

2023 YEAR END TAX PLANNING GUIDE



Steve Weil, PhD, EA

2319 N Andrews Avenue • Fort Lauderdale • FL • 33311
954-563-1269

YEAR END TAX PLANNING IDEAS FOR 2023

This document is intended to help you assess changes in the tax law and how these changes will affect your tax situation. It is designed to help you uncover tax planning opportunities that could help you reduce your 2023 taxes. It should serve as a guide to some of the changes that have taken place and provide ideas you can discuss with your tax advisor. It should NOT be considered a complete listing of tax changes or tax saving strategies and it's important to consult your tax advisor before taking any action. Tax planning is a complex task and before implementing any strategy it's best to review your situation with a tax professional.

FAMILY STRUCTURE

☐ Single ☐ Married

Number of dependents _____ List dependent(s) age(s) _____

MAJOR CHANGES SINCE LAST YEAR

INCOME SOURCES

Most taxpayers have income from multiple sources. Knowing the sources of your income will help you determine the types of tax planning moves that will be most beneficial to you.

- | | | |
|--|---|---|
| <input type="checkbox"/> Salary / Wages | <input type="checkbox"/> Self Employment (Schedule C) | <input type="checkbox"/> Partnership |
| <input type="checkbox"/> Interest | <input type="checkbox"/> S-Corporation | <input type="checkbox"/> Trust |
| <input type="checkbox"/> Dividends | <input type="checkbox"/> Short-term investment gains | <input type="checkbox"/> Long-term investment gains |
| <input type="checkbox"/> Social Security | <input type="checkbox"/> IRA Distributions | <input type="checkbox"/> Pension Distributions |
| <input type="checkbox"/> Rentals | <input type="checkbox"/> Farming | <input type="checkbox"/> Other Income _____ |

Did you have Crypto / Digital Currency Transactions

☐ Bought ☐ Sold ☐ Traded

New This Year

At the time this publication is being prepared, there is no Speaker of the House, so just what if anything will get done between now and year end is questionable.

The IRS is busy adding the 87,000 audit and other employees congress has already funded. What are agents going to do you might ask yourself? While the IRS says they are only going to concentrate on the "Rich", we would not bet the farm on that. Small businesses are already seeing ERC audits, and we also expect to see S-Corporation being hit for failure to pay "Reasonable Compensation." We expect to see more audits, more IRS notices and more IRS activity in the coming years.

On the bright side there are new credits for clean energy, including the Residential Clean Energy Credit, Energy-Efficient Home Improvement Credit, and Clean Vehicle Credit. The amounts you can put into your retirement plan has also increased as have the amounts for the Standard Deduction.

New rules for reporting by third-party settlement networks (e.g., PayPal, Venmo, Square, StubHub) require them to send Forms 1099-K to payees who are paid over \$600 a year for goods and services. So keeping track of sales of goods or services through PayPal, Venmo, Square, StubHub vs reimbursements from friends and gifts received from family is very important.

As you can see a lot has changed and a lot has stayed the same except for adjustments due to inflation. The best way to make sure you pay the least amount of tax possible is by doing some tax planning before year end and taking proactive steps to reduce your tax bill.

For the most up to date information keep your eye on the blog on our website www.RMSAccounting.com.

Itemized Deductions vs Standard Deductions

2023 Itemized Deductions		2023 Standard Deduction	
Medical expenses	Deductible to the extent they exceed 7.5% of AGI	Single	\$ 13,850
State and local taxes	Limited to \$10,000 unless MFS than \$5,000	Married Filing Jointly or Qualifying Widow	\$ 27,700
Mortgage interest	Maximum Mortgage Amount \$750,000*	Head of Household	\$ 20,800
Investment interest	Limited to total investment income	Married Filing Separately	\$ 13,850
Charitable contributions	60% of AGI \$250 or more requires a receipt	<i>If you are 65 and older or legally blind you are entitled to an addition to your standard deduction of \$1,850 if you are single, for all others the addition of \$1,500 per taxpayer over 65 or older.</i>	
Casualty losses	Only allowed in presidential declared disaster area		
Miscellaneous deductions—2% limit	Not Allowed		
Employee business expenses	Not Allowed		

PLANNING TIP 1 – Time itemized deduction, where possible, into years where they will do the most good.

