

TAX UPDATES FOR 2023

Individual Taxes:

Tax Rate Brackets

A 37% tax bracket applies to taxable income that exceeds \$578,125 for single and \$578,100 for head of household (“HOH”) taxpayers, \$693,750 for married individuals filing jointly (“MFJ”) and surviving spouse, and \$346,875 for married individuals filing separate (“MFS”). All of the other tax brackets have been adjusted for inflation.

Individuals with wages and other compensation in excess of \$250,000 for MFJ, \$125,000 for MFS, and \$200,000 for all others are subject to the additional Medicare tax of .9%. Employers are obligated to withhold the additional tax beginning in the pay period when wages exceed \$200,000 for the calendar year. If taxpayers ultimately do not owe the additional withholding for Medicare, they can claim a credit on their 2023 income tax return.

Preferential Rates for Capital Gains and Qualified Dividends

Qualified dividends and long-term capital gains rates range from 0% to 20%. The capital gains rate depends on taxable income, how much of the taxable income consists of qualified dividends and eligible long-term gains and filing status. The 20% capital gain rate applies to single taxpayers with taxable income over \$492,300, MFJ taxpayers with taxable income over \$553,850, MFS taxpayers with taxable income over \$276,900, and for head of household taxpayers with income over \$523,050.

Net Investment Income Tax

The net investment income tax (“NIIT”) is still applicable for 2023. This tax impacts taxpayers who have net investment income and modified adjusted gross income (“MAGI”) over the following thresholds: \$250,000 for MFJ or surviving spouse, \$125,000 for MFS, \$200,000 for single, and \$200,000 for head of household.

If modified adjusted gross income (“MAGI”) exceeds the threshold, a 3.8% tax applies to the lesser of the net investment income or the excess of MAGI over the threshold.

Required Minimum Distributions

The required minimum distribution is the minimum amount you must withdraw from your IRA, SEP IRA, SIMPLE IRA, or employee sponsored retirement plans when you reach age 72 (73 if you reach age 72 after December 31, 2022). Designated Roth accounts in a 401(k) or 403(b) plan are subject to the RMD rules for 2023. However, for 2024 and later years, RMDs are no longer required from designated Roth accounts. Roth IRAs do not require withdrawals until after the death of the owner, however beneficiaries of a Roth IRA are subject to the RMD rules.

Personal Exemptions and Itemized Deductions

The personal exemption continues to be eliminated for 2023. This elimination modifies the income threshold requiring the filing of a tax return. The filing requirement will be based solely upon the standard deduction available to you.

We have outlined the itemized deductions continuing to be available for 2023 as follows:

- Deduction for state and local income taxes, personal property taxes and real estate taxes will be limited to \$10,000 in total.
- Mortgage interest on principal up to \$750,000 (\$375,000 if married filing separately) is allowed on new mortgages entered into on or after December 15, 2017 (\$1,000,000 for loans entered before December 15, 2017). Interest on the portion of the mortgage not used to buy, build, or remodel your personal residence is not allowed.
- Mortgage insurance premiums paid or accrued in connection with debt that qualifies as acquisition indebtedness is deductible for 2023 as qualified residence interest.
- Charitable donations of cash in 2023 are limited to 60% of AGI.
- All miscellaneous deductions formerly subject to the 2% threshold are still no longer available on your federal tax return. Some examples of these expenses are employee business expenses, tax preparation fees, investment expenses. However, these expenses may be available on your state tax return.
- Casualty losses will now only be allowed for presidentially declared disaster areas.
- Gambling losses remain deductible as a miscellaneous itemized deduction not subject to the 2% limitation. The IRS has determined that an entry fee paid by individuals to participate in a fantasy sports contest is a wagering transaction and therefore subject to the gambling loss limitation.
- The overall itemized deduction limitation of 3% of the excess of adjusted gross income over the established IRS income threshold is still suspended.

Patient Protection and Affordable Care Act

Still in effect for 2023, the Tax Cuts & Jobs Act repealed the tax on individuals that fail to carry minimum health coverage for themselves and their dependents, although there are still some states (such as CA, DC, MA, NJ, RI and VT) that still have health insurance mandates and may apply penalties for not having coverage. Individuals and families are still able to acquire coverage through the Patient Protection and Affordable Care Act market place. Individuals with marketplace coverage may be entitled to the §36B premium assistance tax credit when filing their 2023 tax return. If a taxpayer received an advanced payment of the credit, they are required to file a 2023 IRS Form 1040.

