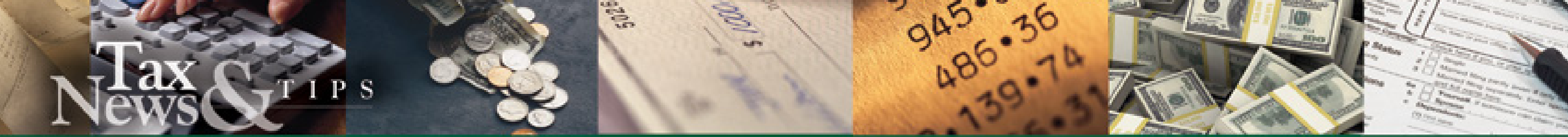


A Publication of Tax News & Tips™ Mid Year 2023

The Tax Man

If You Want to Pay Too Much in Taxes,
That's Your Business.
If you Don't, That's Our Business

Randy and Cathy Warshawsky
Enrolled to practice before the Internal Revenue Service
Income Taxes – Audits – Payroll – Bookkeeping
(408) 445-1151
www.4Taxman.com

Retirement Planning Changes – SECURE 2.0 Passes!

This is our third time discussing SECURE 2.0 in the last few years, and we're happy to announce that the bill finally passed in December 2022. In this issue, we will discuss the provisions that matter to you.

Tax changes that are effective right now...

Increased RMD ages.
When taxpayers reach their RMD age, they are legally required to take minimum distributions from their retirement accounts each year. Before 2020, when someone reached age 70½, they needed to start taking these minimum distributions. The RMD age was then increased to 72 for folks who turned 70½ after 2019. This new legislation increases the RMD age to:

- **Age 73** – if you turn 72 after 2022 and turn 73 before 2033
- **Age 75** – if you turn 74 after 2032

If disaster strikes, retirement savings are there for you.
If the federal government declares the place you live to be a disaster area, you may be entitled to take up to $22,000 out of a retirement plan. To qualify, you must experience some economic loss due to the disaster. If you are married, you and your spouse may each pull up to $22,000 from each spouse's retirement plan. These distributions are generally taxable but are not subject to early withdrawal penalties. You also have the option to put the money back into your retirement account within three years (which will make the original disaster distribution tax-free).

Penalty-free distributions for terminal illness.
If you have been diagnosed with a terminal illness and your healthcare professional expects you to pass away within seven years, you will be granted full access to your retirement accounts. The distributions will still be taxable, but you can avoid a 10% early withdrawal penalty if you are under the age of 59½.

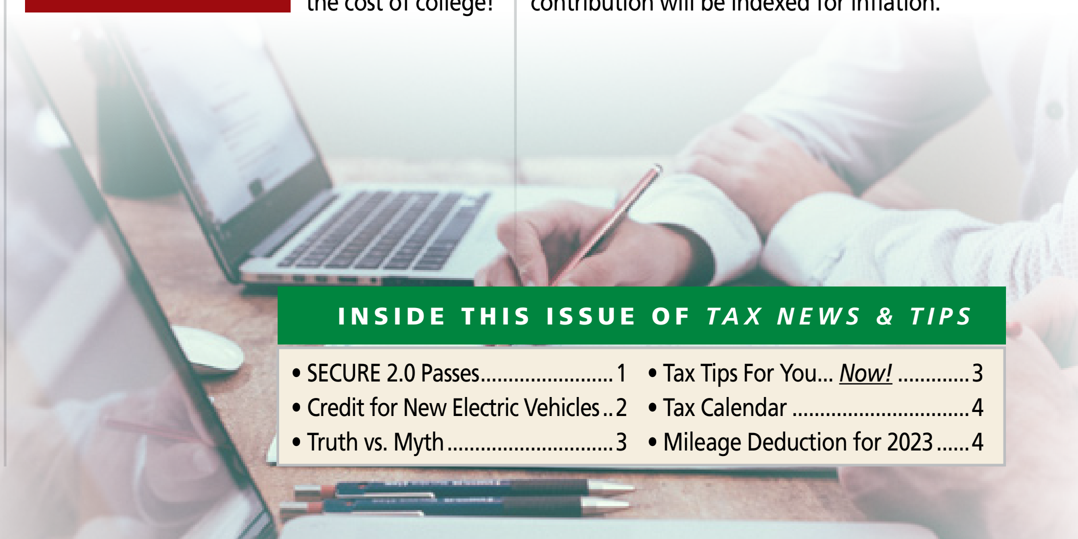
Tax changes for 2024 and beyond...