For example, if you make charitable contributions in years, you will be itemizing and avoid years that you will be using the standard deduction. Time your tax payment so that you will get the maximum benefit of the deduction, keeping in mind the maximum tax deduction allowed any year. Stack medical expenses into years you will itemize and that they will exceed 7.5% of AGI.

*Mortgage interest is limited to maximum debt of \$750,000 unless the mortgage was taken out before 12/15/17.

Mortgages taken out prior to 12/15/17 are limited to \$1,000,000 of debt. Only debt used to acquire or improve a primary or second residence is deductible.

Tax Brackets

2023				
Rate	Married Filing Jointly	Married Filing Separately	Single	Head of Household
10%	\$0 to \$22,000	\$0 to \$11,000	\$0 to \$11,000	\$0 to \$15,700
12%	\$22,000 to \$89,450	\$11,000 to \$44,725	\$11,000 to \$44,725	\$15,700 to \$59,850
22%	\$89,450 to \$190,750	\$44,725 to \$95,375	\$44,725 to \$95,375	\$59,850 to \$95,350
24%	\$190,750 to \$364,200	\$95,375 to \$182,100	\$95,375 to \$182,100	\$95,350 to \$182,100
32%	\$364,200 to \$462,500	\$182,100 to \$231,250	\$182,100 to \$231,250	\$182,100 to \$231,250
35%	\$462,500 to \$693,750	\$231,250 to \$346,875	\$231,250 to \$578,125	\$231,250 to \$578,100
37%	\$693,750 and over	\$346,875 and over	\$578,125 and over	\$578,100 and over

Note that taxable income is taxed at each rate until it exceeds the maximum for that tax rate or bracket, additional income is then taxed at the next rate or bracket until the maximum of that rate or bracket is reached. The highest bracket at which income is subject to tax is called the *marginal rate bracket*. It should also be noted that an additional Medicare

surcharge of .9% will apply when wages exceed \$250,000 MFJ, \$200,000 SGL/HH and \$200,000 MFS. Net Investment Income is also subject to an additional 3.8% tax when MAFI (Modified Adjusted Gross Income) exceeds \$250,000 MFJ, \$200,000 SGL/HH and \$200,000 MFS.

PLANNING TIP 2 – Your *marginal tax rate* is the rate you pay on additional dollars of income. If you find that income has pushed you into a marginal tax rate that is equal to or higher than you will be in next year it may make sense to delay income or accelerate expenses to reduce the amount of income you have that is subject to the higher marginal rate. Delaying income, even if it will be taxed at the same rate in the future, allows you to hold on to the money you would pay in tax longer. Delaying income that is in a higher rate than it would be in the future not only delays payment but can also reduce the amount of taxes.

RETIREMENT PLANS & IRAs

2023		
Retirement Plans		
	Under 50	Over 50
IRA contribution limits	\$ 6,500	\$ 7,500
SIMPLE IRA elective deferral limits	\$ 15,000	\$ 18,500
401(k), 403(b), 457 and SARSEP elective deferral limits	\$ 22,500	\$ 30,000
Profit-sharing plans/SEPs		
Contribution limit		\$ 66,000
Compensation limit (for employer contributions)		\$330,000
Maximum contribution percentage (SE/employee)		20/25%

PLANNING TIP 3 – Maximizing your pension plan or IRA contribution is a great way to reduce your income and save on taxes. If you are self-employed, consider setting up a SIMPLE or 401(k) to maximize the amount you can put away. If you are not self-employed, be sure to maximize the deferral to your employer's plan or if your employer does not offer a plan to fund an IRA. IRA funding is limited to earned income from wages, self-employment, or ownership income from a partnership. A spouse's earnings can be used to fund a spousal IRA when the spouse does not have their own earned income. For individuals covered by an employer plan, deductible IRA contributions are phased out when modified AGI (MAGI) reaches the following thresholds.