For 2023 the §36B premium assistance tax credit is available for taxpayers who meet certain household income criteria.

Taxpayers should receive one of the following forms which pertain to healthcare coverage and these forms should be utilized when filing your 2023 returns:

- Form 1095-A Health Insurance Marketplace Statement
- Form 1095-B Health Coverage (sent out on or before March 1, 2024)
- Form 1095-C Employer-Provided Health Insurance Offer and Coverage

Standard Deductions

The standard deduction for 2023 increases to \$27,700 for MFJ and surviving spouse, \$20,800 for head of household, or \$13,850 for all other taxpayers. The additional standard deduction for being 65 or older or blind is \$1,850 if single or head of household (\$3,700 if 65 or older and blind). If MFJ, the additional standard deduction is \$1,500 if one spouse is 65 or older or blind, \$3,000 if both spouses are at least 65 (or one is 65 and blind).

Deduction Floor for Medical Expenses

Remaining for 2023, the floor for deducting medical expenses as an itemized deduction is 7.5% of AGI for all taxpayers.

Social Security Wage Base

For 2023, the tax rate on the employee portion of social security is 6.2% on wages up to \$160,200; therefore, social security tax withholdings will not top \$9,932. Medicare tax of 1.45% is withheld from all wages regardless of amount of wages.

Self-employment taxes of 15.3% apply to earnings up to \$160,200, after which are decreased by 7.65%. The 15.3% rate equals 12.4% for social security plus 2.9% for Medicare. If net earnings are in excess of \$160,200, the 2.9% Medicare rate applies to the total amount. One half of the self-employment tax may be taken as an above the line deduction. The maximum self-employment social security tax is reached at \$19,865.

It should be noted, that if earnings exceed the applicable threshold, net self-employment earnings could be subject to the 0.9% additional Medicare tax.

IRA and Roth IRA Contribution Phase-out

For 2023, the contribution limit for traditional IRAs and Roth IRAs remains at \$6,500 or \$7,500 for those age 50 or older. This will increase to \$7,000 in 2024 (\$8,000 for those age 50 or older). The contribution deduction for traditional IRAs is phased-out for active plan participants with MAGI between \$73,000 and \$83,000 for single or head of household, or between \$116,000 and \$136,000 for MFJ. The phase-out range is \$218,000-\$228,000 for a spouse who is not an active plan participant and who files jointly with a spouse who is an active plan participant.

For tax years 2020 and later, there is no age limit on making regular contributions to traditional or Roth IRAs (including those over 72).

IRA Qualified Charitable Distributions (QCDs)

IRA qualified charitable distributions (QCDs) gives each individual taxpayer the ability to distribute up to \$100,000 to a charity directly from an IRA for an individual over the age of 70½ without including the distribution in income or deducting the amount as a charitable contribution. This distribution is taken into account when determining the taxpayers required minimum distribution and is a permanent rule by the IRS.

529 Plans

Continuing for 2023, all 529 plan savings may be used towards elementary or secondary public, private or religious school tuition. Account holders pay no income tax on account earnings, and will not have to pay federal or state income taxes on distributions taken to pay for qualified higher education expenses at eligible educational institutions. There is a \$10,000 limitation for elementary, middle or high school expenses. New York taxpayers can deduct up to \$10,000 (for MFJ filers) and \$5,000 (for single filers) of contributions made to such plans on their New York State tax return.

Depreciation

The maximum §179 deduction allowed is \$1,160,000 for qualifying property placed in service in 2023, subject to a limitation based upon the qualified assets placed into service. For 2023, this threshold amount is \$2,890,000. The §179 deduction also imposes an income limitation upon the deduction.

Bonus depreciation is reduced from 100% in 2022 to 80% in 2023 (with the remaining 20% to be spread over the useful life of the asset). Bonus depreciation allows a taxpayer to take a deduction in the year that the acquired asset is placed in service. Continuing for 2023, property eligible for bonus depreciation was expanded to include used property. Bonus depreciation is mandatory unless you elect out of it.

