

2022 & 2023 Income Taxes

PPCUG General Meeting

February 14, 2023

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What's New

Very little actually changed for TY2022 other than the typical annual adjustments in tax brackets etc.

and
Most COVID relate enhancements were not extended

- The IRS has revised the Filing Status for recent Widows and Widowers with dependents, now called Qualifying Surviving Spouse, with enhanced benefits that we will discuss
- The cash Charity Donations that were permitted in addition Standard Deduction for the past two years is no longer allowed, but we will discuss another method that some of us can use for this

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The Secure Act

- The Secure Act passed in December 2019, took effect January 1, 2020
 - ✓ It changed the start date for Required Mandatory Distributions (RMDs) to 72 from 70½
 - ✓ It also changed the rules when Retirement Account are Inherited by other than a Spouse and a few other beneficiaries
- The Secure Act 2.0 passed in December 2022, took effect January 1, 2023
 - ✓ It changed the start date for Required Mandatory Distributions (RMDs) from 72 to 73 starting in 2023, and to 75 starting in 2033
 - ✓ It also increased the catch-up contribution by \$10,000 for those attaining the age of 60 to 63, with some income limits

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Filing Status Change

- The IRS has revised the Filing Status for recent Widows and Widowers with Dependents. Qualifying Widow(er) is now called Qualifying Surviving Spouse
 - ✓ QSS can be used if your spouse died in 2020 or 2021 and you haven't remarried before the end of 2022
 - ✓ You need to have a child or stepchild, not a foster child
 - ✓ The Child must have lived in your home for all of 2022
 - ✓ You paid over half of the cost of keeping up your home
 - ✓ You must have been eligible to file a MFJ return the year your spouse died
- This revised Filing Status allows you to use the same Standard Deduction as a MFJ return
If your spouse died in 2022 you are still permitted to use MFJ for your 2022 Tax Return

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Standard Deduction

Since 2018, when the **(TCJA)** doubled the Standard Deduction, few taxpayers itemize. It also adjusts annually for inflation

<u>TY2021</u>		<u>TY2022</u>	
Filing Status	2022 Standard Deduction	Filing Status	2023 Standard Deduction
Single, Married Filing Separately	\$12,950	Single, Married Filing Separately	\$13,850
Married Filing Jointly, Qualifying Widow(er)	\$25,900	Married Filing Jointly, Qualifying Widow(er)	\$27,700
Head of Household	\$19,400	Head of Household	\$20,800
Over 65 or Blind adds \$1400 per person		Over 65 or Blind adds \$1500 per person	

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Tax Brackets and Rates

<u>TY2022</u>				
Tax rate	Single	Married filing jointly	Married filing separately	Head of household
10%	Taxable income of \$0 to \$10,275	Taxable income of \$0 to \$20,550	Taxable income of \$0 to \$10,275	Taxable income of \$0 to \$14,650
12%	\$10,276 to \$41,775	\$20,551 to \$83,550	\$10,276 to \$41,775	\$14,651 to \$55,900
22%	\$41,776 to \$89,075	\$83,551 to \$178,150	\$41,776 to \$89,075	\$55,901 to \$89,050
24%	\$89,076 to \$170,050	\$178,151 to \$340,100	\$89,076 to \$170,050	\$89,051 to \$170,050
32%	\$170,051 to \$215,950	\$340,101 to \$431,900	\$170,051 to \$215,950	\$170,051 to \$215,950
35%	\$215,951 to \$539,900	\$431,901 to \$447,850	\$215,951 to \$323,925	\$215,951 to \$539,900
37%	\$539,901 or more	\$447,851 or more	\$323,926 or more	\$539,501 or more

<u>TY2023</u>				
Tax rate	Single	Married filing jointly	Married filing separately	Head of household
10%	Taxable income of \$0 to \$11,000	Taxable income of \$0 to \$22,000	Taxable income of \$0 to \$11,000	Taxable income of \$0 to \$15,700
12%	\$11,001 to \$44,725	\$22,001 to \$89,450	\$11,001 to \$44,725	\$15,701 to \$59,850
22%	\$44,726 to \$95,375	\$89,451 to \$190,750	\$44,726 to \$95,375	\$59,851 to \$95,350
24%	\$95,376 to \$182,100	\$190,751 to \$364,200	\$95,376 to \$182,100	\$95,351 to \$182,100
32%	\$182,101 to \$231,250	\$364,201 to \$462,500	\$182,101 to \$231,250	\$182,101 to \$231,250
35%	\$231,251 to \$578,125	\$462,501 to \$499,750	\$231,251 to \$346,875	\$231,251 to \$578,100
37%	\$578,126 or more	\$499,751 or more	\$346,876 or more	\$578,101 or more