Law Change: For tax years beginning after December 31, 2023, SECURE 2.0 increases the limits on employee contributions to a small employer's SIMPLE IRA. For employers with no more than 25 employees, annual elective deferral limit and catch-up contribution amounts are increased by 10% as compared to the limit that would otherwise apply. For employers with 26 to 100 employees, higher elective deferral limits are allowed if the employer contributes either 3% of compensation or a 4% matching contribution for an employee's elective deferrals. The SECURE Act 2.0 makes similar changes to the contribution limits for SIMPLE 401(k) plans. *Our tax professionals can help you to take advantages of these changes just give us a call.*

DEDUCTING IRA CONTRIBUTIONS

Individuals who are not covered by an employer-sponsored retirement plan can deduct contributions to a traditional IRA regardless of their income level. For individuals covered by an employer plan, deductible IRA contributions are phased out when modified AGI (MAGI) reaches certain thresholds.

2023 IRA Deduction Phase-Out Individual or Spouse Covered by Employer Plan	
Filing Status	MAGI Phase-Out Range
MFJ (covered spouse) and QW	\$ 116,000 – 136,000
MFJ (non-covered spouse)	218,000 – 228,000
Single, HOH	73,000 – 83,000
MFS ¹	0 – 10,000
1 Individuals filing MFS and who live apart at all times during the year are treated as single.	

REQUIRED MINIMUM DISTRIBUTIONS

The required minimum distribution (RMD) rules limit the length of time retirement plan assets can grow tax-deferred by forcing qualified plan participants and IRA owners to begin taking plan distributions no later than their required beginning date and then every year thereafter.

The RMD rules do not apply to Roth IRAs until the account owner dies. This is a significant advantage of the Roth IRA for individuals who plan to accumulate wealth in their retirement plans to pass to their heirs.

*Required Beginning Date (RBD)—Lifetime Distributions	
Type of Retirement Plan	RBD
Traditional IRA	April 1 of the year following the year the individual reaches age 73 for an individual who turns 72 after Dec. 31, 2022, and 73 before Jan. 1, 2033. 75 for an individual who turns 74 after Dec. 31, 2032.
Qualified plan, not a greater-than-5% owner of sponsoring employer	The later of the individual's retirement date from the company or April 1 of the year following the year the individual reaches age 73 for an individual who turns 72 after Dec. 31, 2022, and 73 before Jan. 1, 2033. 75 for an individual who turns 74 after Dec. 31, 2032.
Qualified plan, greater-than-5% owner of sponsoring employer	April 1 of the year following the year the individual reaches age 73 for an individual who turns 72 after Dec. 31, 2022, and 73 before Jan. 1, 2033. 75 for an individual who turns 74 after Dec. 31, 2032.
Note: The SECURE Act 2.0 changed the RMD age from 72 years old to 73 years old, until 2033 when it increases to 75 years old.	

PLANNING TIP 4 – Taxpayers who are age 70½ or older can make tax-free distributions to a charity from an IRA of up to \$100,000 per year. These “qualified charitable distributions” aren’t subject to the charitable contribution percentage limits since they are neither included in gross income nor claimed as a deduction on the taxpayer’s return.

NOTE – If you chose to delay the tax on a distribution for 2020 under the CARES Act and do not plan on recontribution the full distribution within 3 years you will need to include 1/3 of the amount received in taxable income for 2023, which will be considered taxable income.

LONG TERM CAPITAL GAINS & QUALIFIED DIVIDENDS

A little planning when it comes to investments can save a lot when it comes to taxes. When it comes to stocks, and many other investments, the tax rate on long term gains can be as low as zero, depending on your tax bracket. Even in the

highest tax brackets the tax savings on long term capital gains over short term gains or ordinary income is 17%. Sometimes the difference between realizing this savings and not realizing it can be as little as one day. To qualify for the long-term capital gains rate, the investment must be held longer than one year, and must not be a collectable or real property subject to recapture depreciation. The lower rate is also available on qualified dividends.

