Non-Elective Contribution Limit
SEP-IRA / Profit Sharing / Money Purchase	Contribution Limit
Defined Benefit	Maximum Annual Benefit
Supplemental Security Income (SSI) Employee Deduction	Annual Income When Deduction Stops
Health Savings Account (HSA) Maximum Contribution	Single
	Family
	Catch Up (Age 55+)
High Deductible Health Plan (HDHP)	Single Coverage Deductible
	Family Coverage Deductible
HDHP Maximum Out-Of-Pocket Limit	Single Coverage
	Family Coverage

2022	2023
$20,500	$22,500
$6,500	$7,500
$61,000	$66,000
$6,000	$6,500
$1,000	$1,000
$68,000 - $78,000	$73,000 - $83,000
$109,000 - $129,000	$116,000 - $136,000
$129,000 - $144,000	$138,000 - $153,000
$204,000 - $214,000	$218,000 - $228,000
$14,000	$15,500
$3,000	$3,500
2% of Compensation up to $305,000	2% up to $330,000
$61,000	$66,000
$245,000	$265,000
$147,700	$160,200
$3,650	$3,850
$7,300	$7,750
$1,000	$1,000
$1,400	$1,500
$2,800	$3,000
$7,050	$7,500
$14,100	$15,000

ESTATE TAXES

If you haven't discussed estate planning opportunities with your legal, tax and financial professionals yet, why not use this time to schedule a meeting? Even with more generous federal estate tax exemptions, taxpayers need to be aware of local estate and inheritance taxes. Although some states have repealed their estate tax statutes and others increased their exemptions recently, a few still have the tax. A handful of states also have an inheritance tax.

TRANSFER TAXES

In 2023, the estate tax and generation-skipping transfer tax basic exclusion amount rose to $12.92 million, up from $12.06 million, for estates of decedents who died in 2022. Married couples filing jointly qualify for a $25.84 million exemption in 2023, up from $24.12 million in 2022.

> ***While federal estate tax exemptions are more generous than in the past, be aware that some states levy their own estate and inheritance taxes.***

SPOUSAL EXEMPTION PORTABILITY

If part or all of one spouse's estate tax exemption is unused at that spouse's death, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining exemption. This exemption portability provides flexibility at the first spouse's death, but has some limits. While a portability-only estate tax return can be filed up to two years from the deceased spouse's death, it can be costly. Be aware that portability is available only from the most recently deceased spouse. It doesn't apply to the Generation Skipping Tax (GST) exemption and isn't recognized by many states.

CHARITABLE CONTRIBUTIONS

Donations of goods to charity are valued at their market value at the time of donation. You can't claim the price you paid for the item.

Remember all donations of goods with a market value greater than $250 must have a receipt from the charity, indicating the name of the organization and the description of the non-cash donation.

> ***When donating to charity, ensure the charity is qualified by searching the IRS database. Only donations qualified by the IRS are eligible for tax deductions.***

STEP UP IN BASIS

A new fair market value is established for assets received after a donor's death—a step up in basis—but there is no step up in basis for gifts received during a donor's life. The step-up in basis sets a new starting value for inherited assets, which can make a big difference if the assets have appreciated significantly.

QUALIFIED CHARITABLE DISTRIBUTIONS (QCD)

Taxpayers who have reached age 70½ can donate up to $100,000, indexed to inflation starting in 2024, of taxable IRA distributions directly to qualified charities. This satisfies the minimum distribution requirement and is excluded from taxable income. Also new is a tax-free, one-time $50,000 limit in 2023 made directly from an IRA to a life income plan. This limit is indexed to inflation in 2024. Making a QCD can potentially lower your income tax, net investment income tax and additional Medicare tax.

TAX PLANNING AND COLLEGE

SECTION 529 PLANS

In the past few years, 529 plans have undergone some changes that make them more versatile. You may make tax-free withdrawals of up to $10,000 (lifetime limit per beneficiary) from these plans to pay down qualified student loans of the beneficiary and any siblings. You can also use 529 plans to pay qualified apprenticeship program costs. The apprenticeship program must be registered with and certified by the U.S. Department of Labor.

Additionally, the Tax Cuts and Jobs Act extended the definition of qualified 529 plan distributions up to $10,000 annually to include some K-12 educational costs, such as tuition, books, fees and computers. You can also withdraw up to $10,000 per year to pay for elementary or secondary education costs, if your state plan allows. Of course, you can still withdraw larger amounts for higher education costs.

