

Tax Filing Season update for 2023 Returns

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Residential Energy Credits

The Inflation Reduction Act increased the Residential Energy credit to a maximum of \$1,200 annually for years 2023 through 2032 with no lifetime limit.

Eligible homeowners may qualify for a 30% tax credit for the purchase of qualifying energy-efficient solar panels, wind turbines, battery storage, heat pump water heaters, heat pumps, electrical panel upgrades, appliances, insulation, doors, windows, skylights, and home energy audits.

The credit for exterior windows, skylights, and doors is a 30% credit up to \$250 for a single door up to a maximum of \$500. It's also a 30% credit for new windows up to a maximum of \$600.

The credit for an electric or natural gas heat pump or heat pump water heater is up to \$2000 (not limited to \$1200)

Planning tip - you have 10 years starting in 2023 - space out your improvements to not exceed the maximum credit each year. Form 5695 is used to calculate the credits.

Required Age to begin RMDs

- Increased required age for people to begin taking Required Minimum Distributions (RMDs) from retirement accounts
- The applicable age is 73 for anyone born on or after January 1, 1951 through December 31, 1959.
- The applicable age is 75 for anyone born on or after January 1, 1960.

Secure Act 2.0

First Responders may be able to exclude certain service-related disability pension payments from gross income after reaching retirement age.

Retirement plans may make “qualified long-term care distributions”. Up to \$2,500 can then be distributed to purchase long-term care insurance.

Individuals with unused balances in 529 education savings plans will be allowed to shift those dollars, up to \$35,000, to a Roth IRA if the 529 plan has a lifespan of at least 15 years. The amount transferred can't exceed Roth IRA contribution limits in a given year.

Secure Act 2.0

- Effective Jan 1, 2023, individuals age 70 ½ or older can make a one-time gift of up to \$50,000 (adjusted annually for inflation) (\$53,000 for 2024) directly from an IRA to a charitable remainder annuity trust, a charitable remainder unitrust, or a charitable gift annuity. The amount directed into the trust or annuity will apply toward the \$100,000 (\$105,000 for 2024) annual total Qualified Charitable Distribution (QCD) gift that is already allowed.

Dependents

- There are no personal or dependent exemptions for 2023 federal returns however understanding who qualifies as a dependent determines child and other dependent tax credits.
- A dependent child must be under 17 and provide less than half of their own support for the child tax credit.
- Dependent children 17 and 18 may qualify for the \$500 other dependent credits as well as children ages 19-24 who are full time college students.
- Other dependents may also include stepchildren, adopted children, foster children, sibling or half-sibling, or an offspring of any of these.

Foreign Activities or investments

- FinCEN forms 114 and 114a must be filed if you have an interest in, or a signature authority over, a financial account in a foreign country with an aggregate balance of at least \$10,000. The maximum penalty for non-willful failure to file the form is up to \$10,000 per violation. The maximum penalty for a willful violation can be as much as \$100,000. These penalty amounts are subject to inflation. FinCEN stands for Financial Crimes Enforcement Network.

Other 2023 updates

Annual gift tax exclusion was \$17,000 for 2023 and will be \$18,000 in 2024. The lifetime exclusion is \$12.92 million in 2023 and will be \$13.61 million in 2024. The lifetime exclusion amount will be cut in half as of January 1, 2026, when the current law sunsets. Gifts made to any one person or trust totaling \$17,001 or more in 2023 are reported on Form 709 which is due April 16, 2024. Use Form 8892 to Request an Automatic Extension to File Form 709 on or before October 15, 2024.

No change in the tax rates for 2023 but the brackets widened by approximately 7% meaning more income is taxed at lower rates.

Standard deduction amounts are \$13,850 for single, \$27,700 for joint, and \$20,800 for head of household; plus \$1,850 for single taxpayers, \$1500 each for married taxpayers 65 and older and/or legally blind.

Tax Tips

It's important to correctly classify qualified dividends and Section 199A dividends when preparing your returns to avoid paying more tax than required. Qualified dividends are taxed at a lower rate than non-qualified dividends and Section 199A dividends are qualified business income that is eligible for a 20% deduction.

Don't hesitate to ask for penalty relief if you filed late or underpaid your taxes. You may qualify for "First Time Abatement" if you have a history of good compliance and haven't had a penalty abated in the last 3 years. Call IRS or file Form 843, Claim for Refund and Request for Abatement.

Student Loan Interest

- Qualified student loan interest is deductible up to \$2,500 per year on Schedule 1, line 21. Qualified student loan interest is reported on Form 1098-E. A qualified student loan is a loan taken out to pay qualified education expenses.
- Interest up to \$2,500 can be deducted if modified adjusted gross income (AGI) is \$155,000 or less for married filing jointly and will be gradually reduced if modified AGI is between \$155,000 and \$185,000. These thresholds are adjusted for other filing statuses.

Tax planning ideas

- Current federal tax rates are scheduled to sunset December 31, 2025. The 12% bracket will become 15%, the 22% bracket will become 25%, the 24% bracket will become 28%, and the 37% tax bracket becomes 39.6%. Standard deductions and personal exemptions will also revert back to 2017 amounts. Projections show that many taxpayers will pay about 20% more in taxes when the current law sunsets. Accelerating income in 2024 and 2025 and converting non-Roth IRA monies to a Roth IRA are suggested as two ways to take advantage of the current lower tax rates.