2023 Long Term Capital Gains & Qualified Dividend Tax Rates Based on Total Taxable Income					
Rate	Single	Married Filing Jointly or Qualifying Widow(er)	Head of Household	Married Filing Separately	Kiddie
0%	\$0 to \$44,625	\$0 to \$89,250	\$0 to \$59,750	\$0 to \$44,625	\$0 to \$3,000
15%	\$44,626 to \$492,300	\$89,251 to \$553,850	\$59,751 to \$523,050	\$44,626 to \$276,900	\$3,001 to \$14,650 *
20%	Over \$492,301	Over \$553,851	Over \$523,051	Over \$276,901	Over \$14,651 *
The 3.8% NIIT also applies when modified AGI exceeds: \$250,000 for MFI, QW; \$200,000 for Single, HOH; \$125,000 for MFS (see 3.8% Net Investment Income Tax).					
* Tax rates for dependent childrens unearned income based on the parents tax bracket on income of \$2600 or more.					

PLANNING TIP 5 – Time long term gains so they will be taxed at the lowest rate possible.

For example, if a married couple filing a joint return times their long term capital gains into a year that their total taxable income was below \$89,250 they would not be subject to any tax on the gains. But if they had the same gains in a year in which their taxable income was over \$558,850, they would pay a 20% tax rate on their long-term capital gains.

PLANNING TIP 6 – When investing look for stocks that have qualified dividends as these dividends will be taxes at the lower long term capital gains rates.

PLANNING TIP 7 – Moving long-term assets to children subject to the Kiddie Tax for liquidation could end up costing more in tax than just allowing the gain to be taxed on the parents return at the parent's rate as the zero and 15% tax brackets are so much smaller for those subject to the Kiddie Tax.

LONG-TERM GAINS NOT SUBJECT TO THE RATES ABOVE

The maximum rate when it comes to long term gains from collectables held more than one year and the taxable portion of gain from the sale of qualified small business stock (QSBS) held more than five years is 28%. If the taxpayer's regular tax rate is less than 28% the regular tax rate applies.

A maximum tax rate of 25% applies to unrecaptured Section 1250 gain on sales of depreciable real property held more than one year. To the extent a taxpayer is in a tax bracket below 25%, the lower tax rate applies.

CAPITAL LOSSES CAN BE USED TO OFFSET CAPITAL GAINS

Capital losses can be used to offset capital gains. Losses in excess of gains of up to \$3,000 (\$1,500 Married Filing Separately) can be deducted from other income losses in excess of the \$3,000/\$1,500 are carried forward to future years.

INSTALLMENT SALES

Using an installment sale, when it comes to a large gain on a business, rental or real property can help spread the tax consequences of that gain over a number of years. In an installment sale the purchase price is collected over a number of years, delaying the tax on the portions of the gain not collected in the current year. Installment sales can be used to stretch out the time for payment of tax on both short term and long-term gains. However, publicly traded assets, such as stocks and bonds, that are traded on exchanges, are not permitted to use an installment sale to defer gain.

WARNING – Advisory and management fees, that are charged separately from the actual cost of buying and selling securities, are no-longer deductible as the deduction was eliminated in TJCA with all the miscellaneous deductions on Schedule-A subject to the 2% of gross income reduction.

SMALL BUSINESS SECTION 1244 STOCK

Sec. 1244 encourages new investment in small business by permitting investors to claim an ordinary (rather than a capital) loss on disposition (including worthlessness) of eligible small business stock. As an added benefit, any loss that qualifies as an ordinary loss under IRC Sec. 1244 is also treated as a trade or business loss in computing an individual's NOL. Thus, Section 1244 losses are allowed for NOL purposes without being limited to nonbusiness income.

The maximum deductible Section 1244 ordinary loss is \$50,000 per year (\$100,000 MFJ). Any loss in excess of the limit is a capital loss, subject to the capital loss rules.