Tax-free rollover from 529 accounts to ROTH IRAs
Parents often worry about over-contributing to 529 college savings accounts for their child because distributions from a 529 account not used for qualifying education costs are taxable and subject to penalties. SECURE 2.0 helps eliminate this stress by allowing parents to roll over up to $35,000 of the 529 account balance to the child's ROTH IRA. This turns college savings into retirement savings for your child or grandchild without penalizing you for saving more than the cost of college!

Turn college savings into retirement savings for your child or grandchild without penalty!

Are you experiencing hard financial times? Consider taking a penalty-free distribution from your 401(k)!
In years past, you would generally have to wait until you reached age 59½ to be able to take penalty-free distributions from 401(k) accounts. Notable exceptions to this rule existed for things like certain medical costs, birth or adoptions, and becoming disabled. Still, there was no exception for the average taxpayer who fell on hard times. Starting in 2024, you may take up to $1,000 per year out of a retirement account for financial emergencies relating to yourself or your family.

Increased retirement plan catch-up contributions (for folks age 50+)
If you are 50+, on top of contributing $6,500 to your traditional IRA for 2023, you can put in an additional $1,000 as a "catch-up" contribution (bringing your maximum contribution to $7,500). Starting in 2024, the $1,000 catch-up contribution will be indexed for inflation.



INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

Credit for New Electric Vehicles

Before 2023, purchasing an electric vehicle and receiving a $7,500 credit was relatively simple. Buyers only really needed to do a quick Google search of the car to determine if it qualified. For 2023 and beyond, the credit for electric vehicles has become more complex. In this issue, we will walk you through the requirements step-by-step to see if you qualify for the 2023 electric vehicle credit.

The credit discussed in this article is only for brand-new electric vehicles. There is also a credit for used electric vehicles, which we will discuss in the next newsletter.

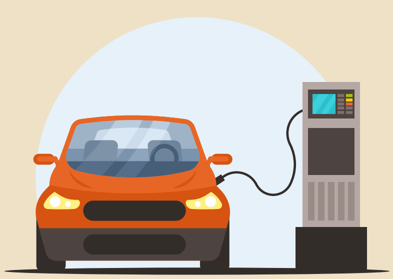
Step 1: Income Limitations

In previous years, it didn't matter if you made $20,000 or $1,000,000; purchasing a qualifying electric vehicle would give you a credit. For 2023 and future years, your income must fall at or below the following amounts to qualify for the credit:

- $300,000 for married couples filing joint returns, or a qualified surviving spouse
- $225,000 for heads of household
- 150,000 for other filers (single)

Estimating 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.



Step 2: Vehicle MSRP Limitations

Buying a Tesla Model S with an MSRP (manufacturer-suggested retail price) of $100,000 may feel more reasonable if you receive a $7,500 tax credit. Unfortunately, this will not be the case. The new law creates an MSRP limitation on vehicles that qualify for the credit. Regular cars (sedans, coupes, convertibles, etc.) are subject to an MSRP limit of $55,000. Trucks, SUVs, and vans are subject to a higher MSRP limit of $80,000.

Keep in mind that adding options to the car could increase the MSRP, putting the vehicle cost over the limit. For example, a Tesla Model 3 Performance with no "options" has an MSRP of about $52,000, which makes it eligible for the credit. When purchasing the vehicle online, selecting the enhanced autopilot option costs $6,000, bringing the total MSRP to $58,000. This increase in MSRP will disqualify the car.

HOT TIP! If you order a car online, only select options that will bring the MSRP up to the limit. Then have the dealer install additional options once the vehicle arrives on the lot or after the purchase. Any options added by the dealer are not considered to increase the vehicle's MSRP when determining the credit. In our example above, the buyer should purchase the Tesla Model 3 Performance and have the dealer add enhanced autopilot after the car has arrived on the lot or after the purchase of the vehicle.

