

2023 YEAR-END TAX LETTER

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IT'S TAX TIME AGAIN...

Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you pay only the tax that you rightfully owe.



Time to get organized:

This checklist will help you collect the documents needed to file your tax return.

☐ **Your last 3 years' tax returns** (new clients only).

☐ **Social Security numbers and dates of birth** for taxpayers, spouses and dependents.

☐ **Copy of Driver's License** for taxpayer and spouse.

☐ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

☐ **W-2 Forms.**

☐ **Your last paycheck stub of the year** (for each job).

☐ **IP PIN** (IRS notice CP01A). IRS sends a PIN to victims of identity theft (or upon request). You can't reuse PIN from a prior year.

☐ **1099 Forms** for interest, dividends, sales, retirement, Social Security, self-employment, unemployment, etc. ★ *Remember to download and print statements from online accounts that don't send paper tax forms.*

☐ **Property tax statements.**

☐ **Forms 1098** for mortgage interest.

☐ **Foreign accounts.** Bring statements. Such assets must be disclosed even if they do not generate income.

☐ **If you bought, sold, or refinanced a home** bring the settlement statement.

☐ **Purchase and sale information**, including dates, relating to anything sold.

☐ **Stock options.** Forms 1099-B and supplemental statements showing income reported on form W-2.

☐ **Cryptocurrency.** Bring details including dates, proceeds, and original cost.

☐ **Forms W2-G** for gambling winnings. Bring a log of gambling sessions (if available).

☐ **Child care provider information** (name, address, tax ID#, amount paid). Required even if you have a daycare flex account at work.

☐ **Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.

☐ **Bankruptcy or divorce papers** (if applicable).

☐ **Alimony** paid or received. Provide dollar amount, SSN of recipient and date of divorce.

☐ **If you paid an individual \$600 or more for services in connection with your business**, please provide their name, address, and tax ID#.

☐ **Records showing income and expense for business and/or rental property you own.** Records of business and personal mileage are required for automobile deductions.

☐ **Form K-1** if you have an interest in a Partnership, S-Corporation, Estate or Trust.

☐ **IRA** (traditional, Roth, SEP, Simple) year-end statements and forms 5498.

☐ **Bring details for all other income**, whether you think it's taxable or not. Examples may include foreign income, barter, hobby, settlements, awards/prizes, etc.

☐ **Forms 1098-T** for post-secondary tuition payments are sent to the student. If the student is your dependent you must get it from them.

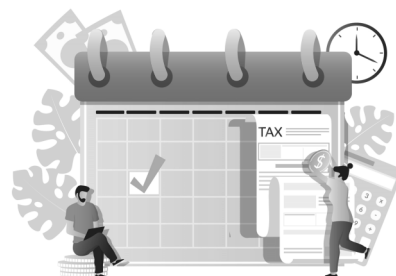
☐ **Forms 1099-Q** for education savings plan distributions.

☐ **Student loan interest forms 1098-E.**

☐ **Estimated taxes paid** (include amount and date).

☐ **Adoption costs** if applicable. Also bring the legal adoption documents.

☐ **Charitable donations.** Bring separate totals for cash and noncash contributions.



Bring receipts. For noncash donations totaling over \$500 include date, place, fair market value, and original cost.

☐ **Form 1098-C** for donations of automobiles or boats.

☐ **If you purchased a new or used electric plug-in vehicle**, bring all documents provided by the dealership (year, make, VIN, purchase date, assembly location, & other qualifiers).

☐ **If you installed solar, wind, geothermal, or fuel-cell systems** for your home or cabin bring receipts.

☐ **If you installed other energy efficient home improvements** (e.g. furnace, central AC, water heater, windows, doors, insulation, heat pump, etc.) bring receipts.

☐ **If debts were forgiven**, bring Form 1099-C or 1099-A.

☐ **Forms 1099-K** for internet or credit card transactions.

☐ **Health Savings Account (HSA) contributions and distributions.** Bring forms 1099-SA and 5498-SA.

☐ **Form 1095-A** for health insurance purchased on healthcare.gov (or your state's ACA insurance marketplace).

☐ **Out of pocket medical expenses** may be deductible (if large). Bring details.

☐ **Form 1099-LTC** for long-term care policy benefits paid.

☐ **Employee Retention Credits.** Bring details. You may have to amend a return for the tax year the credits were paid.