Invested in a relative's business and received stock, or a start up with total equity capital of less than \$1,000,000 at the time of your investment? Section 1244 is an opportunity to make the best of a bad situation if your investment goes bad or loses value upon liquidation.

PLANNING TIP 8 – If the potential loss exceeds the \$50,000 limit (\$100,000 if MFJ), the stock should be disposed of in more than one year to maximize the ordinary loss treatment.

QUALIFIED SMALL BUSINESS STOCK

To qualify the stock must be issued by a C corporation with total gross assets of \$50 million or less at all times after August 10, 1993, and before it issued the stock. The corporation's gross assets immediately after it issued the stock must also be \$50 million or less. And it cannot be a: Domestic international sales corporation (DISC) or former DISC, or a Regulated investment company (RIC), or a Real estate investment trust (REIT), or a Real estate mortgage investment conduit (REMIC), or a Cooperative.

Original issue stock. The stock must be acquired by the taxpayer at its original issue in exchange for money, property other than stock or as compensation for services. The stock may also be acquired in a tax-free transaction such as a gift, inheritance, or partnership distribution.

QSBS Treatment of Gains—Options by Holding Period	
Holding Period	Gain Options
Six months or less	Short-term capital gain.
Over six months but not over one year	Short-term capital gain. Section 1045 gain rollover (elective).
Over one year but not over five years	Long-term capital gain. Section 1045 gain rollover (elective).
Over five years	Section 1045 gain rollover (elective). Section 1202 gain exclusion (50%-100%). Long-term capital gain (to the extent not subject to Section 1202 or Section 1045).

For more information and the additional rules that apply contact your tax professional before taking part in any transactions.

ROTH IRA CONVERSION

Roth conversions are a great way to take advantage of a year with lower than normal income and/or business net operation losses. While converting to a ROTH IRA creates taxable income, ROTHs have a host of benefits such as no required RMDs, tax free as opposed to tax deferred growth and even withdrawal of taxable contributions penalty free while under 59 ½.

PLANNING TIP 9 – If you have an off year, where income is down or non-existent, or a year in which itemized deductions or the standard deduction will mean little or no taxable income, don't let those unused deductions go to waste! Convert enough of your IRA to off-set the unused deductions and maybe even use up the 10% and 15% tax brackets. Remember conversion is not an all or nothing strategy. You can convert as little or as much as it makes sense to convert in your particular tax situation.

WARNING – Roth conversions can no longer be undone once completed, so converting right before a market drop could mean a greater tax liability with no chance to undo.

TAX BASIS IS IMPORTANT

If you have an ownership interest in a partnership or S-Corporation that has losses for the year, make sure that your capital account is large enough to give you the basis necessary to deduct your losses. Business losses are subject to rules that limit their deductions by owners if they don't have basis and capital at risk. While this area can be complex it's important to take action to make sure you have what it takes to deduct the losses that will pass through to you so that you can deduct them against your other income, rather than carry them forward to a future year.

PLANNING TIP 10 – Adding to your tax basis can be as simple as making an additional capital contribution to the business.

PASSTHROUGH ENTITIES

Income and losses from Partnerships, S-corporations and Trusts are provided on form K1 to the owner and then is reported and taxed on the owner's personal tax return. In order to deduct losses as mentioned above, you must have basis that is at risk. Income from these entities passes through in character, for example interest and dividends pass through and are reported as interest and dividends on the 1040 tax return of the owner. Business income passes through as business income and certain expenses, like charitable deductions and investment interest, pass through in character as well. It should also be noted that partnership income, from active conduct of a trade or business and/or guaranteed payment to partners, is subject to self-employment tax (Social Security and Medicare Taxes). It's also important that the owner officers of S-Corporations receive reasonable compensation in the form of payroll.

SOLE PROPRIETORSHIPS

Any business that is not set-up under state law and has only one owner is a sole proprietorship. The only requirement is that the owner have a profit motive. A Sole Proprietorship reports income and expenses on schedule C. Profits of a sole proprietorship are taxable and subject to self-employment tax (Social Security and Medicare Taxes). Losses are deductible.