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Capital Gain Rates

TY2022

Tax filing status	0% rate	15% rate	20% rate
Single	Taxable income of up to \$41,675	\$41,676 to \$459,750	Over \$459,750
Married filing jointly	Taxable income of up to \$83,350	\$83,351 to \$517,200	Over \$517,200
Married filing separately	Taxable income of up to \$41,675	\$41,676 to \$459,750	Over \$459,750
Head of household	Taxable income of up to \$55,800	\$55,801 to \$488,500	Over \$488,500

TY2023

Tax filing status	0% rate	15% rate	20% rate
Single	Taxable income of up to \$44,625	\$44,626 to \$492,300	Over \$492,300
Married filing jointly	Taxable income of up to \$89,250	\$89,251 to \$553,850	Over \$553,850
Married filing separately	Taxable income of up to \$44,625	\$44,626 to \$276,900	Over \$276,900
Head of household	Taxable income of up to \$59,750	\$59,751 to \$523,050	Over \$523,050

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Tax Credits

There are two main types of Credits that can reduce your tax bill

Refundable Tax Credits

- These are the most versatile type, like a payment
- They can reduce your tax bill to below zero
- If a refundable credit is more than you owe, the difference will be refunded to you

- Examples include
 - ✓ Earned Income Credits
 - ✓ Additional Child Tax Credits

Non-Refundable Credits

- These credits are subtracted from the taxes you owe, but will not reduce your tax liability below zero
- Examples include

- ✓ Child Tax Credits
- ✓ Foreign Tax Credits
- ✓ Residential Energy Credits
- ✓ Clean Electric Vehicle Credits

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Credit for Other Dependents

- This credit was created as part of the Tax Reform Act of 2020
- It gives a \$500 Tax Credit for Dependents of any age, including those over 18 that have a SSN or ITIN. Dependent Parents, other qualifying relatives, and others that are not related can also qualify

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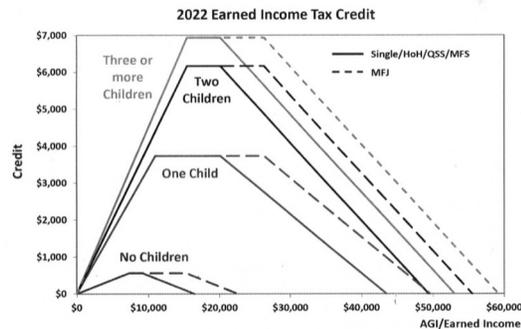
Earned Income Tax Credit

The 2021 expanded age eligibility for Earned Income Tax Credit was not extended.

- For 2022 the age eligibility is from 25 to 65 at the end of the year, for low income workers
- The amount of the credit increases significantly if you have dependent children
- Taxpayers filing Married filing Separately are not eligible
- Investment income can't exceed \$10,300
- It's a Refundable Tax Credit, meaning it can generate a refund more than the tax you owe

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Earned Income Tax Credit



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Child Tax Credit

The Child Tax Credit has increased significantly over the past several years

- CTCs were stated in 1998 at \$400 per child
- In 2016 it was up to \$1000
- In 2017 it doubled to \$2000
- The higher rates paid in 2022 did not get extended, it's back to \$2000 per child under 17 at the end of the year

This is a Non-Refundable Tax Credit

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Additional Child Tax Credit

This Credit is normally a Non-Refundable Credit, however certain taxpayers may be entitled to a Refundable Credit

- Taxpayers with more than \$2,500 of taxable earned income may be eligible for the Additional Child Tax Credit if they have at least one qualifying child
- Taxpayers with three or more qualifying children may also be eligible for the Additional Child Tax Credit regardless of their income
- Credit is limited to \$1,500 per child