COVERDELL ESA

The Coverdell Education Savings Account (ESA) remains unchanged, with a $2,000 annual contribution limit per student. You qualify to make a full nondeductible contribution if you file jointly, but the limit is phased out at a modified AGI of $190,000–$220,000. Limits for singles are half of that. Earnings are tax-deferred and qualified withdrawals are tax-free. You have until the April 2023 tax filing deadline to make a Coverdell ESA contribution for 2022.

> ***Reduce your taxable estate by front-loading five years' worth of gifts into a 529 plan in one year for a loved one's college education. Maximize your gift by giving up to the maximum annual tax-free gift limit of $17,000 each year for five years per donor per recipient. Know, however, that you can't make another gift to the same 529 plan for the five-year period.***

EDUCATION TAX CREDITS

Students may take advantage of the Lifetime Learning Tax Credit (up to $2,000 per student, per year) or the American Opportunity Tax Credit (up to $2,500 per student, per year), subject to income limits that are higher for the Lifetime Learning Credit. You cannot take both credits in the same year, nor be declared a dependent by someone else.

IRA CONTRIBUTIONS FOR GRADUATE AND DOCTORAL STUDENTS

Stipend payments for graduate and doctoral students are earned income for the purposes of determining allowable IRA contributions. If you or your spouse receives such a stipend you may be able to contribute more toward a traditional or Roth IRA. Remember that you can't contribute more to an IRA than you have in earned income.

CUSTODIAL ACCOUNTS

The Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) are custodial accounts set up for the benefit of minors. They don't have restrictions or contribution limits, but they also aren't tax-advantaged. The utility of using these accounts to fund college costs is questionable because assets are transferred to beneficiaries at the age of majority in their states, when they can spend them in whatever way they want. Custodial account assets can also negatively impact potential financial aid for college because students are expected to contribute a greater percentage of assets than parents.

STUDENT LOANS

In 2022, President Biden announced a federal student loan forgiveness program that discharges up to $20,000 in loans to Pell Grant recipients and up to $10,000 to other borrowers, subject to income limits. However, the program has been held up by various court challenges, so its future is uncertain.

Borrowers, however, have other ways to see their student loans forgiven, cancelled or discharged, including working in public service and other sectors. Talk to your tax professional to learn if any apply to your situation.

Student loan holders who qualify by income may also deduct up to $2,500 from their adjusted gross income in qualified education loan interest. This deduction phases out between a modified adjusted gross income of $70,000-$85,000 for individuals and $140,000-$170,000 for married taxpayers filing jointly.

PERSONAL TAX CONSIDERATIONS

While it is important that you meet with your team of legal, tax and financial professionals regularly, there are several situations that automatically trigger the need for such a meeting.

- ☐ It makes sense to work with your centers of influence to review your wills, trusts and other legal documents to make sure they continue to meet your needs.
- ☐ It is also a good practice to check with your human resources department to ensure you withhold just enough from your income to pay next year's taxes.
- ☐ You also might want to reexamine saving for college through a 529 plan.
  - Depending on your state, these plans expanded access to people who want to save for and withdraw up to $10,000 annually to pay for private and parochial school from kindergarten through high school.
  - You can also bunch your full annual gift tax exemption for five years as a contribution to a 529 plan, but you can't make another gift to the same person during this time.
- ☐ If you made money in a side gig, remember that you must report all the income even if you don't receive a 1099 statement for the amount. This form isn't required for annual earnings under $600, but taxes are still due.

> ***Talk to your tax professional to get a complete list of what you will need for your next tax planning meeting.***

BUSINESS: NEW AND NOTEWORTHY

TAX RATES AND BUSINESS STRUCTURES

The biggest news affecting businesses in the Inflation Reduction Act is that large businesses with more than $1 billion in reported income will pay taxes at a minimum corporate rate of 15% effective January 1, 2023.

For other C corporations, the tax rate remains a flat 21%. There is also favorable treatment for pass-through companies, including S corporations and limited liability companies (LLCs).

The new law provides a handful of new tax breaks for small businesses:

RESEARCH CREDIT DOUBLES

Small businesses will see the refundable research and development tax credit double to $500,000. Starting in 2023, they may use the credit to further reduce payroll taxes and several other business expenses by up to $500,000 annually.

ACA TAX CREDIT EXPANDED

The premium tax credit that supports Affordable Care Act (ACA) plans was extended through 2025. The ACA Marketplace serves as an important source of coverage for 2.6 million small business owners and self-employed adults. Small business owners and self-employed people make up 25% of ACA Marketplace enrollment among working-age adults.

