Tax*Tips*

Keeping You Informed • Winter 2023

Your Trusted Advisors

Covenant CPA LLC *Taxpro@Covenant.CPA* www.Covenant.CPA

Our mission is to partner with businesses and families to achieve financial success through Biblical principles in order to further God's kingdom.

Due Dates for 2023 Filing:

Individual Returns:

April 15, 2024

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Partnership and S-Corp Returns:

March 15,2024

Mileage Rates for 2023 (2024 not available yet)

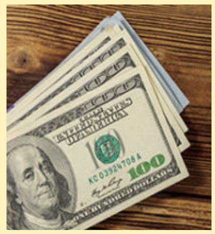
Business Mileage - 65.5 cents (up from 62.5 cents on 7/1/2022)
Medical Mileage - 22 cents (no change from 7/1/2022)
Charitable Mileage - 14 cents (no change from 7/1/2022)

IRA and HSA Contribution Limits	2023	2024
IRA contributions:	$6500	$7000
IRA catch-up provisions for ages 50 and up:	$1000	$1000
HSA max deductible contributions for individuals:	$3850	$4150
HSA max deductible contributions for families:	$7750	$8300
HSA catch-up provision for ages 55 and up:	$1000	$1000

Form 8300 for Large Cash Payments Goes into Effect January 1, 2024

The IRS has announced that businesses that receive payments of $10,000 or more in currency, in a single transaction, must file form 8300 and filing should be done within 15 days after receiving the currency. If you file ten or more 1099 or W-2 forms, form 8300 must be filed electronically. Businesses can create an account with FinCen's BSA E-filing system and can then e-file the form.

http://bsaefiling.fincen.treas.gov/PublicAccess.html



Do You Have a Hobby or a Business? It Matters to the IRS!

A hobby is any activity that a person pursues because they enjoy it and with no intention of making a profit. People operate a business with the intention of making a profit. Many people engage in hobby activities that turn into a source of income. There are some factors the IRS has given to help determine if an activity is a business or a hobby. The primary factor is whether or not you treat the activity like a business.

> Do you have a separate bank account?
> Is there accurate record of income and expenses?
> How much time and effort are put in to the activity to make it profitable?
> Do you have a plan to make a profit <u>in writing</u>?
> Do you depend on the income for your livelihood?
> If you have losses, do you make changes to how you operate to minimize these?

Secure 2.0 Act of 2022

This act makes changes for this year and coming years to help boost retirement savings.

Relaxed RMD rules take effect in 2023. The age for Required Minimum Distributions has risen from 72 to 73, and will increase to 75 in 2033.

Penalties for not taking your RMD have been lowered from 50% to 25% of the amount not taken. And if this oversight is corrected in a timely manner, the excise tax has been reduced from 25% to 10%. We have great success in getting these penalties lowered to $0 by filing a timely report. Ask us about it if you forgot to take your RMD!

Emergency withdraws of $1000, due to an unforeseen hardship or immediate personal or family emergency, will now not trigger the 10% penalty. Once made, another cannot be made for 3 years, unless the distribution is repaid.

Have some money left in an older 529 plan? Beginning in 2024, tax and penalty free rollovers from 529 plans to Roth IRAs will be permitted. This will alleviate fears about having to pay tax and penalties to access leftover assets in 529 accounts. Beneficiaries of 529 college savings accounts can roll up to $35,000 to a Roth IRA tax and penalty free over their lifetime. They are subject to Roth IRA annual contribution limits and the 529 account must be at least 15 years old. Open your 529 account now to get the clock started.

For Employers: There are substantially expanded credits for start-up plan costs paid by the employer, such as recordkeeping, TPA and financial professional expenses. The new credit starts at 100% of employer contributions made for each employee earning less than $100,000 a year, up to $1000. It phases down over 5 years from plan adoption (100%, 100%, 75%, 50%, 25%) It also provides greater flexibility in offering Roth plans to employees with employer matching availability. Moving ahead to year 2025 and beyond, there will be required automatic enrollment for those employees that do not opt out.

Energy Efficient Home Improvement Credit

Qualified energy efficient improvements to your main home in 2023 through 2032 can give you a tax credit up to $3200. Home improvements MUST meet energy efficiency standards, and must be new, not used, systems and materials. Look for Energy Star products for doors, windows and skylights, and IECC standard for insulation.

Beginning January 1, 2023, the credit is equal to 30% of what you spent for qualified energy efficient improvements (exterior doors and windows, insulation), residential energy property (energy efficient heating/cooling of air inside a home or hot water), and home energy audits.

While the annual cap for almost all types of energy improvements is $1200 per year, there are annual caps on specific types of improvements: $600 for residential energy property, windows and skylights; $250 for any single exterior door to a max of $500; $150 for a home energy audit (audit must be made by home energy auditor and include a written report and inspections identifying efficiency improvements and energy cost savings).

Heat pumps, biomass stoves with at least a 75% efficiency rating, and boilers have a $2000 annual cap which is not included in the $1200 limit.

The good news: The credit has no lifetime dollar limit. You can claim the maximum annual credit every year that you make eligible improvements until 2033.

The bad news: The credit is nonrefundable, so you cannot get back more on the credit than you owe in taxes and you cannot apply an excess to future years.

It's Electric! $7500 NEW Electric Vehicle Credit

Used electric vehicles qualify up to $4500. New vehicles purchased after April 18, 2023, must meet critical mineral and battery component requirements to qualify for the credit. For a full list of vehicles that qualify, go to this IRS website: https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after

New Filing Requirement for Businesses through FinCEN

If you start a small business or buy a rental property using a new limited liability company (LLC), you will need to file new reports with the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). Penalties for non-compliance are severe.

For companies formed in 2024, you have 90 days to comply. Entities created prior to 2024 have until December 31, 2024 to file.