Amended returns are not allow for this Credit if the Child's SSN is issued after the due date of the return

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Residential Energy Credit

This credit for 2022 is limited to a total of \$500 (\$200 for Windows) to your main home, for all tax years since 2005

It is a Non-Refundable Credit

Specific types of Improvements include:

- ✓ Energy efficient improvements like adding Insulation, energy efferent Windows and Doors, Metal or Asphalt Roofs
- ✓ Other qualified energy efficient improvements such as Heating and A/C Systems including Heat Pumps, Water Heaters, Central A/C Systems and Main Air Circulating Fans

There are also Clean Air Credits available for Solar Energy & Water Heater, Sm. Wind Energy, Geothermal Heat Pumps, Biomass & Fuel Cell property. But tax returns for these type of Credits are considered "Out-Of -Scope" for AARP Tax Preparers

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Residential Energy Credit

Tax Credits for energy-efficient home improvements were extended and expanded by the Inflation Reduction Act in August 2022. The old law actually ended in 2021, but this credit was revived for 2022 tax year, with the old rules. Starting in 2023 through 2032, the credit will be 30% of the cost of eligible home improvements. Roofing and air circulating fans are no longer covered and some energy-efficient standards are being updated

In addition , the \$500 lifetime limit is being replaced with a \$1,200 annual limit. Some specific annual limits are:

- ✓ Energy Audits - \$150
- ✓ Windows, Skylights, Central A/C, Water Heaters, Furnaces, etc - \$600
- ✓ Heat Pump Water Heaters, Heat Pumps - \$2,000 (can exceed annual limit)

There are also upgraded Clean Air Credits available for Solar Energy & Water Heaters, Sm. Wind Energy, Geothermal Heat Pumps, Biomass & Fuel Cell property. These credits will expire in 2034

All Energy Credits are Non-Refundable Credits

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High Efficiency Electric Home Rebates

The Inflation Reduction Act passed last year also created something new called the High Efficiency Electric Home Rebates. It's not a tax credit, but will provide Rebates to low and middle income families who purchase energy-efficient appliance and some other upgrades

To qualify, a families annual income must be less than 150% of their areas median income (\$76,000 is 150% HUD AMI - Households of (2) in Cumberland County, TN in 2022)

- Credits for Appliances are up to:
 - ✓ \$ 840 for a Stove, Cooktop, Range, Oven, or Heat Pump Cloth Dryer
 - ✓ \$1,750 for a Heat Pump Water Heater
 - ✓ \$8,000 for a Heat Pump for space heating and cooling
- Credits for Non-appliance upgrades are up to:
 - ✓ \$1,600 for Insulation, Air Sealing and Ventilation
 - ✓ \$2,500 for electric wiring
 - ✓ \$4,000 for an Electric Load Service Center upgrades

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**High Efficiency Electric Home Rebates
and
Residential Energy Credit**

- **(HEEHRA)** allocates \$4.5 billion federal dollars to States to create point-of-sale rebates for home electrification projects for low and moderate income family's. Point-of-sale means that the rebate is transferred to the customer at the time of purchase. Qualifying households can use up to \$14,000 for these rebates
- **Residential Energy Credits** are non-refundable Tax Credits included on your Federal Tax Return
- Qualified households should be able to use both the **(HEEHRA) Rebate** and **Tax Credits** for the same energy-efficient home improvement

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Clean Vehicle Tax Credit

New **Electric (EV), Plug-in Hybrid (PHEV), and Fuel Cell (FCEV)** vehicles **purchased in 2022 or before** may be eligible for up to a \$7,500 Tax Credit

- ✓ EVs and PHEVs must have Battery Capacity of 5kWh, (Credit is \$2917), more kWhs can increase the credit up to \$7,500. Some two wheel PHEVs qualify for this Credit
- ✓ All vehicles gross weight rating must be less than 14,000 lbs
- ✓ The Vehicle Manufacture must have sold less than 200,000 EVs in the US
- ✓ Vehicles purchased after August 16, 2022 must have had final assembly in No America

This Tax Credit is **Non-Refundable**

If vehicle was purchased prior to 2022, file an **Amended Tax Return** for the year it was purchased

