

March 2023

2023 TAX UPDATES

Note these 2023 tax updates for both businesses and individuals.

PAYROLL TAXES

For 2023, the limit on wages subject to Social Security Tax increases to \$160,200. All wages are subject to the 2.9% Medicare Tax, which was not changed and has no ceiling.

CHILD TAX CREDIT

The enhanced child tax credit from 2021 is no more. Congress has not been able to agree to make it permanent. Just like in 2022, the credit remains \$2,000 per qualifying child. But for 2023, a maximum of \$1,600 is refundable. There are income phase-out rules starting at \$200,000.

AMT INCREASES

The alternative minimum tax (AMT) exemptions increase for taxpayers in 2023. Single taxpayers are allowed up to \$81,300 in taxable income, and jointly filing taxpayers are allowed up to \$126,500 before the AMT needs to be considered.

ENERGY EFFICIENCY IMPROVEMENTS

Purchasing a new electric vehicle (EV) may qualify you for a \$7,500 tax credit for cars assembled in North America. And buying a used EV could provide partial tax credits.

There are price caps on the type of EV purchased and income phase-outs for the EV tax credits starting at \$75,000.

Making energy-efficient improvements to your home can qualify for up to a



\$1,200 annual tax credit. Previously there was a \$500 lifetime tax credit per taxpayer.

EXPENSE DEDUCTION FOR BUSINESS

In 2023, businesses can deduct up to \$1.16 million for assets purchased this year.

Bonus depreciation for 2023 will drop to an 80% immediate deduction, with the remaining 20% depreciated over the life of the asset.

The 100% expensing of business meals eaten in a restaurant that was in effect for 2021 and 2022 is gone. For 2023, business meals will be 50% deductible. Entertainment expenses remain non-deductible.

There are many other changes to tax laws. Your tax professional can clarify which changes apply to you.

RUSK

& Company, P.A.
Certified Public Accountancy

Michael H Rusk, CPA
mrusk@ruskcpa.com
Tel: 410-821-8700
Fax: 410-821-8701
www.ruskcpa.com

Accounting, Audit,
Tax Planning &
Preparation,
Financial Planning

TAX RETURN EXTENSIONS

You are entitled to a six-month extension if you need more time to file your tax return by the April 18 deadline, but you must let the IRS know. You'll need to complete Form 4868 before the April 18 due date. Otherwise, without telling the IRS you'll be filing your return later, you could end up paying penalties and interest on unpaid taxes (*See page 3 for more details on penalties*).

While you can extend the due date to file your tax return, there is no extension to extend the payment of any tax you owe. Remember that an extension is an extension to file, not an extension to pay.

Businesses can also file for an extension to file corporate tax returns using Form 7004.

Neither Form 4868 nor 7004 need to be signed, but you'll want to include your payment for any tax due when you file your extension application.

CLIENT PROFILE

Elena sells her knitted scarves and blankets online through third-party sites like Etsy and eBay. She is considering launching her own website to sell directly to the consumer. She's wondering if she needs to collect sales tax from her customers.



She won't need to worry about collecting and paying sales tax on marketplaces like Etsy and eBay because these sites generally handle sales tax for all orders and will collect and pay the tax to each state on her behalf.

However, when Elena begins selling on her website, she'll be responsible for all sales tax matters. Sales tax laws vary from state to state and city to city. She may want to become familiar with the economic nexus rules. But these rules can be confusing.

Speaking with her tax professional and using e-commerce software tools like Shopify will be necessary to help ensure she doesn't miss anything.

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Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

GENERATION-SKIPPING TRANSFER TAX BASICS

The generation-skipping transfer tax (GSTT) is another transfer tax akin to the gift and estate tax.

WHAT IS THE GSTT

The GSTT applies to all transfers made by gift or inheritance to any person considered a "skip person". A skip person is someone who is at least two generations below you. The most common skip person is a grandchild because you're skipping over your child.

