

October Tax Update & Newsletter

First!

Good news for retirees: (well, only following the inflation...)

Social Security cost of living increase (increase of benefits) for 2023 was officially announced on October 13. It will be 8.7%

Good news for student loans holders:

The simple application for student loans relief is live online on studentaid.gov : only Federal loans (not private loans), up to \$20,000 if there was a Pell grant, and \$10,000 otherwise. Income phaseout is AGI \$125,00 for singles and \$250,000 for families, either 2020 or 2021 income qualifies. However, this is in the courts now. Over 22 million people have already applied as of 10/21/22 (more than half the total number of applications expected)

[Apply for Student Loan Debt Relief](#)

The maximum 401k contribution in 2023 jumps to \$22,500 (from \$20,500) and \$30,000 (from \$27,000) when 50 years old or older. This also applying to 403b and 457 plans

2022 tax changes

The list below is not exhaustive, it addresses tax aspects often applying to individual taxpayers and there is no logical order to it. We need to keep in mind that lawmakers can still make changes to tax laws applying to 2022. I will not go into tax law which was extended with no change and I wrote about the provisions of the "Climate, Tax and Health Care package" in the August and September Newsletters <https://hons-tax.com/blog/>

- No more stimulus money: the three rounds were paid in 2020 and 2021 and none applies anymore to 2022 (so no need to keep track anymore of stimulus payments received)
- Mileage rates 2022: as noted in August Newsletter with more details, the rate is 58.5 cents/mile to June 30 and 62.5 cents/mile July to December
- Child Tax Credit reverts to pre-2021 rules: no more IRS monthly payments, maximum amount per child back to \$2,000, for children under 17 (not 18), and only \$1,500 per child maximum refundable.
- All the below ended (they were Covid help):
 - . higher Earned Income Credit when no children, also we are back to the 25 years to 65 years old limits (It was nice to be able to get it for you: less than 25, and 65 and older in 2021!), also we can't use 2019 income anymore to qualify for it.
 - . larger dependent care credit
 - . the \$300 (single) and \$600 (married) money donations deduction when not itemizing
- Standard deductions increase: Single \$12,900 (plus \$ 1,750 when 65 and older), Head of

Household \$19,400, married \$25,900 (plus \$1,400 each spouse 65 and older)

- ordinary income and capital gains income brackets increase slightly
- Maximum IRA contribution stays at \$6,000 (\$7,000 if 50 and older)
- Maximum 401k contribution is now \$20,500 (\$27,000 if 50 and older), same for 403b and 457 plans.
- the income phaseouts for traditional and Roth IRAs (different phaseouts) contributions go up a bit
- Required Minimum Distributions (RMDs, usually calculated for you by the financial institution) will lower a bit because now based on longer life expectancy tables.
- teachers can now deduct \$300 for class supplies. It was \$250 for the longest time, not much of an increase, but better than nothing.
- annual gift exclusion raises to \$16,000 per donee (no need to file any tax form up to that amount)
- HSA deductible contributions rise to \$3,650 when self-coverage and \$7,300 for family coverage, add \$1,000 if 55 years old and above. To qualify, health insurance maximum out of pocket costs are \$14,100 family and \$7,050 individual with unchanged minimum deductible of \$2,800 family and \$1,400 individual.
- the higher premium tax credit (marketplace health insurance) still applies, but the big help when unemployed (a very few of you got) for some of the year was not extended.
- Self-employed people: third party payment companies (Paypal. Stripe etc) are now obligated to send 1099-K if you were paid over \$600 in 2022 through their systems. Bring it with you at tax time, we'll need it. It usually does not include all your receipts (cash and other payments)
- The residential clean energy credit: mainly solar, wind, and geothermal is back to 30% (26% in 2021)
- refer to the September newsletter for details on the electric cars credit, which is far from being simple.
- American working abroad foreign tax exclusion, when all conditions met, is now \$112,000

A couple of tax deductions or credits you may not be aware of:

You make money donations or consider making some:

Consider making a donation to a non-profit licensed or registered childcare of your choice in Colorado. This donation will not only deduct from your federal income if you itemize but you will also get a credit (not an income deduction, a credit) of 50% of it on your Colorado return

[Colorado Child Care Contribution Credit](#)

You are self-employed.:

- we can take a deduction on your tax return for the health insurance premiums (including Medicare premiums) you paid for you (and your spouse and/or family if not covered at your spouse work). Some factors can make this more complicated than it seems (for example having also a W2 job, a period of unemployment, market place insurance) and I can make a determination and calculations as needed.

- you can make a deductible contribution to your HSA account (within health insurance conditions)

- you can make an IRA deductible contribution (subject to income phaseouts if spouse has a retirement plan at work) or make a SEP (Simplified Employee Pension Plan) or solo 401k deductible contribution (which has to be set by year end) which can usually be higher, and that we can figure at tax time.

- finally, the tax code is very favorable for work vehicles (self-employed and company vehicles only), especially if used only for business (things get more complicated with proration and more information needed when also using for personal use). For a vehicle used only for business and using the actual expenses method (vs mileage), in 2022 one can deduct on the tax return the purchase price up to \$19,200 of a less than 6000 lbs GV vehicle and the full purchase price of a vehicle of \$6,000 GV and above (deduction may decrease in 2024). One should keep in mind that when taking these large full deductions, there are no depreciation deductions left for the following years.

I am available as needed to help you figure your last quarterly estimated payment (due January 15), a "reasonable" S Corp owner salary and withholdings (depending on your estimated end of year result), the tax effects of the sale of a property or other capital gains or losses, and other tax consulting or planning.

Thank you to all my small tax practice clients!
Michael

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