Step 3: Other Vehicle Requirements

The vehicle's final assembly must occur in North America (Mexico, Canada, or the United States).
You can confirm the location of the vehicle's final assembly by entering the VIN of the car you want to purchase on this website: https://afdc.energy.gov/laws/electric-vehicles-for-tax-credit A quick Google search can tell you if your desired car typically has its final assembly in North America.

The vehicle's battery and critical components will determine the amount of credit.
You can use this website to see how much credit your new electric car will be eligible for: https://fueleconomy.gov/feg/tax2023.shtml

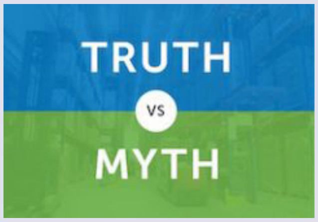
Step 4: Claiming the Credit

For 2023, this credit will be claimed on your federal tax return. You will need to give me the date you purchased your vehicle and the vehicle's VIN. Keeping the vehicle's window price tag will also be helpful to ensure the MSRP is less than $55,000 (or $80,000 for an SUV, van, or truck).

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 your income exceeds the limit listed in Step 1, you must pay the credit back when your tax return is completed.

The electric 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 $50,000 will pay around $4,100 in federal income taxes. They won't have to pay $4,100 all at once because their employer withholds federal income taxes from each paycheck. If this person purchases an electric vehicle that qualifies for a $7,500 credit, they will only be able to claim $4,100 on their tax return. The remaining $3,400 of credit will be lost.

If claiming this credit is a major factor in determining your budget for an electric vehicle, and you are concerned about this limitation, please call me to discuss the issue further. Credits for used electric vehicles will be addressed in the next edition of this newsletter.



Myth: Going on extension increases the likelihood of an audit.
Truth: This myth cannot be farther from the truth. The extension of time to file is a necessary tool that millions of taxpayers utilize every year. It can give you more time to gather your documents to complete your tax return. The extension also gives me more time to look at your tax return to find ways to save you more money! Remember that an extension only gives us more time to file the tax return, not more time to pay. We will need to estimate how much tax you will owe to be paid when we file the extension to avoid penalties and interest.

Myth: If the IRS sends you a letter demanding more tax, penalties, and interest, you should pay it without hesitation.
Truth: The IRS computer systems will compare your tax return with the income and deductions they believe you should report. If those amounts don't match up, they will send a letter demanding you pay. The IRS makes mistakes ALL THE TIME. Before making a payment on an IRS notice, call me to see if you need to pay anything. Even if you need to make a payment, there are many cases where we can get the IRS to remove penalties or provide more information to reduce the amount due. Calling me first will save you time and money!

Myth: If I sell my house and buy another one to live in, I will never have to pay any tax.
Truth: If you sell the house you live in today and purchase a new home, there is a chance you might still have to pay tax. If the house is sold at a gain, meaning you sold it for more than you paid (plus the cost of improvements), that amount may be taxable. Generally, you can exclude up to $250,000 of this gain if you have lived in the house for two of the last five years.

If you are married and both lived in the home for two of the last five years, you may be able to exclude up to $500,000 of gain. The rules can become complicated, so contact me if you are considering selling your home.

Myth: The new 80,000 IRS agents hired this year are going to be tasked with auditing you.
Truth: The IRS has not hired 80,000 new agents but is looking to expand its workforce.

While more than half of the increased budget for the IRS is dedicated to stepping up tax enforcement, Congress asked that the IRS use the increased budget for tax enforcement to go after taxpayers underreporting cryptocurrency gains and other controversial tax issues. We might also see more audits for high-income taxpayers and small business owners, especially those with pass-through entities.

Tax Tips For You... *Now!*

Why Do I Owe?! How to Emotionally Process a Refund or Amount Due.

Most taxpayers in the US receive refunds every year. You might be excited about your big yearly refund—a few hundred or a few thousand dollars never hurt. Alternatively, you might be upset and consider ripping up our newsletter because you tend to owe a few thousand dollars every year. But let's discuss why both responses may need to be reconsidered.

"I got a refund!"