HOBBY INCOME

The IRS sees any business that does not make a profit three-out-of-five years, as a hobby. But the IRS's three-out-of-five years test is not definitive, as the courts have found that behavior of the owner outweighs this simple test.

To preserve for-profit status, the sole proprietor should conduct the activity in a businesslike manner. The following suggestions can help preserve business losses on the tax return. 1) Keep thorough and businesslike books. 2) Use a separate business checking account. 3) Record both business and personal use of assets (such as a charter boat or photography equipment) in a log book. 4) Use separate credit cards for business and personal purchases. 5) Research market/technology trends used in similar businesses. 6) Consult with reputable advisors in the field. 7) Obtain the insurance, registration, certification, proper license, etc., customarily needed for the type of business. 8) Make periodic operations changes to improve the business's profit-making ability. 9) Prepare a business plan. While not every factor is required to support your profit motive and claim that a business activity not a hobby is taking place, the more you have

related to the activity you are involved in the better the chances of supporting the claim that your activity is a business not a hobby.

Hobby income is taxable; however, the deduction of hobby expenses can be severely limited, and losses from a hobby are considered personal expenses and not deductible.

PLANNING TIP 11 – Avoid having a business activity classified as a hobby by following as many of the steps above to as possible to show your profit-making intension. Many true businesses show losses for several years until they become established and the ability to deduct these losses will help reduce your taxes and allow your business to survive to profitability.

INCOME SHIFTING

While children may be subject to the Kiddie Tax when it comes to unearned income, the kiddie tax does not apply when it comes to earned income for children. For those in a high tax bracket who own a business, children create a perfect opportunity to move income from a high tax bracket to a lower tax bracket. Now, you can't just "give the kids money and call it wages". They have to preform real services and get paid in real money, but when they do the money they get paid moves from your return and tax bracket to their return and tax bracket. If your business is a sole proprietorship or partnership with you and your spouse as the only partners, and the kids are under 18, you don't even have to pay the FICA taxes on what you pay them.

So, what can the kids do and how much can you pay them? They can answer phones, do filing, stuff envelopes or empty trash cans; almost anything that is of value to the business. As to how much you can pay them it's limited by reasonable compensation for the value of what they do and what you would have to pay someone else to do it.

For example, a high school or college student could keep up the website for your business, provide IT support, or other services and easily earn \$6,000 to 10,000 per year. But remember what they earn is their money, not yours, and while you can encourage them to save for college, pay their own auto or dating costs, or even put some away in a ROTH IRA, you can't have them give it back to you so you can pay your bills.

PLANNING TIP 12 – Most of us that own a business, have our kids providing services and over time those services become more valuable. What might start off as a few dollars to empty the trash or stuff envelopes at minimum wage could become IT support as the kids get older at \$20.00 per hour. Not only will paying the kids for what they do help lower the tax burden, it will also help teach the kids good work habits and the value of a dollar.

KIDDIE TAX

The kiddie tax applies to unearned income of children that can be claimed as a dependent on their parents tax return. For 2023 the first \$2,500 of unearned income is exempt for the Kiddie tax. Under the Kiddie tax rules children that could be included as dependents on their parents is generally required to compute the tax on their unearned income at the marginal rate of their parents and not their own lower rate. Unearned income includes all dividends, interest, capital gains and other income that is not reported on a W-2 or as self employment income.

QUALIFIED BUSINESS INCOME DEDUCTION (SEC 199A)

The Qualified Business Income Deduction, gives those that operate a trade or business through a partnership, LLC, S-Corporation or Sole Proprietorship a deduction of up to 20% of the qualifying income from a Qualifying trade or business (net income from business operations).

A deduction is taken at the individual level (1040), and is limited to the lessor of 20% taxable income before the deduction or 20% of the qualified business income. The deduction requires that the business if an S-Corporation pay officers and working shareholders reasonable compensation as payroll.

