

January 31, 2023

## **HAPPY NEW YEAR!!**

The following tax rates and amounts are effective for 2023:

1. OASDI rate for employees remains at 6.2%. The wage base increases to \$160,200.
2. Medicare rate remains at 1.45% for employers. The employee portion is 1.45%, and a 0.9% Medicare surtax on earned income will be calculated on single filers with wages over \$200,000 and married filers with wages over \$250,000 as part of health care reform.
3. Social Security payments will increase by 8.7% beginning in January 2023. The maximum earnings one can earn before Social Security benefits will be completely limited is \$56,520 for those who reach full retirement age during 2023. Those between age 62 and age 66 can earn \$21,240. For each \$2 earned above that, \$1 of benefits is lost. There is no limit on earnings for those older than 66. The retirement age for Social Security continues to rise this year. Those turning 62 this year are affected. They will get reduced benefits if they start receiving payments before they attain age 67.

On December 23, 2022, Congress passed the SECURE 2.0 Act of 2022. Here is a summary of changes that may impact your retirement savings and withdrawals:

4. Employers will be required to automatically enroll employees in a 401k plan with a minimum of 3% contribution, but no more than a 10% contribution. Employers with 10 or less employees and those businesses in operation for less than 3 years are exempt from this rule.
5. Employees age 50 or over are eligible for catch up 401k contributions of \$7,500 in 2023. Beginning in 2025, employees age 60 through 63 will be eligible to make catch up contributions of \$10,000 and it will be indexed for inflation. To generate revenue for the government, the catch-up contributions will be subject to Roth treatment (post-tax) for those earning \$145,000 or more.
6. The required minimum distribution age is increased to 73 from 72 beginning with January 2023 withdrawals. Beginning in 2033, the age will increase to 75.
7. The 50% penalty for failure to take a required minimum distribution when one was required is reduced to 25%. The penalty drops further to 10% if you take the required minimum distribution by the end of the second tax year in which it was required to be taken. A penalty waiver can be submitted on Form 5329 to request a penalty waive due to reasonable error.
8. Penalty free withdrawals are allowed under certain circumstances for small amounts.
9. The SECURE 2.0 Act removes the required minimum distribution rules for Roth 401k accounts starting in 2024.
10. Required minimum distribution rules for surviving spouses change in 2024, often resulting in younger surviving spouses being able to delay required minimum distributions for longer. This change must be elected by the surviving spouse.
11. Money donated through a qualified charitable donation can count towards your required minimum distribution amount for the year.
12. If you have a 529 Plan with excess funds, you may be able to rollover funds to the beneficiary's Roth IRA beginning in 2024. This opportunity is subject to certain requirements that must be met, including but not limited to the fact that the 529 Plan must have been open for 15 years.

***The Tax Reform Bill*** passed in late December 2017 made some important changes to individual, business, estate, and gift taxation beginning in the 2018 tax year. Many of these provisions sunset after 2025. Many of the items outlined below address changes specific to the 2017 Tax Reform Bill, which continue in tax year 2023. While this list is not all inclusive, it represents the items that we feel are of greatest interest to our clients.

13. Personal and dependency exemptions have been eliminated under the new tax law. The IRS has established a revised Form W-4 to reflect this. Your employer's payroll department may request that you complete the new W-4 form.
14. Standard deduction increases to \$27,700 for married filing joint couples, plus \$1,500 for each spouse 65 or older, or blind or disabled. The standard deduction for a single filer increases to \$13,850, plus \$1,850 if you are 65 or older, blind, or disabled. Head of household's standard deduction increases to \$20,800. For children who must file returns, it increases \$1,250.
15. There will still be seven tax brackets consistent with 2022. Income tax rates will be 10%, 12%, 22%, 24%, 32%, 35%, and 37% for single taxpayers earning over \$578,125 or married taxpayers earning over \$693,750. The 20% top rate for long term capital gains and qualified dividend starts at a higher level for 2022; singles with taxable income over \$492,300 and joint filers above \$553,850. For those earning less than the thresholds, the tax rate has remained at 15%. Under the 2010 Health Care Law, the 3.8% Medicare net investment income tax remains effective for single taxpayers earning more than \$200,000 and married taxpayers earning more than \$250,000.
16. Significantly less taxpayers are expected to be subject to the Alternative Minimum Tax as a result of changes under the 2017 Tax Reform Law. 200,000 individuals as opposed to 5,000,000. Alternative Minimum Tax exemption increases slightly in 2023, from 2022. Exemptions from the minimum tax will rise in 2023 to \$126,500 for couples and \$81,300 for singles. The phase-out levels for the exemptions were raised to \$1,156,300 for joint filers, up from \$1,079,800; and to \$578,150 for individuals, up from \$539,000.
17. The exemption from the Kiddie Tax for 2023 increases to \$2,500. The first \$1,250 of unearned income is tax-free. The next \$1,250 is taxed at the child's rate. If the Kiddie Tax applies, the child's net unearned income exceeding \$2,500 would be taxed using the parent's rate.
18. Bonus rate or flat rate withholding for supplemental wages less than \$1,000,000 remains at 22%. If more than \$1,000,000 the rate is 37%.
19. High income taxpayers can continue to convert their IRAs to ROTHs. The \$100,000 AGI cap is gone. Under the new tax law, the ability to undo a Roth IRA conversion after it has been completed is no longer available.
20. Federal estate, gift and generation skipping tax exemption increases to \$12,920,000. It applies to the estates of people who died after Dec. 31, 2018 but before Jan. 1, 2026 and to gifts made during this time period. The maximum Estate and Gift rate remains at 40%.
21. The federal deduction for state and local income and sales taxes, combined with property taxes has been capped at \$10,000, the national average.
22. The deduction for mortgage interest has changed under the 2017 Tax Reform Act. Previously, taxpayers could deduct mortgage interest on principal balances up to \$1 million for multiple homes. A taxpayer could also deduct home equity mortgage interest on principal up to \$100,000. Under the new law, the deduction for mortgage interest is capped at \$750,000 of principal and limited to two homes. Home equity loan interest is no longer allowed. Home purchases prior to December 15, 2017 are grandfathered in under the prior laws, as are existing mortgage balances.

