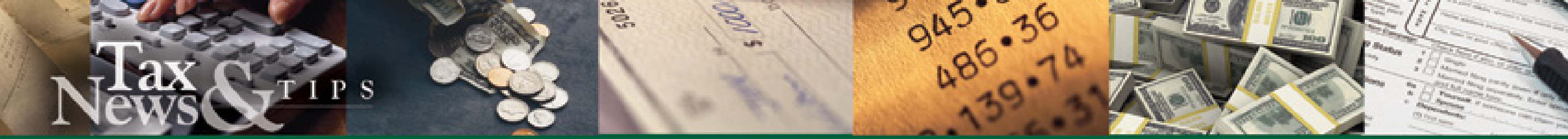

A Publication of Tax News & Tips™ Fall 2023

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Proposed Legislation…

In June of 2023, the Ways and Means Committee from the House of Representatives introduced three tax bills that could be enacted by the end of this year. Usually, I would not recommend looking at tax bills this early. But since the Ways and Means Committee introduced these bills, they carry more weight and legitimacy.

Tax Cuts for Working Families Act

Enhancements to the Standard Deduction

The standard deduction is a deduction that most Americans are entitled to when filing their income tax return each year. Before 2018, the standard deduction was low, around $6,000 for single filers and double for married taxpayers. The Tax Cuts and Jobs Act of 2018 increased the standard deduction to $13,850 for single in 2023 (married couples get double that amount).

If passed, the new Tax Cuts for Working Families Act would change the name of the standard deduction to the guaranteed deduction and add a new "bonus guaranteed deduction" for certain taxpayers. The amount of bonus guaranteed deduction will be:

- **$4,000** for married taxpayers filing a joint return and qualified surviving spouses
- **$3,000** for head of household filers
- **$2,000** for single or married taxpayers filing separately

As your adjusted gross income (including foreign income) exceeds the following amounts, the bonus guaranteed deduction will start to be reduced:

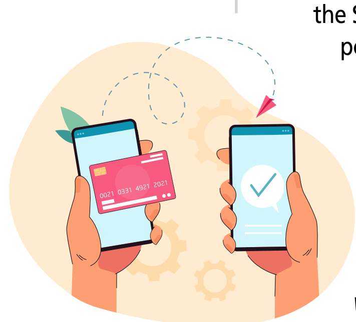
- **$400,000** for married taxpayers filing a joint return and qualified surviving spouses
- **$300,000** for head of household filers
- **$200,000** for single or married taxpayers filing separately

Taxpayers aged 65 or older or blind will still be entitled to an additional guaranteed deduction on top of the basic and bonus guaranteed deduction.

Small Business Jobs Act

1099-K from Venmo

Venmo is an online peer-to-peer payment transferring service commonly used to share the costs of a meal or reimburse each other for other personal expenses. Venmo might also be used to purchase goods and services from a business.



For 2023, the IRS will require Venmo to issue a 1099-K to individuals who receive more than $600 for business transactions during the year. You should not receive a 1099-K if the money you received on Venmo was for a personal transaction (such as a payment from a friend to buy dinner).

But what if your account was accidentally set up as a business account, or your friend might accidentally mark the payment as though it is for a business transaction? It's possible you could receive a 1099-K for the money you received, which should not be taxable! This bill would raise the reporting requirement from $600 to $20,000 and 200 transactions.

Increased Business Deductions

Taxpayers buying cars, trucks, and other assets for their business are usually required to depreciate that expense over a period of years following the purchase. Businesses can sometimes write off these assets in one year using code section 179. If this bill passes, it would more than double the limit for claiming section 179.

Build It In America Act

This act is the least likely to pass through the Senate because of conflicting political agendas and the federal budget. This bill would make some changes related to the research and development credits that businesses can claim. There would also be an extension of the 100% bonus depreciation rules through 2025, ***allowing businesses to write off 100% of many assets they purchase during the year.***

In closing, it's important to remember that these bills are simply proposals, not enacted or signed into law yet. We will likely see more movement on these bills towards the end of this year.

INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

Previously Owned Clean Vehicle Credit

In the past, taxpayers could not claim a tax credit for purchasing a used electric vehicle. For 2023, that has all changed. In this issue of our newsletter, we'll discuss the rules for claiming a tax credit for purchasing a previously owned clean energy vehicle (including plug-in hybrids).

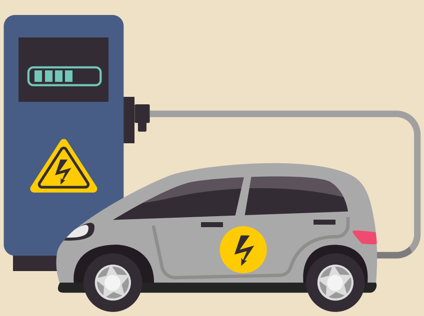
You will face many limitations when claiming the Previously Owned Clean Vehicle Credit, so pay close attention as we go through these steps.

Step 1: Got What It Takes?

Income. For 2023 and future years, congress created an income limitation when claiming a tax credit for purchasing electric vehicles. In the last edition of the newsletter, we discussed the income limitations for purchasing a new electric vehicle. For used electric vehicles, the income limits to qualify for this credit are half as much:

- **$150,000** for married couples filing joint returns, or a qualified surviving spouse
- ***$125,500*** for head of household
- ***$75,000*** for other filers (single)

Projecting your income for the current year might take a lot of work. Luckily, you can elect to use your prior year's income instead. To ensure your income is within the limit, look at last year's federal tax return, Form 1040. To qualify using your prior year's income, adjusted gross income on line 11 of your 2022 Form 1040 must be at or below the limits listed in the previous paragraph. If your income in 2022 was too high, contact me for tax planning so we can find ways to get your income for 2023 to fall within the limit, if possible.



Also, contact me if you earned income outside the US or in any US territory because special rules may apply.

Cannot be a dependent. If you could be claimed as a dependent on someone else's tax return, you are not eligible to claim the Previously Owned Clean Vehicle Credit. This means you won't be able to get out of the income limits above by having your dependent child purchase the preowned clean energy vehicle.

Once every three years. You can only claim this credit once every three years. This rule was created to prevent tax credit scams with shady dealerships.

Step 2: Finding the Car

Dealership. Congress doesn't want you and your friend selling each other the same Prius so you can get infinite tax credits, so you can only claim the credit if the qualifying clean vehicle is purchased from a dealership.

Vehicle purchase price $25,000 or less. The purchase price of a used clean energy vehicle cannot exceed $25,000. If the cost before sales tax and fees is even a dollar more than $25,000 the vehicle is not eligible for the credit.

Usually only for the second owner. To prevent people from buying and selling the same car back to the dealership and having a credit claimed on that car every time, one of the rules states that only the first qualified buyer of the used car (other than the original owner) can claim the credit. A qualified buyer is someone eligible to claim the used clean energy vehicle credit. The dealer can tell you if you would be the first qualified buyer of a previously owned clean vehicle.

Model year at least two years before the year of purchase. Qualifying used clean energy vehicles must be of a model year at least two years older than the year of purchase. For example, purchasing a used EV in 2023 must be a vehicle model year 2021 or older to qualify for the credit.

More eligible vehicles than the standard EV credit! The qualifying preowned clean energy vehicle doesn't have to be fully electric. Plug-in hybrids with a small battery of only 7-kilowatt hours may qualify. The vehicle weight must be less than 14,000 lbs. You can perform a search of eligible makes and models here: https://www.fueleconomy.gov/feg/taxused.shtml

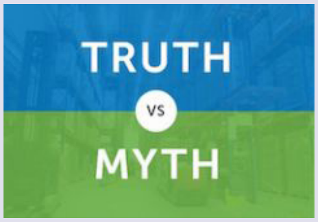
Step 3: Claiming the Credit

For 2023, this credit will be claimed on your federal tax return. You will need to give me the purchase price, make, model, model year, the date you purchased your vehicle, and the vehicle's VIN. Keep the receipt!