> ***Different business structures not only receive different tax rates, but deductions and credits, too. Not all business types may qualify for some business tax breaks, so consult your tax professional to learn more.***

BUSINESS: NEW AND NOTEWORTHY

AVOIDING DOUBLE TAXATION

Corporate business owners are still double taxed—paying corporate taxes and personal taxes. But they can avoid this double taxation by organizing their businesses as pass-through-entities, such as S corporations or limited liability companies (LLCs). There is no federal corporate income tax on business income for these entities. Instead, profits flow through to the individual tax returns of owners, paying income tax once at the individual tax rate.

Sole proprietorships and partnerships also avoid double taxation and receive flow-through treatment. But these latter two business structures do not provide limited liability. Sole proprietors and partners may be personally liable for claims against their businesses.

PASS-THROUGH INCOME

Owners of some pass-through businesses can now take a deduction of up to 20% of qualified business income—plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly-traded partnership (PTP) income. This tax break phases out for single taxpayers at $170,050 of taxable income, and for married taxpayers at $340,100—not including the qualified business income deduction. Above these thresholds, the deduction is based on whether you are a specified service trade business (SSTB) or not. There is a caveat: The pass-through provision will expire in 2026 unless Congress votes to make it permanent.

NET OPERATING LOSSES

Net operating losses for corporations can be carried forward indefinitely. The previous ability to carry back losses and apply them to years when a company had taxable income was eliminated in 2017 under the Tax Cuts and Jobs Act (TCJA).

SMALL BUSINESS TAX ENERGY CREDITS

The Inflation Reduction Act also includes new provisions that will help small businesses reduce energy costs. Small businesses can receive a tax credit that covers 30% of the cost of switching to solar power, 30% of purchase costs for clean commercial vehicles, including electric and fuel cell models, and a $5 per square foot tax credit for energy efficiency improvements.

RENTAL REAL ESTATE TAX BENEFITS

TAX RATES AND BUSINESS STRUCTURES

Certain interests in rental real estate now qualify for the 20% pass-through income deduction. These enterprises are generally defined as owning real estate for purposes of generating rental income. To claim the deduction, you'll need to meet these requirements:

- Keep separate books showing income and expenses for each rental real estate enterprise.
- Complete 250 hours or more of rental services each year if your rental real estate enterprise is less than four years old. For properties you've owned longer, 250 or more hours of rental services must have been performed in at least three of the past five years. Rental services include advertising the property for rent, collecting rent, and completing routine repairs or maintenance on the property.
- Maintain meticulous records, including time logs for hours of all services performed, description of all services performed, dates on which such services were performed, and who performed the services. Attach this report to your tax return.

The formula to figure out your tax liability with the pass-through income provision is complex, so work with your tax professional, who can help you calculate your pass-through income and its tax.

SALT TAX WORK AROUND

The IRS now allows a pass-through entity tax (PTE tax) that would allow partnerships and S-corporations to pay state income taxes, without limitations, at the entity-level, rather than on the personal returns of the partners or owners. These taxes become deductible for the business, lowering taxable income.

About two-thirds of states have enacted or have pending PTE tax legislation. Some require an annual election to pay the tax, while others have irrevocable elections. While the PTE tax may be deductible for federal income tax purposes, states may have different rules. Be sure to chat with your tax professional to see if this work around makes sense for you and your business.

NOTEABLE CONSIDERATIONS

TAXABLE FRINGE BENEFITS

Generally, you must report the value of benefits you provide to your staff as employees' taxable income—unless explicitly excluded by the IRS. This includes certain employee discounts on goods or services, parking subsidies and company services at cost. They also include modest holiday gifts, minimal personal use of office equipment and even occasional company parties. The value of more substantial benefits, such as personal use of a company car or country club membership, also must be included in taxable income.

FAMILY MEMBERS ON PAYROLL

Consider adding your spouse or children to your payroll to help maximize business tax deductions. A spouse who is an employee may be entitled to make IRA contributions or participate in your company's retirement plan. The family business can also provide all employees, including a spouse, with other benefits such as health insurance, whose premiums would become a business deduction. If you're self-employed, wages paid to children under age 18 are not subject to Social Security or Medicare taxes. Of course, your kids must work to earn the wages.

HOME OFFICE DEDUCTION

Self-employed business owners who use their home as their principal place of business and use a portion of their residence as a dedicated office (or warehouse/storage) space can claim the home office deduction. There are two ways to take a deduction:

- Deduct a portion of your mortgage interest, property taxes and insurance, and utilities equal to the percentage of your home's square footage dedicated to business use.
- Use the simplified method, which allows a maximum $1,500 deduction depending on square footage used.

> ***Make sure you receive adequate documents and receipts when reimbursing employees for business expenses.***

EXIT PLANNING

The sale of a small business can have a major impact on the transaction's profit due to potential taxes. One way to reduce the tax impact is to conduct an installment sale, especially if the buyer lacks sufficient cash or will pay a contingent amount that's based on the company's performance.