Alternative Minimum Tax

The 2023 alternative minimum tax (“AMT”) exemptions are increased to \$126,500 for MFJ and surviving spouse, \$81,300 for single and head of household, \$28,400 for estates and trusts, and \$63,250 for MFS. The 2023 AMT exemptions phase-out begins at \$1,156,300 for MFJ and surviving spouse, \$578,100 for single filers, and \$578,150 for MFS, and \$94,600 for estates and trusts. The AMT exemption amount is reduced one dollar for every four dollars of AMT income above the threshold amount for the taxpayer’s filing status.

Eligibility for Saver’s Credit

The saver’s credit is 50%, 20% or 10% of your retirement plan or IRA or ABLE account contributions depending on your adjusted gross income. The maximum amount of the credit is \$1,000 for single taxpayers and \$2,000 for married filing joint taxpayers. Credits are phased out when AGI reaches \$36,500 for single taxpayers, \$54,750 for head of household and \$73,000 for MFJ and surviving spouse.

Adoption Credit

For adoptions finalized in 2023, taxpayers will see an increase in the credit and exclusion amounts for the adoption credit. The amount in 2023 is \$15,950.

Deduction Limits for Long-Term Care Premiums

The maximum amount of age-based long-term care premiums that can be included as deductible medical expenses for 2023 (subject to the 7.5% of AGI floor) is \$480 if you are age 40 or younger at the end of 2023; \$890 for those age 41 through 50; \$1,790 for those age 51 through 60; \$4,770 for those age 61 through 70; and \$5,960 for those over age 70.

Foreign Earned Income and Housing Exclusions

The foreign earned income exclusion for 2023 is \$120,000 per qualifying person. In addition, the housing expense limitation to use in calculating your maximum housing exclusion is generally \$36,000. However, the housing expense exclusion is based on locality, so in some cases there will be adjustments to the \$36,000 used to calculate the final housing exclusion.

Report of Foreign Bank and Financial Accounts (“FBAR”)

The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 provides, for tax years beginning after December 31, 2015, the TD-F-90-22.1 (Fin Cen Report 114) “Report of Foreign Bank and Financial Accounts (FBAR)”. This report is usually electronically filed to the Treasury Department on or before April 15th with an automatic extension of six months. All US persons who have a financial interest in or signature authority over at least one foreign account and the aggregate value of all accounts exceeds \$10,000 at any time during the year must file a FBAR. This report is filed separate from your income tax return. The willful failure to file a FBAR can carry both civil and criminal penalties, including a penalty equal to the greater of \$156,107 or 50% of the highest balance in the account, for each violation.

Annual Exclusion for Gifts

With regards to gift taxes, the exclusion is \$17,000 for each taxpayer per beneficiary for 2023. For 2024, the exclusion increases to \$18,000 for each taxpayer per beneficiary.

Child Tax Credit

The child tax credit is worth up to \$2,000 per child under age 17, and can only be claimed when filing your tax return. The income level the credit begins to phase-out for MFJ is \$400,000 and \$200,000 for all others. Of this amount up to \$1,600 is refundable.

Dependent Credit

Continuing for 2023, taxpayers are eligible for a non-refundable \$500 credit for each dependent who is not a qualifying child under age 17. The credit begins to phase out when your income is more than \$200,000 for a single taxpayer and \$400,000 for a married taxpayer.

Gift Tax and Estate Tax Exemption

For 2023 gift tax and estate tax purposes, the basic exemption amount is \$12,920,000 for federal taxes which will increase to \$13,610,000 for 2024. The top rate remains at 40% for 2023.

Education Credits

The maximum credit allowed under the American Opportunity Credit is \$2,500 per student for all taxpayers except MFS, who do not qualify for the credit. For 2023, the credit starts to phase out at \$160,000 for MFJ filers (completely phased out at \$180,000) and \$80,000 for all other qualifying taxpayers (completely phased out at \$90,000).

The maximum credit allowed under the Lifetime Learning Credit is \$2,000 per tax return for all taxpayers except MFS, who do not qualify for the credit. For 2023, the income phaseouts for this credit are the same as the American Opportunity Credit phaseouts.