Unfortunately all of the **Clean Vehicle Tax Credits** are **Out-Of-Scope** for AARP Tax Preparers

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Clean Vehicle Tax Credit

New **Electric (EV), Plug-in Hybrid (PHEV), and Fuel Cell (FCEV)** vehicles **purchased from 2023 to 2032** may be eligible for up to a \$7,500 Tax Credit

- ✓ Must have a minimum Battery Capacity of 7kWh, or have a fuel cell
- ✓ Must have gross weight rating of less than 14,000 lbs
- ✓ Must have a retail price (MSRP) no more than \$80,000 for Vans, SUVs & Pick-ups, or \$55,000 for other vehicles. (Higher priced vehicles may qualify if they are leased), it also must be purchased for your own use, not resale
- ✓ Vehicle must meet the No America final assembly requirements
- ✓ Your MAGI income must be no more than \$300,000 (M), \$225,000 (HOH) or \$150,000 (Others)

MAGI is defined as your AGI, plus untaxed Foreign Income & Social Security and Tax-exempt Interest (current year or prior year income can be used)

Vehicles from Manufactures that have sold over 200,000 EVs in the US **are now eligible** for this credit

This Tax Credit is **Non-Refundable**.

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Clean Vehicle Tax Credit

Used **Electric (EV), Plug-in Hybrid (PHEV), and Fuel Cell (FCEV)** vehicles **purchased in 2023 to 2032** may be eligible for up to a \$4,000 Tax Credit

- ✓ Vehicle sale price must be \$25,000 or less, must be sold by a dealer and be it's first transfer, and vehicle must be purchased for your use, not resale
- ✓ Vehicle must be at least 2 years old, i.e. a 2021 Model purchased in 2023
- ✓ Must have gross weight rating of less than 14,000 lbs
- ✓ Credit is limited to 30% of the sale price
- ✓ Your MAGI income must be no more than \$150,000 (M & QSS), \$112,500 (HOH) or \$75,000 (Others)
- ✓ This Credit can only be claimed once every three years

MAGI is defined as your AGI, plus untaxed Foreign Income & Social Security and Tax-exempt Interest (current year or prior year income can be used)

Vehicles from Manufactures that have sold over 200,000 EVs in the US **are eligible** for this credit

This Tax Credit is **Non-Refundable**.

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Charity Donations

- For the past 2 years, primarily due to COVID, we were allowed to deduct some Charity Donations and still use the Standard Deduction, but this was not extended to 2022
- There is still a way to do this for many of us “Senior” taxpayers.
- If you have an IRA and are over 70½ you can use a Qualified Charity Donation (QCDs) to withdraw funds from your IRA, and they counts toward your RMD
- These withdrawals are not taxed, which gives you the same tax deduction as when itemizing donations

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Qualified Charity Donations (QCDs)

➤ **Using QCDs is easy**

- ✓ Just advise the holder of your IRA the donation amount(s) and the Charity(s) name and address for each donation
- ✓ They will send a check to each Charity and advise them to send you an acknowledgement for the donation
- ✓ When your taxes are prepared the donation amounts will be subtracted from the amount of taxable IRA withdrawals
- ✓ You are permitted to donate up to \$100,000 annually with QCDs

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Net Investment Income Tax (NIIT)

The NIIT tax is unofficially called the “Obama or Medicare Tax”

- It went into effect in January 2013, and applies to Higher Income taxpayers
- It taxes investment income at 3.8% on MAGI incomes over \$250,000 (M) and \$200,000 (S) taxpayers

MAGI as defined by NIIT is the same as your AGI if you have not exclude Foreign Earned Income

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Federal Estate Tax

The Current Estate Tax for 2023 applies to estates valued at over \$ 12.92 million per person

The tax rate varies from 18% to 39% for the first \$1 million, than 40% for amounts over the first \$1 million

The exemption was doubled in 2017 and has been adjusted annually for inflation by TCJA

The TCJA also rolls the exemption back to its 2017 amount of \$5.43 million in 2026

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Federal Gift Tax

The Gift Tax exclusion for 2022 was \$16,000, and increases to \$17,000 in 2023. A married couple can give up to \$34,000 in 2023 to as many people as you like without filing a gift tax return

There is also a (2023) lifetime exclusion of \$12.92 million, for gifts that exceed the annual exclusion. Gift Tax rate varies from 18% to 40%

(Gifts to Charities are not subject to Gift Taxes)

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Potential Tax Changes

President Biden has proposed a number of tax changes, most will only impact taxpayers with incomes above \$400,000.