Income threshold phases out for those is Specified Service Trades or Business. Including: Health, Law, Accounting, Actuarial Science, Performing Arts, Consulting, Athletics, Financial Services, Brokerage Services, Investing and Investment Management, Trading, Dealing. For all others it reduces the deduction based on total payroll and the value of business assets before depreciation.

QBI Deduction—Taxable Income Thresholds (2023)				
Taxable income before QBI deduction			Qualified trade or business	Specified service trade or business
Single, HOH	MFS	MFJ		
\$0 – 182,100	\$0 – 182,100	\$0 – 364,200	20% deduction	20% deduction
\$182,100 – 232,100	\$182,100 – 232,100	\$364,200 – 464,200	Wage/investment limit phases in	Deduction phases out ¹
Over \$232,100	Over \$232,100	Over \$464,200	Subject to wage/investment	No deduction
¹ Technically, this is the phase-in of the exclusion of an SSTB from the definition of qualified trade or business. Also, the wage/investment limit can impact the phase-out.				

WARNING – S Corporations must pay reasonable compensation to corporate shareholder officers to qualify for the QBID deduction so if you do not have officers' **wages subject to payroll taxes** this should be corrected before year end.

PLANNING TIP 13 – A little planning can go a long way when it comes to this new deduction which for the first time in history reduces taxes without requiring the business to make any investment to take advantage of the deduction. Assuring that you get the largest benefit possible does require some pre year end planning. This planning includes making sure reasonable compensation is paid to owner shareholders, review of guaranteed payments to LLC members and partners and dealing with taxable income phaseout thresholds. Now is the time to review these and other important items with your tax professional.

PLANNING TIP 14 – If income may be approaching the phase out points for QBID consider delaying business or personal income and accelerating expenses to reduce the taxable income below the phaseout. Remember if your business is a Specified Service Trades or Business there is no QBID once the top limit of the phase out is reached.

ESTIMATED TAX PAYMENTS

Taxpayers are subject to a penalty if they do not make adequate estimated tax payments throughout the year. Total payment through withholding and estimated payment must equal the smaller of 90% of the current year's taxes that will be shown on your 2023 tax return or 100% of the prior years taxes as shown on the 2022 tax return. Checking your payments to be sure you are not underpaying requires adding withholding to date and anticipated through year end to estimated tax payments made, plus the amount of any payments to be made at year end. If this amount is equal to 100% of the 2022 tax total shown on your 2022 return, no penalty should apply. If the amount is less than the 2022 tax amount, and you believe your 2023 tax bill is less than your 2022 tax bill you can estimate your 2023 tax bill and determine if the amount paid is greater than 90% of the projected tax bill.

PLANNING TIP 15 – If you have not made the required estimated payments the shortage can be made up through additional withholding on wages, pension distribution, and/or IRA distributions to avoid the penalty. Penalties can also be reduced by showing that a greater share of the year's income was received in the last quarter of the year than in the prior quarters. THIS MUST BE DONE EARLY ENOUGH TO WITHHOLD THE TAX FROM YOUR REMAINING PAY CHECKS.

INFLATION REDUCTION ACT of 2022

Includes a number of new credits as well as changes and extensions, it also includes some new taxes which may affect large corporation but will not have any effect on most taxpayers. The credits that could be used to offset 2023 taxes are;

- The refundable premium tax credit for individuals was enhanced by the American Rescue Plan Act of 2021 for the 2021 and 2022 tax years, was extended an additional 3 years through 2025.
- Extension, increase, and substantial modification of nonbusiness energy property credit. The credit is extended to, 2032. It also repeals the lifetime credit limits and extends the credits to residential property that is not a principal residence.

DON'T FORGET THE CREDITS

Residential Clean Energy Credit - If you install an alternative energy system in your home that relies on a renewable energy source, such as solar, wind, geothermal, or fuel cell technology, this credit is for you. Solar panels, solar electric equipment, solar-powered water heaters, and wind turbines are eligible for the credit. And beginning in 2023, the credit also applies to battery storage technology with a capacity of at least three kilowatt hours. The size of the credit is 30% of the cost of the equipment and installation for renewable energy systems. The full credit goes through 2032. After that, it drops to 26% in 2033 and 22% in 2034, before it expires in 2035.