One example would be writing a \$30,000 check to a grandson for a down payment on a house. This gift would skip your own child, thus avoiding the possible gift tax that would apply if the gift had passed from you to your child and then from your child to your grandchild. Therefore, it is subject to the GSTT.



The GSTT ensures that grandchildren end up with the same value of assets that they would have had if the inheritance was transferred to them directly from their parents rather than their grandparents.

LIMITS

A taxpayer can gift up to \$17,000 tax-free to a recipient in 2023. And the total estate and gift tax exemption is \$12.92 million. Only the value of the taxpayer's estate at death that is over this exemption amount is subject to the GSTT. Any GSTT due is paid by the donor's estate.

THE FUTURE

The provisions relating to the GSTT exemption in the current tax law will sunset at the end of 2025. This means that as of January 1, 2026, the GSTT exemption will revert to the amount that was allowed under the law effective in 2017 (an inflation-adjusted \$5 million, or about half of what is currently allowed). Therefore, if you are considering taking advantage of the higher current exemption amounts, the time to do so is limited, unless Congress acts to change the law once again.

SALES TAX RATES BY STATE

5 HIGHEST RATES BY STATE	5 LOWEST RATES BY STATE
Louisiana - 9.55%	Alaska - 1.76%
Tennessee - 9.547%	Hawaii - 4.44%
Arkansas - 9.48%	Wyoming - 5.36%
Washington - 9.29%	Wisconsin - 5.43%
Alabama - 9.22%	Maine - 5.50%

WHAT TO CONSIDER WHEN PURCHASING LIFE INSURANCE

What if the unthinkable happens? Ensuring loved ones are financially secure when you are no longer here to provide for them means choosing the right life insurance policy.

TERM VS. PERMANENT

Term policies pay out a specific death benefit and remain in effect for a set period. Term life insurance can typically be purchased for a 5- to 30-year term.

On the other hand, permanent life insurance stays in effect over the



course of your life—often to age 100. Whole life, variable life, and universal life are all types of permanent insurance.

BENEFIT AMOUNT

Several factors come into play when calculating how much your life insurance policy will cost. Some of these include your age, overall health and life expectancy.

You may not need as much coverage if you've already built a sizable nest egg and don't have much debt. On the other hand, if you have a family you'll need enough insurance to help provide for them financially for the long term.

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What happens if I file my tax return late?

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If you don't file for an extension using Form 4868, which pushes your filing deadline to October 15, filing your income return late comes with a 5% Failure to File Penalty if you owe tax. The penalty is calculated for each month or pro-rated for partial months that the return is late. And the IRS charges interest on penalties until you pay your balance in full.

Depending on your situation, you may apply for a penalty abatement to have your fines reduced or eliminated.

WHAT DO DIVERSITY AND INCLUSION MEAN IN BUSINESS

Diversity and inclusion refer to a company's mission, strategies and policies designed to encourage an inclusive workplace that attracts a diverse pool of talent from various cultural backgrounds.

DIVERSITY

Diversity in the workplace refers to an organization's workforce comprising people from different genders, sexual orientations, religions, races, ethnicities, and ages.

INCLUSION

Inclusion in the workplace means ensuring that every employee feels included, treated fairly and respectfully, with equal access to opportunities and resources, and can contribute fully to the organization's success. It's not a new concept.

Essentially, it means creating a healthy work environment, which in turn benefits the company with increased employee engagement and productivity.

KNOW THE DIFFERENCE

Diversity without inclusion will not create the culture you want. It helps to consider employee's opinions, perspectives, and experiences while making decisions and policies. Remember, your efforts can help your bottom line, too.



NUMBER OF 2020 RETURNS PROCESSED BY THE IRS

INDIVIDUAL TAX RETURNS (FORM 1040)	164,358,792
For single taxpayers	83,652,916
For married filing jointly taxpayers	55,247,969
For heads of household taxpayers	21,463,538
How many returns claimed refunds?	122,728,631
How many returns owed?	32,771,171

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