In 2022 the Biden Administration purposed the following:

- ✓ Increase the Corporate Tax Rate from 21% to 28%
- ✓ Add a higher tax bracket of 39.6% for incomes over \$509,300
- ✓ Eliminate lower Capital Gains rates on incomes above \$1 million
- ✓ Treat transfer-at-death property as sale with the deceased's estate responsible for Capital Gains Taxes

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Potential Tax Changes

Other prior year(s) proposed changes that did not pass both the House and Senate

- ✓ Capital Gains – Add a 25% Capital Gains rate for incomes over \$400,000 and higher rate for over \$1 mil was also discussed
- ✓ State and Local Taxes (SALT) Itemized Deductions – Increase the cap on (SALT) from \$10,000 to \$80,000 until 2032
- ✓ Eliminate Capital Gain Stepped-up-Basis at death, with some exceptions
- ✓ Cap the tax benefit for Itemized Deductions at 28%
- ✓ Lower the current Estate Tax Exemption that was doubled by the TJCA

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Potential Tax Changes

These other tax changes have also been proposed

- ✓ Payroll Tax for Social Security at 6.2% for employees would restart when earned income exceeds \$400,000

This tax was capped at \$147,000 for 2022 and it jumps to \$160,200 for 2023. Medicare has a similar payroll tax. It's capped at an amounts based on Filing status, and for incomes exceeding \$250,000 (M) and \$200,000 (S) additional tax is collected

- ✓ IRA Changes – Some limits on Contributions and closes "back door" Roth conversion strategies
- ✓ NIIT Changes - Adding this tax on some Business related income

Both the IRA & NIIT changes would apply to taxpayers with incomes over \$500,000 (M), \$450,000 (HOH), or \$400,000 (S)

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Potential Tax Changes

When to expect Major Tax Changes

- Any major tax changes for the next two years are very unlikely, due to the current grid-locked and divided Congress
- But in 2025 and after major changes are likely
 - ✓ Most provisions in the TCJA are scheduled **expire after 2025**
 - ✓ In 2026, the 2017 Individual Income Tax Rates & Provisions, under the current law will be reinstated

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Let's Review the 2017 Tax Changes with it's Provisions we may see again

- Its most significant change was the permanent reduction of the Corporate Tax Rate from 35% to 21%
- All of these 2017 Individual Income Tax changes from the TCJA will expire after December 31, 2025, unless extended by Congress
- The Major 2017 Individual Income Tax changes will be reviewed on the next slides

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Let's Review the 2017 Tax Changes with Provisions we may see again

- Major (TCJA) Personal Income Tax Changes
 - ✓ Lower Individual Tax Rates and revised Brackets
 - ✓ Doubles the Standard Deduction, but eliminates the personal exemption
 - ✓ Some Itemized Deduction categories eliminated and others have a Cap
 - ✓ Doubled the Child Tax Credit
 - ✓ Eliminated the ACA Health Insurance Reporting Requirement, after 2018

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Let's Review the 2017 Tax Changes with Provisions we may see again

2018 Itemized Deduction

- Medical and Dental Expenses The amount you can deduct is qualified expenses less 7.5% of your AGI. The reduction was 10% before 2018
- Mortgage Interest, Property Tax, State and Local Income & Sales Taxes (SALT)
 - ✓ There is a Cap on the amount of interest you can deduct for new Mortgages based on the amount of the loan
 - ✓ Home Equity Loan Interest is no longer deductible, unless the loan proceeds were used to build, buy or improve your qualified home
 - ✓ There is a dollar limit for deductible State And Local Taxes (SALT), \$10,000 (M) or \$5,000, (Others)

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Let's Review the 2017 Tax Changes with Provisions we may see again

2018 Itemized Deduction

- **Casualty and Thief Losses** - Most are no longer deductible. Generally, this means that only losses attributable to a Federal disaster declared by the President will be eligible for some relief
- **Job and Miscellaneous Deductions** - Most of these are no longer deductible. They include unreimbursed employee expenses, tax return preparation, safety deposit boxes, dues, subscriptions, tool & supplies, uniforms, job search expenses and home office use

