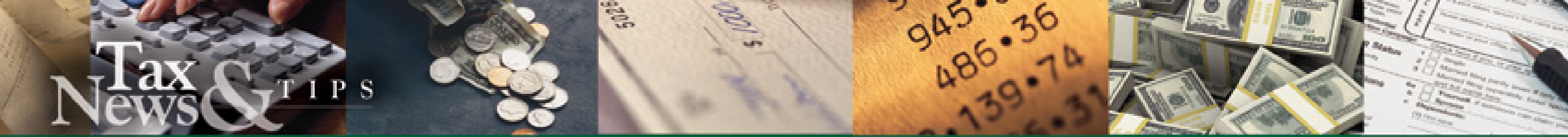

A Publication of Tax News & Tips™

Year End 2023

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Tax Documents

Tax time will be here before you know it. This can be a stressful time for clients and tax professionals alike, but early preparation can reduce stress for everyone involved. The longer you wait to show me an important tax document, the more potential delays may occur when preparing your tax return. In this article, we will look at some of the most important documents you will need to provide at tax time.

1099 Warnings

January and February are hot months to receive IRS 1099 forms. Please carefully look at your mail during those months to make sure you grab and save every 1099 you receive. If you have a taxable investment account, you will likely receive a 1099-INT, 1099-DIV, or 1099-B, even if you didn't take any money out of those accounts. These types of 1099s, specifically 1099-INT, 1099-DIV, and 1099-B, may not arrive until later in March, and you may see some amended forms arrive in your mailbox with corrections to your original 1099s. Also, be aware that I need every page of those documents (yes, even if the statement is 200 pages long).

If you are self-employed, many of your customers or payors may send you a Form 1099-NEC or a Form 1099-MISC. Please collect all those documents because if the amounts on your 1099s are more than the total business income reported on your tax return, it may trigger an IRS notice.

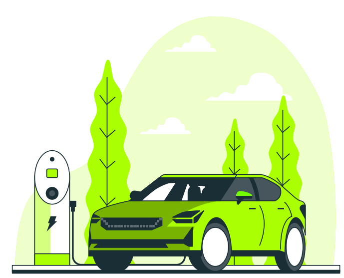
If you use Venmo, Apple Pay, Square, or PayPal in your business to accept payments, you will receive a 1099-K if the total transactions during the year are $600 or more from any of these payment providers.

Clean Energy Vehicles

If you purchased a new or used clean vehicle in 2023, congratulations! In the last two issues of our newsletter, we discussed the eligibility requirements to claim a tax credit for clean vehicles. If you purchased a vehicle that does not qualify for the credit, or you do not qualify to claim the credit based on your income, consider writing to your congressional representative. We do not write the laws, so don't shoot the messenger.

The dealership who sold you the clean vehicle will report all the information to the IRS. If the vehicle does not qualify for the credit and you try to claim it on your tax return, you will receive a notice from the IRS disallowing the credit. Therefore, it is very important that you get a statement from the dealer that includes the VIN number of the vehicle, the year, make and model, and the manufacturer's suggested retail price (MSRP). The IRS requires that dealers provide this statement to you at the time of purchase.

Since 2023 was the first year with these new rules, your dealership may have been struggling to meet the new requirements and might not have provided you with all the necessary information. If you reach out to the dealer who sold you the car, they should be able to provide this information.



Purchased, Sold, or Refinanced a Property

If you bought a property in 2023, you need to provide your closing statement, also known as "Buyer's Settlement Statement." That document has important information about points, interest, and property taxes which may be deductible on your tax return.

If you refinanced your home to take cash out, you need to provide the settlement statement and explain what you used the cash for. If you pulled additional cash out to improve your home, the interest on that refinance may be deductible.

Any real estate you sold must be reported, even if the gains are not taxable (like when selling your primary residence). If applicable, you will need to provide the "Seller's Settlement Statement" and Form 1099-S.

INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

New Tax Provisions Coming for 2024

Starting in 2024, you may be able to take advantage of new tax provisions related to retirement plans and clean vehicles. Here are a few of the most notable upcoming items.

New Exceptions for Early Retirement Withdrawals

Domestic Abuse

Victims of domestic abuse may be able to withdraw up to $10,000 from their retirement account (or 50% of their vested account balance, whichever is less). The only requirement is that you are a domestic abuse victim and take the distribution within one year of the abuse incident. If this exception applies to you, please let us know (we don't need all the details) so we can reflect it on your tax return. You are allowed to self-certify that you qualify for this exception, meaning you don't need to provide us with proof that you contacted the police or notified anyone of the incident. While self-certification is allowed, it is recommended that you keep some documentation as proof in case of an audit. This documentation could be things like medical records, police reports, written or audio communications. You do not need to provide any of these documents when we file your tax return but keep them stashed away somewhere so you can get them if you need them.

You will still have to pay tax on the distribution, but there will be no 10% early withdrawal penalty, and you will have the option to re-contribute the funds to your retirement account within three years of the original distribution if you want to. If you re-contribute the funds to your retirement account, taxes paid on the original distribution may be recovered by amending your taxes after the re-contribution. The original distribution will not be taxable (which means we will have to file an amended return for the year you took the distribution).

We understand that this is a sensitive topic and that you might not be comfortable discussing the details with us. We will do our best to respect your privacy while ensuring we do everything possible to get the best tax result.

Emergencies

If you find yourself in an unforeseeable financial hardship or other emergency, you may be entitled to take a disaster distribution from your retirement account. The maximum emergency distribution is $1,000. The distribution amount is still taxable, but there will not be any early withdrawal penalty. If you want, you also have the option to re-contribute these funds within three years (which would make the original distribution not taxable).

Terminal Illness

In the event that you have been diagnosed with a terminal illness, you may be eligible for some tax relief in the form of penalty-free distributions from your retirement accounts. There are some requirements that must be met, which we can discuss if you find yourself facing these circumstances. The distributions will still be taxable but not subject to the early withdrawal penalty. There is no limit to the amount of money you may withdraw penalty-free. However, you must provide the plan administrator or brokerage firm that holds your retirement account with written documentation from a medical professional.

Pension-Linked Emergency Savings

If your employer offers the new pension-linked savings account, you can save for emergencies the same way you save for retirement, without the hassle and expense of taking early distributions. There are some limitations on the amount you can contribute to these accounts. Call me to discuss the potential benefits if this applies to you.

Dealer Credit Option for Electric Vehicles

If you are looking to purchase a clean vehicle, new or used, you may have an opportunity to get tax savings up front instead of waiting until you file your tax return. In 2024, dealers will be able to reduce your purchase price of the vehicle by the amount of tax credit you would be entitled to on your tax return. This is a great option, but there may be serious consequences if you don't pay attention to the rules.

Income limitations: If your income for the current or prior year is less than the following amounts, you may qualify for the credit:

- **$300,000** for married couples filing joint returns, or a qualified surviving spouse
- **$225,000** for heads of household
- **$150,000** for other filers (single)

If your income for both years exceeds these thresholds by even one dollar, you will not qualify. ***If you select the option to have the dealer reduce your vehicle purchase price and your income is too high to claim the credit, you must pay back all of the credit when filing your tax return.***

If the tax on your return is too low to claim the entire clean vehicle credit, you will not qualify for the entire credit when it is claimed on your tax return. ***You may want to wait until 2024 to purchase a new clean vehicle because if the dealer reduces your purchase price through this program, you will qualify for the entire benefit and no repayment will be required on your tax return.***

Buying a new car is exciting, so don't get carried away when selecting the dealer credit option. If you're considering purchasing a new clean vehicle, call me before going to the dealership!