☐ **Bring a voided check** for direct deposit of any refunds you expect to receive.



Caution: the IRS is very attentive to taxpayers who write off local travel costs.

A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.

Need help? There are plenty of smartphone apps that can help with tracking mileage.



To avail yourself of tax deductions, you need to be organized and well documented.

Save proof of all tax deductible purchases.



DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct 14¢ per mile (if you itemize).

If your medical expenses are substantial, you may want to calculate a mileage deduction. Medical miles for 2023 are 22¢ per mile.

If you drove for business purposes, the situation is a little more complicated: First, decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following: In general, commuting is not deductible.

Scenario #1: If you have an office or regular place of business outside your home, you may not deduct miles commuting to and

from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

Scenario #2: If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible (see below for home office deduction qualifiers).

Scenario #3: If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to

maximize the mileage deduction. A trip to the bank, post office, or a supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage rate* or actual expenses.

The **standard mileage rate** for qualified business use for 2023 is **65.5¢ per mile**.

Which method is best? In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

The office space still needs to be **used regularly and exclusively for business**. You can not have any other usage of the area whatsoever.

er. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest,

taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and/or rent paid. Also, provide an accounting of the total investment in your home.

The IRS has provided a simplified home office deduction, if you choose. Instead of calculating all of the above information, \$5 per square foot can be deducted (maximum \$1,500). The IRS estimates that the simplified home office method saves taxpayers 1.6 million hours per year.

COMPUTER & CELLPHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guidelines to determine what is deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you are a student, the use of a computer is not

deductible, but you can tap your 529 plan for a computer purchase.

Keep a log of computer usage to support your deduction.

Cell phone deductions are as follows:

Employers providing cell phones do not have to re-

quire records of use to provide tax-free cell phones to employees.

Self employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

EMPLOYEE BUSINESS EXPENSE DEDUCTIONS ARE NOT ALLOWED ON THE FEDERAL RETURN

The Tax Cuts & Jobs Act eliminated federal deductions for non-reimbursed employee work expenses. As such, most of the deductions discussed on this page are for business owners only.

WHAT'S NEW FOR TAX YEAR 2023?

It's been another big year for tax changes.

IRA Contribution Limits

The IRA contribution limit for tax year 2023 is \$6500 (up from \$6000). Taxpayers age 50+ can contribute an additional \$1000.

Required Minimum Distribution (RMD) Age & Penalties

RMDs from retirement accounts now begin at age 73 (up from age 72). As such, if you turn 72 in 2023 then you do not have to take an RMD for tax year 2023.

The tax penalty for not correctly taking RMDs decreased from 50% to 25% of the amount missed. There is also a provision to further reduce the penalty to 10% (if the error is corrected in a timely manner).

Retirement Plan Eligibility Rules for Part-Time Workers

The service requirement for some part-time workers was lowered from 3 consecutive years down to 2 years (for employees with 500-999 hours of service in each consecutive year). Employees that work 1000+ hours per year already qualified to participate based on existing rules.

Roth SIMPLE and SEP IRAs

Roth SIMPLE and SEP IRAs are now allowed. However, employers are not required to offer a Roth option. Enquire with your plan administrator if interested. Self-employed folks can ask the financial institution that manages their SIMPLE/SEP IRA. That said, be patient. Many financial institutions haven't created Roth SIMPLE/SEP versions yet.

Employer Match to Roth

Employers can now choose to offer their matching retirement contributions into a Roth account. Previously, such contributions had to be pre-tax (e.g. non-Roth 401k etc.). Employers are not required to offer this option. Enquire with your plan administrator if interested. Of course, if you choose the Roth option, then your employer's contributions will be taxable income.

Early Withdrawal Penalties

Taxpayers under age 59.5 have two new exemptions to the 10% early withdrawal penalty.

Terminally ill people (physician certified) can now make distributions from retirement ac-

counts without penalties.

Corrective distributions no longer result in penalty. For example, when you over-contribute to a retirement plan you have to withdraw the excess. Such withdrawals still result in ordinary tax, but no longer the additional 10% penalty. However, don't confuse this new rule with the penalty for NOT taking corrective distributions (which is still 6% every year left uncorrected).