Preferred Tax rates for Qualified dividends and Long-term capital gains

- The preferred rates are 0%, 15% and 20% depending on your income.
- In 2023 single taxpayers with total taxable income of:
 - \$44,625 or below will pay 0%
 - \$44,626 to \$492,300 pay 15%
 - greater than \$492,300 pay 20%
- Married filing jointly amounts are \$89,250, and \$553,850, respectively. Other thresholds apply to married filing separately and head of household.

Qualified Charitable Distributions

- Distributions from an IRA made directly to a charitable organization should be excluded from income if made by taxpayer who was 70 1/2 in 2023. The maximum amount is \$100,000 per taxpayer (married couples up to \$200,000). The limits will be indexed for inflation starting in 2024. The 2024 amount is \$105,000.

Other Ideas

Don't report a K1 for your IRA on your individual tax return. Your IRA may need to file a form 990T if the K1 reports more than \$1,000 of Unrelated Business Taxable Income (UBTI).

Open an online account with the IRS to allow you to securely access your information, e.g. tax payments, returns filed, etc. Go to irs.gov/payments/your-online-account to set it up.

Search your state's Unclaimed Property office for any forgotten accounts or uncashed dividend checks.

Virginia - vamoneysearch.gov

North Carolina - unclaimed.nccash.com

2023 and 2024 Mileage Rates

- Charitable miles - \$.14 per mile; same in 2024
- Medical or moving miles - \$.22 per mile; \$.21 for 2024
- Business miles - \$.655 per mile; \$.67 in 2024

North Carolina Tax updates

- 2023 Individual tax rate - 4.75% which is down from 4.99% in 2022
- Standard deductions: Married filing jointly \$25,500; Single \$12,750; Head of Household \$19,125

Virginia Tax updates

- Standard deduction is \$8,000 from \$4,500 for single taxpayers and \$16,000 from \$9,000 for married taxpayers filing jointly.
- Deduction for Military retirement pay is up to \$20,000 for 2023 and \$30,000 for 2024.
- Reminder that VA requires individuals to remit payment electronically if payments exceed or can reasonably be expected to exceed \$1,500. This includes payments for estimated taxes, extension payments, or any amounts due when a return is filed.

New Virginia Tax Credits

- Firearm Safety Device Credit- \$300 nonrefundable credit for tax years 2023 through 2027 for the purchase of one or more firearm safety devices (gun safe, gun case, lock box or other device that locks with a key, a combination, or other similar means). Limited to one credit per year. The aggregate amount of credits allowable is \$5million per year. Credits will be allocated on a first-come, first-served basis by the Department of Taxation. Apply for certification by April 1st using Form FSD.

New Virginia Tax Credits

- Livable Home Tax Credit – Tax credit of up to \$6,500 available to individuals or licensed contractors for the purchase or construction of a new accessible residence or up to 50% of the cost of retrofitting activities on an existing residence. Application must be filed with the Department of Housing and Community Development by January 31 of the year following the year in which the purchase/construction/retrofitting was completed.

New Virginia Tax Credits

- Food Donation Tax Credit – Any person engaged in the business of farming who donates food crops or wholesome food produced in Virginia to a Virginia nonprofit food bank may claim a credit equal to 50% of the fair market value of the crops or the wholesome food donated up to \$10,000. The taxpayer must apply for the credit by February 1 using FCD-1 and be certified in order to claim the credit.

Tips to Avoid Common Tax Scams

- IRS does not call or email you without prior written communication. It's a scam call if you are told you need to pay immediately or to pay a third party or if you receive a threatening message.
- You can freeze your credit with the major credit rating bureaus. Visit [identitytheft.gov](https://www.identitytheft.gov) for more information.
- File your returns as early as possible, once you have all necessary documents/information.
- You can request an Identity Protection Pin from the IRS to prevent someone else from filing a tax return using your information. Visit [IRS.gov](https://www.irs.gov) for instructions.

Free Tax Software Options

- Freefile is available if your 2023 AGI doesn't exceed \$73,000. Guided questions help you prepare your returns.
- Free File Fillable Forms is available if your AGI is more. It is an electronic version of IRS paper forms that can be e-filed for free and is best for people experienced in preparing their own returns.
- Visit [IRS.gov/FreeFile](https://www.irs.gov/FreeFile) for more information.

Free Tax Help

IRS Certified Volunteers are available at certain locations to provide free tax assistance to low to moderate income (AGI under \$60,000), elderly (age 60 and older) taxpayers, persons with disabilities, and Limited English-speaking taxpayers. Visit [IRS.gov](https://www.irs.gov) (keyword VITA)

Visit [IRS.gov](https://www.irs.gov) for IRS forms, instructions, and helpful publications.

IRS customer service 800-829-1040

Visit tax.virginia.gov for forms and instructions

VA customer service 804-367-6113

Visit [NCDOR.gov](https://www.ncdor.gov) for North Carolina forms and instructions.

NC customer service 1-877-252-3052

Due dates to file 2023 individual tax returns

- Federal – April 16, 2024 without extension and October 15, 2024 with extension
- North Carolina – same as federal
- Virginia – May 1, 2024 without extension and November 1, 2024 with extension