23. Mandatory health care payments under the Patient Protection and Affordable Care Act (Obamacare) which were effective after 12/31/13 are no longer required since the tax for being uninsured has been reduced to zero under this tax law.
24. In 2023, a taxpayer may deduct medical expenses when they exceed 7.5% of adjusted gross income.
25. The child tax credit is \$2,000 per child and will be refundable up to \$1,600. The phase-out for the credit, begins with adjusted gross income of more than \$400,000 for married filing joint couples and more than \$200,000 for all other taxpayers. The phase-out is not indexed for inflation. The definition of the child tax credit has been expanded to include dependents who are not children. The new tax law includes a \$500 nonrefundable credit for dependents who are not children.
26. Pass thru business owners are eligible to deduct 20 percent of their Qualified Business Income from a partnership, S corporation and sole proprietorship. In 2023, this deduction begins phasing out for the deduction that begins at \$182,100 of individual adjusted gross income and \$364,200 of adjusted gross income for couples filing jointly. The deduction does not apply to specified service businesses, except when the income of those taxpayers fall below the phase-out thresholds described above. A specific tax form will be filed in 2023 for those claiming the QBI deduction.
27. Qualified withdrawals from 529 plans have been expanded to allow up to \$10,000 to be withdrawn annually for private secondary school expenses. In 2017 and prior, 529 plan qualified withdrawals were only allowed for higher education expenses. Note that many states, including New York, do not follow this new rule. New Jersey does allow these withdrawals.
28. In 2023, New Jersey will continue to allow its residents to obtain a state tax deduction for 529 contributions to the New Jersey plan. This \$10,000 deduction is limited to taxpayers earning \$200,000 or less. New Jersey will also allow a tax deduction of up to \$10,000 for in-state tuition payments, subject to an income limit.
29. Investment fees, tax preparation fees, and unreimbursed employee business expenses will not be deductible as Federal Miscellaneous Itemized Deductions. Previously, these items were deductible but subject to a 2% of adjusted gross income threshold. Some states still allow them.
30. Casualty losses continue in 2023 to only be deductible if they are caused by a Federally declared disaster. Personal losses, such as thefts and a house fire not caused by a Federal declared disaster, would no longer be deductible. We suggest you review your insurance policies to see if you have adequate coverage.
31. Alimony payments for divorce agreements entered into after January 1, 2019 are not deductible. Alimony payments received will not be taxable. Special rules exist for those wishing to modify divorce agreements entered into prior to that date but maintain the deductibility of their alimony payments.
32. Moving expenses continue to generally not be deductible in 2023. Some exceptions apply to members of the military.
33. Business meal deductibility returns to 50% for 2023 from 100% in 2022 and 2021. The prior years' high deduction was designed to encourage restaurant dining. Business entertainment deductibility continues to be repealed.
34. The Tax Reform Bill increased the maximum amount a taxpayer may expense under Sec. 179 to \$1,160,000, up from \$1,080,000 and increased the phase-out threshold to \$2.89 million. Bonus depreciation is allowed at a phased down level. 80% will be allowed for property placed in service in 2023, 60% in 2024, 40% in 2025, and 20% in 2026.
35. Back up withholding rate is 24%.