Small Business Credits for New Retirement Plans

There are new incentives for small employers that contribute funds to new (not existing) retirement plans. The qualifiers are complicated, but the maximum tax credit for the business can be up to \$1000 per employee (excluding employees that make more than \$100,000). The credit amount is a percentage of the employer's contributions. The percentage starts at 100% (first two years) and reduces to 75% (year 3), 50% (year 4), 25% (year 5), and 0% thereafter. Employers with 50 employees or fewer qualify for the best credit (it gradually phases out for employers with 51-100 employees).

Additionally, an existing small business tax credit related to administrative costs of setting up a new retirement plan was enhanced. The enhanced credit now pays a higher percentage of costs (100%, up from 50%) for businesses with 50 or fewer employees. A lesser percentage (50%) is paid for businesses with 50-100 employees. The credit is a maximum of \$5000 and there are qualifiers based on the number and type of employees.

Home Energy Tax Credits

Energy efficient home improvement tax credits were extended and enhanced.

There are two different credits (each valid through 12/31/32):

- 1) Energy Efficient Home Improvement
- 2) Residential Clean Energy

The **Energy Efficient Home Improvement Credit** is 30% of the installed cost (annual cap of \$1,200) for qualifying* improvements, including:

- Exterior doors, windows, skylights and insulation.
- Central ACs, water heaters, furnaces, and boilers.
- Heat pumps and biomass stoves/boilers (these have a higher credit limit of \$2000/yr

and can be claimed in addition to the \$1200 credit for other improvements).

- Home energy audits.

* Each type of property has different qualifiers. Visit www.energy.gov for details.

The **Residential Clean Energy Credit** is 30% of installed cost for qualifying improvements, including:

- Solar, wind and geothermal power generation.
- Solar water heaters.
- Fuel cells.
- Battery storage.

Plug-In Electric Vehicles (EVs)

The maximum tax credit for buying a new EV is still \$7500.

There are no longer any manufacturer production caps (so Tesla, GM, and Toyota models now qualify if they meet all other requirements). Most of the pre-2023 qualifiers remain, but there are new ones too.

Income requirements: If you make more than \$150,000/\$225,000/\$300,000 (single/HH/MFJ) then you cannot claim an EV tax credit. Fortunately, you can use either your current or prior year income to qualify.

Higher priced EVs don't qualify. The MSRP must be below \$80,000 (SUVs, trucks, & vans) or \$55,000 (all other vehicles).

The EV must have **final assembly in North America**.

Critical mineral/battery components must meet new specifications. *The mineral/battery rules apply for EVs delivered after 4/17/23.*

Fortunately, the seller is required to furnish proof to both you and the IRS when you buy a qualifying EV. You can also visit www.fueleconomy.gov to see lists of qualifying EVs.

There's a credit for used EVs too. Here's the gist:

- Must be single-owner EV sold by a qualifying dealership.
- Model year at least 2 years earlier than when you buy it.
- Purchase price of \$25,000 or less. The amount of the credit is 30% of purchase price (up to \$4000 max).
- No mineral/battery component requirements.
- Income requirements are half of the amount for new EVs... so \$75,000/\$112,500/\$150,000 (single/HH/MFJ).



2023 was another year of big changes.

Congress passed two major bills with tax implications:

The Inflation Reduction Act changed the rules for energy efficient home improvement and plug-in electric vehicle tax credits.

SECURE 2.0 (part of the Consolidated Appropriations Act of 2023) changed the rules for retirement accounts.



These are only the highlights of the new laws affecting tax year 2023. Ask for help to determine how these (and other tax rules) apply to your specific situation.

YEAR-END TAX TIPS

Consider the following before 2023 comes to an end:

Lower Your Taxable Income:

Employees still have time to increase pre-tax deductions (e.g. 401(k), 403(b), etc.) from their paycheck (unless already maxed).

Self-employed folks can lower their taxable income too by making business purchases or contributing to a retirement plan. Ask for help if you need year-end tax planning, as the retirement plan rules are more complex for self-employed folks.

Why consider this? Not only can it reduce tax, but there are credits and surtaxes that are sensitive to income levels. Each income threshold is calculated differently and there are other qualifiers, so ask for help if you need assurances. With that in mind, here are some examples:

Do you have kids in college or pay tuition for yourself?

The American Opportunity Credit (first four years of college) and Lifetime Learning Credit (for other degree programs including grad school) begins to phase out at an income of \$80,000 (single/HH) and \$160,000 (MFJ).

