

# 2023 TAX ESSENTIALS LETTER

## 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 dona-



tions 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.

# 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](http://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](http://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).

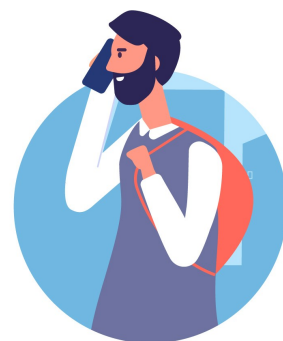


*2023 was another year of big changes.*

*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.