Also the overall limit on Itemized Deductions was eliminated

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Let's Review the 2017 Tax Changes with Provisions we may see again

2017 Tax Rates and Brackets with the new 2018 Tax Rates and Brackets

2017 LAW: TAXABLE INCOME	2017 LAW: TAX RATE	2018 LAW: TAXABLE INCOME	2018 LAW: TAX RATE
Under \$9,325 Individual Under \$18,650 Married	10%	Under \$9,525 Individual Under \$19,500 Married	10%
\$9,325 - \$37,950 Individual \$18,650 - \$75,900 Married	15%	\$9,526 - \$38,700 Individual \$19,500 - \$77,400 Married	12%
\$37,950 - \$91,900 Individual \$75,900 - \$153,100 Married	25%	\$38,701 - \$82,500 Individual \$77,401 - \$165,000 Married	22%
\$91,900 - \$191,650 Individual \$153,100 - \$233,350 Married	28%	\$82,500 - \$157,500 Individual \$165,001 - \$315,000 Married	24%

Additional 2018 Brackets of 32, 35 & 37% for Higher Incomes

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Let's Review the 2017 Tax Changes with Provisions we may see again

Here is a comparison of Standard Deductions

Standard Deduction	2017	2018
Single or MFS	\$6,350	\$12,000
Single or MFS (Over 65)	\$7,900	\$13,600
Qualified Widow & HOH	\$9,350	\$18,000
QW & HOH (Over 65)	\$8,100	\$19,600
Married Filing Joint	\$12,700	\$24,000
MFJ (Over 65)	\$15,200	\$26,600

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Let's Review the 2017 Tax Changes with Provisions we may see again

This is a comparison of other Deductions and Credits

Personal Exemption	2017	2018
For Each Dependant	\$4,050	Eliminated

Credits	2017	2018
Child Tax Credit (Per Child) Under Age 18	\$1,000	\$2,000
Credit for Other Dependents (Each) Not qualified for CTC	New in 2018	\$500

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**Let's Review the 2017 Tax Changes
with it's Provisions we may see again**

These charts compare the taxes that Family's paid in 2017 and 2018
with the 2018 tax savings at typical income levels

Single Taxpayer (over 65) using Standard Deduction						
AGI	2017		2018		2018 Savings	
	Taxable Income	Tax	Taxable Income	Tax	\$	%
\$25,000	\$12,750	\$1,436	\$11,400	\$1,178	\$258	17.9%
\$35,000	\$22,750	\$2,936	\$21,400	\$2,378	\$558	19.0%
\$45,000	\$32,450	\$1,136	\$31,400	\$3,578	\$858	19.3%

Married Filing Joint Taxpayers (over 65) using Standard Deduction						
AGI	2017		2018		2018 Savings	
	Taxable Income	Tax	Taxable Income	Tax	\$	%
\$45,000	\$36,100	\$2,122	\$18,400	\$1,840	\$372	16.8%
\$60,000	\$51,100	\$4,462	\$33,400	\$3,627	\$835	18.7%
\$75,000	\$64,350	\$12,232	\$51,000	\$9,699	\$2,533	20.7%

AGI is Adjusted Gross Income

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Potential Tax Changes

- **It too early to predict what changes we will see in 2025**
 - ✓ You have seen what changed in 2018, what has changed since then, and what other changes have been proposed more recently
 - ✓ A lot will depends on the economy and the results of the elections at the end of 2024
 - ✓ Let's hope that some of the tax reductions and simplifications from 2018 will be retained and built upon

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How to do Your Tax Return

- **Do it Yourself - Use IRS Free File**
 - ✓ Go to [irs.gov](https://www.irs.gov) website
 - ✓ Select **File Your Taxes for Free**
 - ✓ Select Provider, most are free with AGIs under \$73,000
- **Use AARP TaxAide**
 - ✓ Schedule an appointment online at aidintax.com or by phone
 - ✓ Some Scope limitations
- **Purchase the Software or use a Paid Preparer**



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2022 & 2023 Income Taxes

Questions?

Bob Willis

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