Do you own a business? The QBI deduction begins to phase out for many business owners starting at a taxable income of \$182,100 (single/HH/MFS) and \$364,200 (MFJ).

Do you have a modest income? The Earned Income Credit phases out at varying income levels between \$17,640 (single with no qualifying children) and \$63,698 (Married with 3+ children).

Do you have a larger income? The phase-out of the Child Tax Credit begins at \$200,000 (single) and \$400,000 (married). Medicare and investment surtaxes begin at \$200,000 (single) or \$250,000 (married).

Do you put money in a Roth IRA? Contributions to a Roth IRA begin to phase-out at \$138,000 (single) or \$218,000 (married filing jointly).

Do you own rental property? Your ability to deduct most rental losses incurred during the current tax year phases out between \$100,000 and \$150,000 of income.

Are you paying student loans? Your ability to deduct the interest begins to phase out at \$75,000 (single) and \$155,000 (MFJ).

Do you buy ACA health insurance on [healthcare.gov](https://www.healthcare.gov) (or state run exchange)? Your premium contribution is limited to 8.5% of household income. As such, lower incomes might result in a higher Premium Tax Credit.

Charity:

Nearly 90% of taxpayers will not itemize this year. If that's you, consider the following charity strategies:

- **Volunteer.** The value of your time was never a tax deduction, so you're not missing out on anything.
- **Plan ahead for a QCD:** Qualified Charitable Distributions (QCD) from an IRA are allowed for taxpayers over age 70^{1/2}. The contribution must be made directly from the IRA to the charity. Seniors that use this strategy can take the deduction even if they don't itemize.

Selling investments?

If your taxable income is likely to fall below \$44,625 (single) or \$89,250 (MFJ) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds.

Conversely, it might be wise to check your portfolio for losses. You can offset up to \$3,000 of other income with capital losses. If you want to repurchase the stock, consider waiting at least 31 days to avoid a wash-sale (which would disallow the loss).

If you are planning on deducting worthless stock, note that it's not deductible until it's completely worthless.

Roth conversions:

The deadline to convert funds from a traditional IRA to a Roth IRA is 12/31/23. Unlike Roth contributions, conversions are allowed regardless of income. Remember, the amount converted is taxable income. Also remember that you can't undo Roth conversions at a later date.

Health insurance:

If you choose a health plan that is compatible with Health Savings Accounts (HSA) you should start funding your HSA right away. That's because medical expenses do not count as "qualified" for tax free distributions if they occur before the HSA was funded (this tip mostly matters for folks start-

ing an HSA for the first time).

The maximum amount you can shelter for tax year 2023 is \$3,850 (single coverage) or \$7,750 (family coverage).

Taxpayers age 55+ can contribute an additional \$1000. You should contribute the maximum if you can afford to.

That's because HSAs have three tax benefits;

1. Contributions are a tax deduction.
2. Qualified medical distributions are tax free.
3. You can invest the funds and reimburse yourself for qualified medical expenses after the account has grown in value (remember to save your medical receipts).

Employee fringe benefits:

Aside from HSAs, look into other pre-tax spending options that your employer offers such as; insurance, daycare, commuting, parking, education, etc.

Looking Ahead To 2024?

Tax year 2024 will bring more changes. Here are some:

Unused funds from older (15+ years old) **529 Plans** can be used for the beneficiary's annual Roth IRA contribution, even if their income exceeds the Roth contribution limit. The rollover must be direct (trustee to trustee) and cannot exceed the annual Roth contribution limit. There's also a \$35,000 lifetime max limit.

Retirement plans will see plenty of changes too:

- **Victims of domestic abuse** will be allowed limited penalty free distributions.
- Small (\$1000 max) penalty free distributions will be allowed for **emergencies**.
- Required Distributions from employer sponsored **Roth plans** will be eliminated.
- Age 50+ **catch-up contribution amounts** to IRAs will be indexed for inflation.
- **Student loan payments** will qualify for employer's matching contribution to a retirement plan (if offered by employer).
- **Emergency savings accounts** with limited account balance (\$2500 max) will be allowed (if offered by employer).

Delayed: The IRS has delayed the implementation of a new rule. Beginning in 2026, age 50+ **catch-up contributions** for higher income (\$145,000+) employees must go into Roth accounts (Congress originally wanted this to begin in 2024).

DECEMBER

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The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

If you need year-end tax planning a consultation would be wise.