Solar Credits

The Inflation Reduction Act (signed into law on August 16, 2022) increased the federal solar installation tax credit from 26% to 30% for those who install a solar photovoltaic (PV) system between 2022 and 2032. This credit will decrease to 26% for 2033 and to 22% for systems installed in 2034.

If you purchase or lease solar energy system equipment you are also eligible for a New York State credit equal to 25% of your qualified solar energy system equipment expenditures with a maximum amount of \$5,000. This credit is not refundable. However, any credit amount in excess of the tax due can be carried over for up to five years.

Plug-In Electric Drive Vehicle Credit

If you purchased and took delivery in 2023 of a qualified plug-in electric drive vehicle (www.fueleconomy.gov), you may be eligible for a federal tax credit up to \$7,500. The calculation for the credit depends on whether delivery was taken prior to April 18, 2023 or on April 18, 2023 through December 31, 2023. The income limitations for the credit are as follows:

- \$150,000 Single
- \$225,000 Head of Household
- \$300,000 Married Filing Joint

Corporate Taxes:

Corporate tax changes that took effect for years beginning on or after January 1, 2019, continue through December 31, 2023. The following is a summary of some of the key changes that will continue:

- C-Corporations will continue to have a flat tax rate of 21% on all taxable income.
- The use of business losses of noncorporate taxpayers is restricted to \$270,000 for unmarried taxpayers and \$540,000 for married taxpayers.
- The deduction for employer provided business meals during 2023 has returned back to pre-covid regulations of 50%.
- For 2023 there is generally no deduction allowed for amounts paid for entertainment expenses.
- Due to SECURE Act 2.0, employers with 100 or fewer employees are eligible for the following credits relating to retirement plans:
 - Startup Tax Credit – for eligible employers who establish a new qualified retirement plan, SEP, or SIMPLE IRA plan. The credit is up to 100% of the administrative and retirement-education expenses for the plan, up to \$5,000 per year for the initial three years of the plan.
 - Employer Contribution Tax Credit – for eligible employers making contributions to employee retirement plans. Eligible employers could receive a credit of up to \$1,000 per employee for the first two years of the plan.

- Automatic Enrollment Tax Credit – for eligible employers that adds an automatic enrollment feature to their existing plan or includes it in a new plan. This is a flat \$500 credit per year for a maximum of three years.
- Qualified Business Income Deduction (199A Deduction):
 - A special 20% deduction will apply for certain business income reported on a person’s individual return. This includes income from qualified businesses.
 - This deduction is available to sole proprietors (Schedule C), real estate rental income (Schedule E), Trust and Estates, Partnerships and S-Corporations.
 - The deduction is subject to some limitation rules and in general will not be allowed for most professions or consulting businesses, unless the taxpayer’s total income is under \$182,100 for single and \$364,200 for MFJ taxpayers. In 2024, the limits rise to \$191,950 for single filers and \$383,900 for joint filers.

We have provided a complete tax service to our clients for over eighty years. We also provide you with highly professional services at a fair and reasonable cost commensurate with the service rendered and complexity of the tax return. We are available throughout the year for any questions you may have concerning taxes or other financial matters.

Please send in all tax information by April 5, 2024 so we may complete your tax return timely. After that date, it may be necessary to file an extension. Please call our office if an extension is necessary.

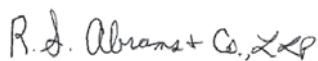
We would also like to remind business owners that tax filings for Partnerships and S- corporations are due March 15, 2024. Personal tax and C-corporation tax filings are due April 15, 2024. Please forward all necessary information as soon as possible to assist us with filing your tax return on a timely basis.

We will commence accepting tax information starting February 1, 2024 through April 5, 2024. We will be offering a cash discount for payment made for tax services.

We are happy to share that we are continuing our refer a friend incentive of a \$25 visa gift card for each new referred tax client tax return we prepare.

If you have any questions, feel free to contact us. You may visit our website at www.rsabrams.com for updated information on tax matters and other relevant changes. We would like to take this opportunity to thank you for your confidence in us. Wishing you a happy and healthy holiday season.

Very truly yours,



R.S. Abrams & Co., LLP