Tax News and Industry Updates

2023
Volume 11, Issue 4

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2023 Tax Highlights

For 2023, there were no major changes to federal tax law. In December 2022, the SECURE Act 2.0 was passed, which made many changes to retirement provisions, some of which take effect for 2023. Additionally, the Inflation Reduction Act of 2022 included credit provisions that provide incentives for purchasing clean energy vehicles and making home improvements, which also begin to take effect in 2023. This letter provides an update on changes that might affect you and on some other things to know about. If you have questions or want to know how any of these impacts you, please do not hesitate to contact us.

Required minimum distribution (RMD) age increase. Effective for 2023, taxpayers are required to begin taking RMDs by April 1 of the calendar year following the year in which the individual reaches age 73.

Note: Individuals who turned age 73 in 2023 were required to start their RMDs under prior law, when they turned age 72. Their first RMD must have been in 2022 (or by April 1, 2023).

Therefore, the RMD increase affects individuals who turn age 73 in 2024, who must take their first RMD (for 2024) by April 1, 2025.

Energy credits – vehicles. If you purchased a qualifying clean vehicle (e.g., plug-in electric, fuel cell electric, or plug-in hybrid) during 2023, you may be able to claim a nonrefundable credit up to $7,500 for a new vehicle, or a nonrefundable credit up to $4,000 for a used vehicle. Certain vehicle assembly requirements and AGI limitations apply.

Energy credits – home improvements. If you make energy efficient improvements to your home, you may qualify for annual tax credits of up to $3,200. The previous lifetime credit limit no longer applies. The credit is nonrefundable and cannot be carried forward. The Energy Efficient Home Improvement Credit is generally 30% of qualified expenses which includes doors, windows, insulation, home energy audits, and other qualifying property. Each property type has specified annual credit limits.

The Residential Clean Energy Credit is also 30% of qualified expenses and applies to energy property such as solar, small wind, and geothermal property costs. This credit has no annual or lifetime dollar limit except for fuel cell property and may be carried forward.

Form 1099-K. Beginning in 2023, lower reporting thresholds will lead to more people receiving a Form 1099-K, *Payment Card and Third-Party Network Transactions*. You will receive Form 1099-K if you have either accepted payment cards for payments or received payments through a third-party network, and the aggregate amount for the provision of goods and services exceeds $600 during the calendar year. Use amounts reported on the Form 1099-K with your other tax records to compute your taxable income. Depending on the type of income, you may be required to file additional tax forms/schedules.

Premium Tax Credit. If you or a family member enrolled in health insurance through the Marketplace and advance payments of the Premium Tax Credit were made to your insurance company to reduce your monthly payment, Form 8962, *Premium Tax Credit (PTC),* must be filed with your return to claim the credit and to reconcile your advance credit payments. The Marketplace will send you Form 1095-A, *Health Insurance Marketplace Statement,* by January 31, 2024, listing the advance payments and other information needed to complete Form 8962. If you are required to file Form 8962, and it is not included with your Form 1040, your e-filed return will be rejected and any refunds claimed on a paper-filed return will be delayed.

Year-end tax planning. Additional year-end tax planning strategies can still be utilized prior to December 31, 2023. These include maximizing your qualified retirement plan contributions, maximizing gains and losses from your taxable investments, and making year-end charitable contributions. After December 31, 2023, you may still be able to make contributions to your traditional IRA and/or to your health savings account (HSA) for tax year 2023.

IRA deduction. For 2023, you may be able to contribute up to $6,500 ($7,500 if you are age 50 or older) to an IRA. Contributions for 2023 can be made up until April 15, 2024. If you contribute to a traditional IRA, you may qualify for a deduction on your 2023 tax return. Additionally, contributions to any type of IRA may qualify you for the Retirement Savings Contribution Credit.

HSA deduction. Similar to the IRA, you can make 2023 contributions to your HSA up until April 15, 2024. The maximum amount that can be contributed by you (and your employer) ranges from $3,850 to $9,750 based on whether you have self-only or family HSA coverage and your age.

IRS hot items. Foreign assets, digital assets, and unreported income continue to be IRS focal points in 2023.

Foreign assets. The IRS continues to focus on the reporting of foreign assets and the penalties for not complying can be severe. There are enhanced reporting requirements if you have any type of foreign asset, whether it is a foreign bank account, pension plan, rental property, ownership of a foreign company, etc. The income derived from these assets is includible on your U.S. tax return and the value of each of these assets might need to be reported, either with your income tax return and/or separately to the IRS or Treasury Department.

Digital assets. Digital assets include non-fungible tokens (NFTs), and virtual currencies, such as cryptocurrencies and stablecoins. If a particular asset has the characteristics of a digital asset, it will be treated as a digital asset for federal tax purposes. Transactions involving digital assets are reportable and taxable. You are required to answer a digital asset question on the tax return.

Unreported income. If you are earning extra money by doing side jobs, such as ridesharing, selling crafts online, delivering meals, dog-walking, or renting out property via an online rental company, it needs to be reported on your tax return. Unless specifically excluded under the Internal Revenue Code, all income is taxable. This includes foreign income, barter income, and all earned income, whether reported to you on one of the various Forms 1099 or not.

Federal and state differences. When it comes to taxes, most of what you read and hear from the media has to do with federal tax law. Remember that each state has its own tax law and just because something is not allowed for federal taxes (or you do not qualify) does not mean that you are not still able to use it on your state return. Therefore, it is important to provide all of your income and expenses to your tax preparer.