Installment sales spread the gain over the length of the contract, which may help avoid triggering the Net Investment Income Tax or short-term capital gains tax. However, there can be drawbacks, including the recapture of depreciation in the year of the sale or increasing tax rates in future years. Of course, tax consequences are only one of many important considerations when planning to sell your business.

RESEARCH AND DEVELOPMENT (R&D) TAX CREDITS

The R&D tax credit has been around since the early 1980s and benefits U.S. businesses in various sectors, including manufacturing and distribution, software and technology, healthcare, construction and consumer products. The amount of the credit is based on a company's qualified research expenses and consists of wages, supplies used in the R&D process and 65% of third-party contract research.

Research must be completed in the U.S. and meet the IRS four-part test. The IRS has extended the transition period through January 10, 2024 during which taxpayers get 45 days to perfect a research credit claim for refund prior to IRS's final determination on the claim.

Your state may have its own R&D credit, so speak with your tax professional to find out if your business would be eligible.

DEFERRED PAYROLL TAXES

As part of federal COVID relief provided during 2020, employers and self-employed people could choose to put off paying the employer's share of their eligible Social Security tax liability, normally 6.2% of wages. Half of that deferral was due January 3, 2022, and the other half was due January 3, 2023.

MORE NOTEABLE CONSIDERATIONS

SECTION 179

For 2022, the limit for Section 179 expensing on eligible property is $1,080,000 and phases out completely at $2,700,000. In 2023, the limit is $1,160,000 and phases out at $2,890,000.

Within these guidelines, Section 179 also allows for immediate 100% expensing of qualified improvement property placed in service from tax years 2018 through 2022. This provision begins to phase out in 2023, when there is a maximum of 80% expensing allowed. Improvements include:

- Any improvement to a building's interior, but not building enlargements, elevators and escalators, or changes to the internal structural framework of the building, and
- Roofs, HVAC, and security and fire alarms.

BONUS DEPRECIATION

The amount of bonus depreciation percentage you can use for qualified property acquired and placed in service after September 27, 2017 until January 1, 2023 is now 100%. In 2023, the bonus depreciation percentage drops to 80%. Talk to your tax professional to get the specifics, of which there are many.

WORK OPPORTUNITY TAX CREDIT EXTENDED

The Work Opportunity Tax Credit provides an incentive for employers to hire long-term unemployed individuals (i.e., those unemployed for 27 weeks or longer). Generally, the credit is equal to 40% of the first $6,000 in wages paid out to the newly hired worker.

EMPOWERMENT ZONE TAX INCENTIVES

The Empowerment Zone Tax Incentive program, which was designed to incentivize business investment and job growth in certain economically disadvantaged areas, is available through December 31, 2025. The program may entitle you to expanded Section 179 deduction allowances, potential deferral of capital gains and the ability to finance projects using certain tax-exempt bonds.

VEHICLE DEPRECIATION

Depreciation limits increased in 2022 for passenger vehicles placed in service between September 27, 2017 and December 31, 2022. If the taxpayer doesn't claim bonus depreciation, limits range from $19,200 in the first year to $5,860 for years four and beyond. The deduction begins to phase out in 2023.

INTEREST EXPENSING

Through 2025, amended IRC Section 163(j) limits corporations' business interest expensing to any business interest income, plus 30% of the business' adjusted taxable income. The limit does not affect small businesses that averaged less than $27 million in annual gross receipts for the three previous tax years in tax year 2022 and $29 million for 2023.

MEALS AND ENTERTAINMENT

For 2021 and 2022, business meals from restaurants were 100% deductible, but will revert back to 50% deductible in 2023. Entertainment expenses remain non-deductible.

ACCOUNTING METHODS

If your average annual gross receipts were $29 million or less in the three previous tax years, you can choose either a cash or accrual method of accounting in 2023. In 2022, the limit was an average of $26 million or less.

If your gross receipts exceed that threshold, you must use the accrual method. For more information about the advantages and disadvantages of each method, speak with your tax professional, or see IRS Publication 538 – Accounting Periods and Methods.

FLEXIBLE SPENDING ACCOUNTS

Employers had the flexibility to allow employees to carry over any unused flexible spending or dependent care account monies as of December 31, 2021 to use in 2022. Typically, these accounts are "use it or lose it" with no rollover provisions. In 2023, employers may allow employees to contribute up to $3,050 to a health FSA.

EMPLOYEE BENEFIT PLANS

It is important for employers to review their employee benefit plans to ensure they continue to receive the maximum tax benefits while providing benefits that attract and retain qualified employees.