The reports are the BOI report (Beneficial Owner Information report) and the company application information report. The filing must be done online and will include images of owners' ID.

NOTE: This is a totally separate report from your normal tax filings to federal, state and local agencies.

- Who does not have to file? Large operating companies with more than 20 full time employees, $5 million in domestic gross receipts or sales on their prior year return, and have a physical presence in US. Others exempt from filing: sole proprietorships and general partnerships which are not LLCs, publically traded corporations, investment advisors and brokers, tax exempt non-profits, most business trusts.

-Who DOES need to file? Any "reporting company": single member LLCs, LLCs for rentals, foreign corporations, small corporations, limited partnerships, and limited liability partnerships. The filing applies to business entities that are formed by filing a document such as articles of incorporation or organization with a secretary of state office or similar official.

While this is to go into effect beginning January 1, 2024, the website and forms are NOT yet released. We will update you when they are available. Several industry groups have requested a delay until 2025, so stay alert.

Watch Out for Employee Retention Credit Scams

There are lots of agencies out there claiming they can get you BIG money! If you have been our client, we have already checked if you qualify and filed the appropriate form. If you are new to us, call us first before giving your personal information out to these agencies. If you have already filed for ERC but are growing concerned about increased IRS scrutiny, the IRS released guidance in October regarding how to withdraw your amended return.

Are You Part of an S Corp?

The S Corp must reimburse you for out of pocket business expenses, including business mileage on a personal vehicle, in order to take the deduction. S Corp owners are not allowed to claim office in home deductions, however you can reimburse yourself for a percentage of utilities and home owner's insurance. Also remember if the business pays for your health insurance, it must be included on your year end W2 to be deductible.

Do Your Children Work for You?

If you are a sole proprietor employing your children, be sure the work is age appropriate and the wages are fair market value. Also, you must follow all legal rules for employment and comply with federal and state labor laws that apply to minors, including issuing periodic paychecks and filing payroll returns and W2s. Keep accurate records for the hours they work and the tasks they perform.

Have You Considered an HRA Plan?

These plans allow a business to reimburse its employees for health insurance or medical costs tax free. Advantages: In this era when employers cannot find workers, fringe benefits could help. The employer does not have to shop for a group health plan. The employer sets the maximum and reimbursement payments are not made until qualified claims are approved. Unlike group insurance, if employees decide not to use the benefit, it does not cost the employer anything. Employee reimbursements are income and payroll tax-free, and the employer can deduct the reimbursements from taxes. Disadvantages: Employees covered by an HRA are NOT eligible for health insurance premium credits, which may make their insurance more expensive. Employers must cover all employees of the same classification (such as full time or part time). A written plan document is required and there is a nominal excise tax due with Form 720 each year. Need help creating your plan? We partner with BASE to complete the necessary legal paperwork. Contact them at 888-386-9680.

Depreciation Change

Bonus Depreciation starts to phase out this year at 80% and continues on this downward trend: 60% in 2024, 40% in 2025, 20% in 2026, and $0 in 2027. Bonus Depreciation allows immediate deductions for equipment and improvements that normally stretch over several years. This ability to claim deductions immediately lowers small business taxes and provides greater cash flow to the business. Bonus Depreciation is similar to §179 but Bonus also applies to agricultural structures, paving and sidewalks.

Pennsylvania Changes

⇨ Section 179 depreciation will now be allowed up to $1 million for PA, and PA will automatically follow all future federal changes. This year also marks the first year PA will follow federal rules for Like Kind Exchanges.

⇨ Still using PA Telefile? You should have received a letter this October with a new TeleFile Request Form to fill out and send back in. In an attempt to limit who uses this service of paying for sales tax and employer withholding into PA Dept. of Revenue, the department is asking all who cannot use myPATH services to fill out the exemption. Reasons like being unable to access the internet or for religious reasons will be allowable options. Without this official request, you will be required to file via myPATH.

⇨ Property Tax/Rent Rebate Changes: This rebate is available for Pennsylvanians age 65 and older, widows and widowers age 50 and older, and people with disabilities age 18 and older. This credit received some notable updates and will increase the maximum standard rebate from $650 to $1000. It also increased the income limits for renters and homeowners both to $45,000, and moving forward this limit will be tied to the cost of living.

⇨ PA Non-Profits now have an online tool to apply for Sales Tax Exemption. Log-in to myPATH to see this new feature.

Looking Ahead to 2025

The 2017 Tax Cuts and Jobs Acts (TCJA) has several individual tax provisions that expire at the end of 2025, including but not limited to: income tax rates reverting to 2017 levels; standard deduction cut roughly in half; personal exemptions will return; Child Tax Credit will be cut; 199A deductions (also called the Qualified Business Deduction or QBID) will expire; Estate/Gift Tax Exemptions drop to an estimated $6.2 million, about half as much as was allowed under TCJA.

Tax Planning Ideas Before Year End

> Make your deductible charitable contributions before year end if you itemize. Keep in mind the deduction is limited to 60% of your adjusted gross income for cash contributions and public charities.

> Defer income to next year if possible, particularly if you will be in a lower tax bracket. (Delay a year end bonus or collection of business debts, rents and payments for service.)

> Are you 70 ½? Make a QCD (Qualified Charitable Distribution) straight from your IRA to your favorite charitable cause. Remember to tell us about your QCDs. The amount will be included on your 1099R, but we can deduct it from the reportable income.

> Max out your SIMPLE or 401K contribution.

Did You Receive a Form 1099-K?

There are new reporting requirements and a 1099-K can be triggered by receiving funds from cash apps like Venmo and PayPal. Even if you are not in business, you will need to report these amounts on your tax return. Make sure you provide a copy to us at tax time.

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