For 2024 and beyond, car dealers will be able to reduce your purchase price by the amount of this tax credit. This is great because you'll get your tax savings up front! Be extra careful about choosing this option because if you don't meet the limitations in Step 1, you must pay the credit back when your tax return is completed.

The Previously Owned Clean Vehicle Credit is nonrefundable.
A nonrefundable credit can only be claimed against your federal income tax. For example, a single person with a job making $35,000 will pay around $2,300 in federal income taxes. They won't have to pay $2,300 all at once because their employer withholds federal income taxes from each paycheck. If this person purchases a previously owned clean vehicle that qualifies for a $4,000 credit, they will only be able to claim $2,300 on their tax return. The remaining $1,700 of credit will be lost.

If claiming this credit is a major factor in determining your budget for a preowned clean vehicle, and you are concerned about these limitations, please call me to discuss the issue further.



Myth: If I take out a second mortgage on my home, the interest will be deductible on my tax return.

Truth: This is only true in certain circumstances. If you want to deduct mortgage interest related to your principal residence, the debt must have been used to buy, build or improve your principal residence. If you take out a second mortgage or a HELOC on your home and use the money to build an add-on or improve your home, that interest may be deductible (subject to limitations).

If you take out a second mortgage or a HELOC on your home to purchase a car or a vacation, the interest related to that debt is not deductible. Taxpayers may deduct interest on debt to buy, build or improve their principal residence of up to $750,000 ($325,000 if married and filing separate returns). The mortgage interest deduction will be limited if the debt to buy, build or improve the property exceeds $750,000.

Myth: If I give someone more than $16,000 as a gift during the year, it will be taxed.

Truth: The gift recipient does not have to pay any tax on gifts they receive, no matter the dollar amount. If you give your son or daughter $1,000,000, they will receive that money tax-free. However, the gift giver may be required to pay gift tax if they have given taxable gifts during their life of more than $12,920,000.

Most taxpayers will never give that much money to friends and family; as a result, most will never pay gift tax.

Although you may not need to pay any gift tax, you are technically required to file a gift tax return if you give a gift valued at more than $16,000 to any one person during the year.

Tips for Gifts:

✔ If you are married and intend to give a gift to one person of between $16,000 and $32,000, have your spouse give half of the gift from their separate bank account. The $16,000 annual gift exclusion applies to each gift-giver.

Married taxpayers are treated as separate gift-givers. This way, no gift tax return will need to be filed.

✔ If you need to help a family, you can give $16,000 to each family member before a gift tax return must be filed. That is a gift of $64,000 to a family of 4 each year!

✔ If you want to pay someone's tuition or medical bills, pay the educational institution or hospital directly. Payments made to educational institutions for a friend or family member's tuition are not gifts. That same rule applies to medical bills paid directly to the medical care provider.

If you plan to give a gift of more than $16,000 to any one person during the year, please call me to discuss the tax consequences.

Retirement Plan Contribution Limits for 2023

There are tons of opportunities available to Americans to save money for retirement and on their taxes. Some of these plans are available to individuals, and some need to be provided by an employer.

Individual Retirement Arrangement (IRA)

The typical retirement plans available to individuals are Traditional IRAs and Roth IRAs. To contribute to one of these retirement plans, you must have earned income as an employee or a self-employed individual. The maximum contribution to an IRA (Traditional or Roth) is the lesser of $6,500 ($7,500 if age 50+) for 2023 or the amount of earned income.

Traditional IRA. You contribute today and receive a tax deduction (subject to limitations). The money will grow tax-free inside the account and is only taxed once you pull the money out at retirement.

Roth IRA. You contribute today and do not receive a tax deduction. The money will grow tax-free inside the account. Then, when the money is pulled out of the account at retirement, it is not taxed. High-income taxpayers making more than $138,000 ($218,000 if filing a joint return) will be limited on the amount they can contribute to the plan.

