# The 2023/2024 tax season is approaching.

*It has been a BIG year for tax law changes.  Were you affected?*

**<u>IRA Contribution Limits</u>**

The IRA contribution limit for tax year 2023 is $6500 (up from $6000).  Taxpayers age 50+ can contribute an additional $1000.

**<u>Required Minimum Distribution (RMD) Age & Penalties</u>**

RMDs from retirement accounts now begin at age 73 (up from age 72).  As such, if you turn 72 in 2023 then you do <u>not</u> have to take an RMD for tax year 2023.

The tax penalty for not correctly taking RMDs decreased from 50% to 25% of the amount missed.  There is also a provision to further reduce the penalty to 10% (if the error is corrected in a timely manner).

**<u>Retirement Plan Eligibility Rules for Part-Time Workers</u>**

The service requirement for some part-time workers was lowered from 3 consecutive years down to 2 years (for employees with 500-999 hours of service in each consecutive year). Employees that work 1000+ hours per year already qualified to participate based on existing rules.

**<u>Roth SIMPLE and SEP IRAs</u>**

Roth SIMPLE and SEP IRAs are now allowed. However, employers are not <u>required</u> to offer a Roth option.  Enquire with your plan administrator if interested.  Self-employed folks can ask the financial institution that manages their SIMPLE/SEP IRA.  That said, be patient.  Many financial institutions haven't created Roth SIMPLE/SEP versions yet.

**<u>Employer Match to Roth</u>**

Employers can now choose to offer their matching retirement contributions into a Roth account.  Previously, such contributions had to be pre-tax (e.g. non-Roth 401k etc.).  Employers are <u>not required</u> to offer this option.  Enquire with your plan administrator if interested.  Of course, if you choose the Roth option, then your employer's contributions will be taxable income.

**<u>Early Withdrawal Penalties</u>**

Taxpayers under age 59.5 have two new exemptions to the 10% early withdrawal penalty.

**Terminally ill** people (physician certified) can now make distributions from retirement accounts without penalties.

**Corrective distributions** no longer result in penalty.  For example, when you over-contribute to a retirement plan you have to withdraw the excess.  Such withdrawals still result in ordinary tax, but no longer the additional 10% penalty.  However, don't confuse this new rule with the penalty for NOT taking corrective distributions (which is still 6% every year left uncorrected).

**<u>Small Business Credits for New Retirement Plans</u>**

There are new incentives for small employers that contribute funds to **<u>new</u>** (not existing) retirement plans.  The qualifiers are complicated, but the maximum tax credit for the business can be **<u>up to</u>** $1000 per employee (excluding employees that make more than $100,000).  The credit amount is a percentage of the employer's contributions.  The percentage starts at 100% (first two years) and reduces to 75% (year 3), 50% (year 4), 25% (year 5), and 0% thereafter.  Employers with 50 employees or fewer qualify for the best credit (it gradually phases out for employers with 51-100 employees).

Additionally, an existing  small business tax credit related to administrative costs of setting up a **<u>new</u>** retirement plan was enhanced.  The enhanced credit now pays a higher percentage of costs (100%, up from 50%) for businesses with 50 or fewer employees.  A lesser percentage (50%) is paid for businesses with 50-100 employees.  The credit is a maximum of $5000 and there are qualifiers based on the number and type of employees.

**<u>Home Energy Tax Credits</u>**

Energy efficient home improvement tax credits were <u>extended</u> and <u>enhanced</u>.

There are two different credits (each valid through 12/31/32):
1) Energy Efficient Home Improvement
2) Residential Clean Energy

The **Energy Efficient Home Improvement Credit** is 30% of the installed cost (annual cap of $1,200) for qualifying* improvements, including:
- Exterior doors, windows, skylights and insulation.
- Central ACs, water heaters, furnaces, and boilers.
- Heat pumps and biomass stoves/boilers (these have a higher credit limit of $2000/yr and can be claimed in addition to the $1200 credit for other improvements).
- Home energy audits.

* Each type of property has different qualifiers. Visit www.energy.gov for details.

The **Residential Clean Energy Credit** is 30% of installed cost for qualifying improvements,


including:
- Solar, wind and geothermal power generation.
- Solar water heaters.
- Fuel cells.
- Battery storage.

**<u>Plug-In Electric Vehicles (EVs)</u>**

The maximum tax credit for buying a new EV is still $7500.

There are no longer any manufacturer production caps (so Tesla, GM, and Toyota models now qualify if they meet all other requirements).  Most of the pre-2023 qualifiers remain, but there are new ones too.

I**ncome requirements**:  If you make more than $150,000/$225,000/$300,000 (single/HH/MFJ) then you cannot claim an EV tax credit.  Fortunately, you can use either your current **<u>or</u>** prior year income to qualify.

**Higher priced EVs don't qualify**.  The MSRP must be below $80,000 (SUVs, trucks, & vans) or $55,000 (all other vehicles).

The EV must have **final assembly in North America**.

Critical **mineral/battery components** must meet new specifications.  *The mineral/battery rules apply for EVs delivered <u>after</u> 4/17/23.*

Fortunately, the seller is required to furnish proof to both you and the IRS when you buy a qualifying EV.  You can also visit www.fuleleconomy.gov to see lists of qualifying EVs.

There's a credit for used EVs too.  Here's the gist:
- Must be single-owner EV sold by a qualifying dealership.
- Model year at least 2 years earlier than when you buy it.
- Purchase price of $25,000 or less.  The amount of the credit is 30% of purchase price (up to $4000 max).
- No mineral/battery component requirements.
- Income requirements are half of the amount for new EVs… so $75,000/$112,500/$150,000 (single/HH/MFJ).