TAX CREDITS FOR SMALL BUSINESS RETIREMENT PLANS

Small business retirement plan tax credits are doubled starting in 2023, thanks to the SECURE 2.0 Act, and can be as much as $15,000 for three years. Businesses with up to 50 employees are eligible. The tax credit is up to 100% of plan start-up costs (up from 50%), capped at $5,000 annually, per employer (which remains unchanged) for each of the first three years. Employers with 51 to 100 employees still qualify for the original SECURE Act tax credits equal to 50% of costs.

The maximum auto-enrollment contribution for employees during the first year of employment is 10% of compensation. Employees must have the choice to opt out of auto-enrollment. After the first year, safe harbor plans may automatically increase employee contributions up to a maximum of 15% of compensation. Again, employees must have the option of opting out. Additionally, you now have until the due date for your company's tax return filing to establish a plan and claim the credit for the previous year.

MULTIPLE EMPLOYER PLANS

Employers of all sizes can collaborate to open "pooled plans," or Multiple Employer Plans (MEPs) for plan years starting after December 31, 2020. Employers need not show a common interest to do so.

Until now, employers were discouraged from entering MEP arrangements because of the "One Bad Apple" rule, which disqualified the entire plan if one-member employer had problems complying with ERISA requirements. The SECURE Act, passed in late 2019, reduces employer risk by allowing for the non-compliant plan to be separated from the MEP, leaving the remaining plans under the MEP intact.

STUDENT LOAN PAYMENTS

Now, through 2025, employers can make payments of up to $5,250 a year in student loan payments for each employee and receive a tax deduction for the payment. This amount is excluded from employees' income, so it is tax-free to the employee.

QUALIFIED RETIREMENT PLAN OFFSET

Previously, employees with a defaulted plan loan who were no longer with their qualified plan's company, or had a terminated plan, had 60 days to roll over the loan and pay withholding taxes before penalties and interest accrued. Now, they have until the tax filing deadline (plus extensions) of the following year to make a rollover.

QUALIFIED PLAN LIMITS

The annual compensation limit for retirement accounts under Sections 401(a)(17), 404(l), 408(k)(3)(C) and 408(k)(6)(D)(ii) was $305,000 in 2022. In 2023, the limit jumps to $330,000. Incidentally, The SECURE 2.0 Act newly allows SEP and SIMPLE plans to allow Roth contributions starting in 2023.

ESOPs

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a five-year distribution period is $1,230,000 in 2022 and $1,330,000 in 2023. The dollar amount used to determine the lengthening of the five-year distribution period is $245,000 in 2022 and $265,000 in 2023.

W-2 EMPLOYER FMLA TAX CREDIT EXTENDED

Employers who provide some paid family or medical leave can get a credit, thanks to the Employer Family Medical Leave Act. The credit is equal to 12.5% to 25% of eligible wages paid to low-and moderate-income employees on family or medical leave.

WATCH FOR COMPLIANCE PENALTIES

Fines and penalties for non-compliance with ERISA requirements have increased annually and can range from a few hundred dollars to a six-figure fine. So, work with a compliance professional.

BUSINESS TAX CONSIDERATIONS

Whether dealing with a pandemic or fighting the erosive effects of inflation, business owners need to plan. Here's a checklist of practical considerations.

- ☐ Revisit how much you paid for estimated taxes.
- ☐ Know how changing tax laws may affect you, as many tax provisions are new, phasing out or eliminated altogether.
- ☐ Understand that state and local tax jurisdictions may not recognize all federal tax law changes.
- ☐ Owners of most business structures, including freelancers, need to understand the term "qualified business income (QBI)." You may qualify for a pass-through tax benefit on a portion of income, which may lower your personal federal income tax rate.
- ☐ You may switch from an accrual accounting method to a cash method of accounting if your average annual gross receipts were $29 million or less in the three previous tax years.
- ☐ You may deduct up to 80% of net operating losses and carry forward these losses indefinitely, so keep your documentation until you use up this tax benefit.
- ☐ Revisit your payroll and bookkeeping records to see if you need to hire employees or contractors to handle them.
- ☐ If you hire contractors, work with professionals who understand your business environment to ensure strict employer/contractor laws in some states don't trip you up.
- ☐ Talk to your tax professional for a complete list of documents you'll need to bring to your next tax-planning meeting.

FR2022-1130-0081/E
Version 1.0

CALL TODAY
TO ORDER THIS
BOOKLET

1-800-243-5334

LTM Client Marketing

45 Prospect Ave, Albany, NY 12206
sales@ltmclientmarketing.com