Employer-Sponsored Retirement Plans

There are a variety of retirement plans offered by employers. Among the most common are the 401k and the SIMPLE IRA. Both plans allow you, the employee, to defer some of your pay to the plan. Typically, these contributions reduce your wages subject to income tax.

401(k). If you are eligible to participate in your employer's 401(k) plan, you can contribute up to the lesser of $22,500 ($30,000 if age 50+) for 2023 or the compensation you earned during the year.

Typically, these contributions are treated as pretax, which gives you a deduction for contributions today, but will make distributions from the 401(k) taxable at retirement. Some employers offer Roth 401(k)s, which provide the same contribution limits as a normal 401(k) with the added benefit of tax-free distributions at retirement.

SIMPLE IRA. If you are eligible to participate in your employer's SIMPLE IRA, you can contribute the lesser of $15,500 ($19,000 if age 50+) for 2023 or the compensation you earned during the year. Before 2023, all SIMPLE IRAs were treated as pre-tax. Employers will soon be able to offer Roth SIMPLE IRAs, but the IRS has not worked out all the details.

There are many rules and restrictions regarding retirement plan contributions and distributions that can get very complicated. Please call me if you have questions about how retirement plans might affect your tax situation.

Uh-Oh... An IRS Letter!

If you get a letter from the IRS, try not to panic, just call me. The letters can be confusing and intimidating. Don't risk making an even bigger mess! We can handle it together.

First-Time Penalty Abatement

We all make mistakes. Sometimes things are forgotten on a tax return which would have increased the amount of tax due. Whether you or the IRS catches it, you will likely have to pay penalties and interest on the additional tax you owe. Nothing can usually be done about the interest you'll need to pay, but we might be able to remove the penalties!

If you have filed tax returns and paid on time for the last three years, you may be entitled to "First-Time Abatement". First-Time Abatement will allow you to remove penalties for failing to file a return or to pay tax. The name is a little misleading because you can actually use this trick once every three years! If you are concerned about the penalties you'll pay if you don't file on time, call me to discuss this program.

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RETURN SERVICE REQUESTED

Your Tax Calendar

Sept 15 3rd quarter estimated tax payments due.

By Oct 1 Deadline to establish a Simple IRA for self-employed or small businesses.

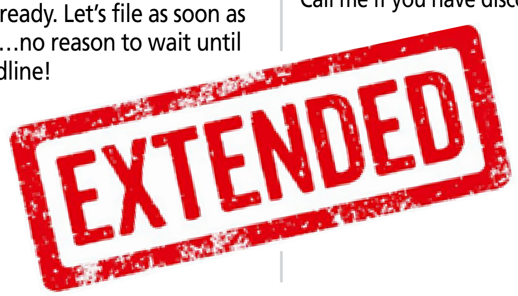
Oct 16 Extended Individual Tax Returns for 2022 due.

Jan 16 4th quarter 2023 estimated tax payment due.

Taxpayers in federal disaster areas (most of California and parts of Alabama and Georgia) may have extended due dates for their quarterly estimates. Call anytime if you have questions.

Extensions Expire October 16, 2023

A few of you may not have filed for 2022 yet and have your return on an extension. Please make every effort to find remaining missing forms or information. We have little time remaining to file your return. Contact me when you are ready. Let's file as soon as possible...no reason to wait until the deadline!



Oh No! I Forgot...

If you forgot some key information when we filed your tax return earlier this year, I can still file an amended tax return. You generally have 3 years after the filing deadline to change your return. Call me if you have discovered tax documents or information that you originally omitted from a previous return.

Ask Me About?

New Job? New W4 for withholding taxes?

Do you have stocks or mutual funds that you are planning to sell that have greatly increased in value? Have you owned those assets longer than 1 year?

Thinking of claiming a parent as a dependent? The rules are tricky!

Starting distributions from a retirement plan? Lump-sum distribution possibilities? What are the tax consequences?

Questions about making a Qualified Charitable Distribution from your Required Minimum Distribution(RMD)? Specific rules apply.