Energy-Efficient Home Improvement Credit - The tax credit for installing energy-efficient windows, doors, etc. in your home has been completely revamped, beginning this year. For 2022, the credit applied to 10% of the cost of certain types of insulation, plus external windows, doors, and skylights. It also included the cost of electric heat pumps and water heaters, some central air-conditioning systems, and similar energy-saving investments. There was a lifetime credit limitation of \$500. And the credit was capped for many items.

This credit is now bigger and better for 2023 through 2032. First, the credit percentage increases to 30% of the cost of certain types of insulation, boilers, air-conditioning systems, windows, doors, etc. added to your residence. Second, the \$500 lifetime limit is replaced with a \$1,200 annual limit. This \$1,200 annual limit is lowered to \$500 in the aggregate for exterior doors and \$600 for exterior windows and skylights and for other items. The annual limit increases to \$2,000 for a biomass stove or hot water boiler, or an electric or natural gas heat pump put in the home. Third, you can also get a credit of up to \$150 for the cost of a home energy audit.

Clean Vehicle Credit - The tax credit for buying an electric vehicle has been completely revamped by last year's Inflation Reduction Act (including a name change from the electric vehicle tax credit to the clean vehicle credit). For 2023 through 2032, the maximum tax break remains \$7,500 for buying a new EV. But the factors for figuring the credit are new. To be eligible for the full \$7,500 credit, EVs put in use after April 17, 2023, must meet a critical minerals requirement and a battery component rule. If only one factor is met, then the credit is capped at \$3,750. Eligibility for the full \$7,500 credit for EVs put in use before April 18 is based on the vehicle's battery capacity. Also, the final assembly of the EV must take place in North America. This last rule applies to all EVs first placed in service after Aug. 16, 2022.

The manufacturer sales threshold limit is gone. Under pre-2023 rules, some popular car brands didn't qualify for the credit because it started to phase out for vehicles manufactured by a car company that sold over 200,000 EVs in the U.S. This limitation has been removed for electric vehicles purchased in 2023 and later.

But there are two new rules that could prevent you from claiming the tax break if you buy a new EV. First, the manufacturer's suggested retail price can't exceed \$55,000 for sedans and \$80,000 for vans, SUVs, and pickup trucks. An EV's classification as a sedan a van, SUV, or pickup truck is based on the vehicle's fuel economy label on the window sticker and the EPA size class published at the website [Fuelconomy.gov](https://fuelconomy.gov). Second, there is an income limit. You can't claim the credit for purchasing a new EV if your modified adjusted gross income exceeds \$300,000 for joint filers, \$225,000 for head-of-household filers, or \$150,000 for single filers.

The government has a list of eligible clean vehicles, including EVs and fuel cell vehicles, that qualified manufacturers have indicated to the IRS meet the requirements to claim the credit. The government will update the page on an ongoing basis. You can find the list at <https://fuelconomy.gov/feg/tax2023.shtml>.

Used EVs bought from a dealer qualify for a smaller credit, equal to the lesser of \$4,000 or 30% of the sales price. The credit isn't available if your modified AGI is more than \$150,000 for joint filers, \$112,500 for head-of-household filers, or \$75,000 for single filers.

ABOUT OUR TAX PROFESSIONALS

The tax professionals at RMS Accounting are enrolled to practice before the IRS. They are enrolled agents; this makes them part of a select group of tax professionals that specialize in income tax and can represent clients at all administrative levels of the Internal Revenue Service.

The firm has over 30 years of experience assisting clients with tax planning, tax preparation and tax representation. In addition to tax services the firm offers a full suite of accounting, bookkeeping, business consulting, payroll and tax services.

Questions for my tax professional

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. There are no margins, text, or other markings on the paper.

RMS Accounting
2319 N Andrews Avenue
Fort Lauderdale, FL 33311
954-563-1269 or 800-382-1040
www.RMSAccounting.com