36. 401(k), 403(b), and 457 contribution pay-in limitation increases to \$22,500, with \$7,500 additional for employees 50 and older. Ceiling on SIMPLE plans increases to \$15,500 but folks age 50 or older can put in an additional \$3,500 in 2023.
37. The amount of earnings used to calculate SEP or Solo 401(k) contributions increased from \$305,000 to \$330,000. The maximum pay-in for defined contribution plans increases to \$66,000. Percentage of compensation that can be put in remains at 100%. Profit Sharing percentage remains at 25%.
38. Phaseout for Traditional IRA deductions start at \$116,000 and ends at \$136,000 for couples who are covered by a retirement plan. Phaseout for singles is from \$73,000 to \$83,000. If only one spouse is covered by a plan, the phaseout zone for deducting a payin for the spouse who is not covered begins at \$218,000 of AGI and ends at \$228,000. Phaseout for allowable Roth IRA contributions start at \$218,000 for couples and end at \$228,000, and start at \$138,000 and end at \$153,000 for singles. Contribution limit increases to \$6,500. If 50 or older, can contribute up to \$7,500.
39. The interest exclusion on U.S. Savings Bonds redeemed to pay qualified higher education expenses starts to phase out at AGI above \$137,800 for marrieds.
40. Eligible portion of long-term care premium increased: \$5,960 for those age 71 and older, \$4,770 between ages 60 and 70, \$1,790 between ages 50 and 60, \$890 from 41 to 50 and \$480 for age 40 and under, deductible as medical expenses. Limit for tax-free payouts is \$420 per day.
41. Medicare Part B premium decreases to \$164.90 monthly for most singles with AGI under \$97,000, although many taxpayers will pay less than that. The maximum premium rate is \$560.50 per month.
42. The Nanny tax threshold increases \$200 to \$2,600 in 2023. No social security tax is due for domestics paid \$2,600 or less this year. It is not indexed for inflation. FUTA is still due whenever a domestic employee is paid \$1,000 or more in a calendar quarter in the current or prior year.
43. Low and middle income savers can still get a tax credit of up to \$1,000 for contributions made to IRAs and qualified plans. Credit disappears for marrieds when AGI hits \$73,000, \$36,500 for singles.
44. Adoption tax credit increased to \$15,950 of expenses, from \$14,890. Phaseout starts at \$239,230 AGI.
45. The Lifetime Learning credit phaseout rose to the same levels as the American Opportunity Credit in exchange for the elimination of the tuition and fees deduction under the Tax Cut and Jobs Act. The credit provides a maximum annual amount of up to \$2,000 per tax return, calculated as 20% of the first \$10,000 of qualified expenses. Phaseout starts at \$80,000 for single filers and \$160,000 for joint filers.
46. Gift tax exclusion increases to \$17,000 per donee for gifts made in 2023.
47. The limit on deducting payins to Health Savings Accounts increases to \$7,750 for family coverage and \$3,850 for individual coverage. Account owners age 55 and older can put in an additional \$1,000. Ceiling on out-of-pocket cost increases to \$15,000 for family coverage and \$7,500 for individual coverage. HSAs can be rolled into IRAs.
48. Monthly limitation on contributions to transit flexible spending accounts for tax-free parking and transit increases to \$300 for 2023.
49. U.S. taxpayers working abroad have a higher exclusion, \$120,000, up from \$112,000.

50. Federal minimum wage remains unchanged at \$7.25, food service employees, \$2.13. New Jersey increased to \$14.13 as of January 1, 2023 and New York increased to \$14.20, \$15.00 in Long Island and Westchester and \$15.00 in New York City. Different rates apply for the New York hospitality industry. Connecticut minimum wage increases to \$15.00 on June 1, 2023. Pennsylvania minimum wage remains at \$7.25 with tipped employees \$2.83.
51. Credit and Debit Card companies will continue to issue 1099s on payments made to merchants in 2023.
52. S Corporations and partnerships will owe a penalty of \$210 per owner or partner per month for up to 12 months for failure to file on time. This includes returns that are required when no business activity takes place.
53. Nearly all businesses must wire tax deposits to the IRS.
54. Standard mileage allowance for business increases to 65.5¢ per mile. The rate increases to 22¢ a mile for medical purposes and job related moves. Remains at 14¢ per mile for charitable driving.
55. Tax-free direct payouts from IRAs to charity of up to \$100,000 for individuals age 72 and older continue to be allowable.
56. Professional development costs continue to be deductible as part of the \$250 of teacher classroom supplies deduction.

As always, if you have any questions about these or any other matters, do not hesitate to call us.

Remember, We're Here For You!

Sincerely yours,

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