Imagine I call you at the end of tax season and tell you you'll get a $5,000 refund from the IRS. While you might be excited about the cash to be deposited into your bank account, you should consider where that $5,000 came from.

That $5,000 refund comes from withholdings taken out of your paychecks. That's an extra $200 taken from each paycheck (if you get paid every two weeks). That is money you could have put into your 401(k) plan, which would have lowered your taxes even more. Or money you could have used to buy necessities for yourself and your family.

Some people use their federal tax withholding as a way of forced savings, which might make sense. Just be conscious of this reality the next time you get a refund.

Many tax professionals consider a large refund the same as lending money interest-free to the government. Speaking of interest, do you have balances on your credit cards? Reducing your monthly tax withholding would reduce your refund at tax time but could also provide more cash each month to pay off credit cards. Call me about tax planning to adjust your withholdings if you want to keep more money in your pocket during the year.

"Are you kidding me? I owe how much?!"

Let's change our imaginary scenario, and instead, I call you and tell you that you owe the IRS $5,000.

This phone call tends to be more emotionally charged. You might ask if I've done my job right, how your coworkers got refunds, and how the government could take so much of your hard-earned money. But the real question should be: Am I happy with the extra $200 I get from my paycheck every other week?

That's right. The IRS allowed you to keep an extra $200 every other week to buy things for yourself and your family. If you incurred no penalties for under-withholding and had enough savings to pay $5,000 by the tax return's due date, the IRS effectively gave you an interest-free loan. If you prefer not to receive this extra money every paycheck and instead potentially receive a refund, call me to do some tax planning to adjust your withholdings.

0% Long Term Capital Gains Rate

Tax rates on gains from the sale of capital assets held for more than one year and qualified dividends remain at historic lows…0%, 15%, and 20%. However, the income thresholds to qualify for the various rates have been adjusted for inflation.

In 2023, the 0% rate applies for individual taxpayers with taxable income up to $44,625 on single returns ($41,675 for 2022), $59,750 for head-of-household filers ($55,800 for 2022), and $89,250 for joint returns ($83,350 for 2022).

Short-term capital gains (sales of capital assets held one year or less) are taxed at ordinary tax rates.

Social Security Wage Base Increases

The Social Security annual wage base is $160,200 for 2023 (a $13,200 increase from 2022). The Social Security tax rate on employers and employees stays at 6.2%. Both workers and employers continue to pay the 1.45% Medicare tax on all compensation in 2023, with no cap.

Workers also pay the 0.9% Medicare surtax on 2023 wages and self-employment income over $200,000 for singles and $250,000 for couples.

The Tax Man

1800 Hamilton Ave., Ste. 220
San Jose, CA 95125-5635

RETURN SERVICE REQUESTED

Your Tax Calendar

June 15 Q2 2023 Federal Tax Estimates due

Sept 15 Q3 2023 Federal Tax Estimates due

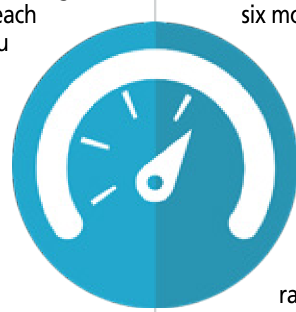
Oct 17 Extended Tax Return due

Jan 16 Q4 2023 Federal Tax Estimates 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.

Mileage Deduction for 2023

The standard mileage rate is important to track if you are self-employed. The IRS will give you a deduction for each business mile that you drive if you keep a log of your business-related mileage. For 2023, the standard mileage rate is 65.5 cents per mile. The IRS might increase this rate for the final six months of 2023 if transportation costs continue to skyrocket. In 2022, the standard mileage rate for the first six months of the year was 58.5 cents per mile and then increased to 62.5 cents per mile for the final six months.



If you travel for a medical procedure, you may be able to deduct your mileage related to the medical trip. For 2023, the medical mileage rate is 22 cents per mile. A charitable mileage deduction is also available at 14 cents per mile.

Amended Return?

If you forgot some key information, I could file an amended return for you. You have three years after the filing deadline to change your return. Most 2019 returns have passed their deadline for filing an amendment. Call me if you have discovered tax documents or information you originally omitted from a previously filed tax return.