529 Plan to Roth IRA Rollover

If you have set up a 529 plan for your child's or other family member's college, you might find that they will not need to use all the funds to pay for college. While there are a number of options for the remaining funds, a new option beginning in 2024 will be to convert the 529 plan funds into a Roth IRA for the beneficiary of that 529 plan.

If your 529 account still has funds and you are interested in this option, there are a few things to know:

- The account must have been open for at least 15 years, and you can't move any money that was contributed in the last five years.
- The amount you can rollover is limited to the annual IRA contribution amount, and the beneficiary must have compensation equal to the amount they want to roll over. This will limit other IRA contributions during the year.
- The total lifetime amount that can be rolled over is $35,000.

If you plan to take advantage of this option, it is extremely important to discuss that with me before making any decisions.

Cryptocurrency

Cryptocurrency is an interesting topic in today's society. Cryptocurrency is a digital store of value maintained by a network of computers. A decade ago, cryptocurrency was mainly used in connection with criminal activity because it was nearly impossible to trace. In 2015, the federal government cracked down on illicit activity involving cryptocurrency, and we now live in a world where one in five American adults own or have owned cryptocurrency.

In 2022, congress passed the Inflation Reduction Act, which allocated over 80 billion dollars to the IRS. A large chunk of that funding is earmarked for cryptocurrency tax reporting and IRS enforcement. If you are one of those one in five who own cryptocurrency, it is extremely important to let me know about it because there are a number of things we may need to report on your tax return.

When to talk to your tax advisor about cryptocurrency or other digital assets

Simply purchasing cryptocurrency won't cause you to have to pay tax. But the moment you engage in any of these transactions, there will be some reporting needed on your tax return:

✔ **Received digital assets as:**
- Payment for property or services provided
- A result of a reward or award
- A result of mining, staking, and similar activities
- A result of a hard fork

✔ **Disposed of cryptocurrency or digital assets in an exchange or trade for:**
- Property or services
- Another digital asset

✔ **Sold cryptocurrency**

✔ **Transferred cryptocurrency or digital assets for free as a gift**

✔ **Got rid of cryptocurrency in any other way, perhaps abandoned or worthless**

Cryptocurrency Definitions

Some of the terminology regarding cryptocurrency may sound a little weird, especially if you aren't familiar with how it works. Here are a few terms that you might hear about if you invest in cryptocurrency that are very important for tax purposes:

Hard fork A hard fork is when you hold a cryptocurrency, and then magically, a different cryptocurrency lands in your account. One of the most famous hard forks happened when Bitcoin Cash was launched. Investors holding Bitcoin were given a certain amount of Bitcoin Cash. When those investors received Bitcoin Cash, it should have been taxed on their return.

Staking Staking is the act of locking up some of your cryptocurrency so you can't sell it. Then, the exchange that holds the cryptocurrency will pay you "interest" on that amount. Staking can be extremely risky, so consult a qualified professional before putting your money into this kind of investment.

Charitable Donations

Be careful if you plan to donate some of your cryptocurrency to a charity. Donations of over $5,000 will require you to have a qualified appraisal. The appraisal must be done by an independent third party, which usually costs between $200 and $600 per appraisal. Without the appraisal, you are not entitled to a charitable deduction. You may not do the appraisal yourself. Also, charitable deductions over $250 require a letter from the charity acknowledging the donation.

Crypto ownership is on the rise and so is IRS compliance enforcement.

Tracking Cryptocurrency for Taxes

If you hold your cryptocurrency on an exchange (Coinbase, Binance, Robinhood, etc), they will provide a statement at the end of the year showing any taxable activity within your account. You need to provide that statement for your tax return to be completed.

Your Tax Calendar

Jan 16 4th Qtr. 2023 Estimate
April 15 2023 Tax Return Due*
April 15 1st Qtr. 2024 Estimate
June 17 2nd Qtr. 2024 Estimate

**Residents of Maine or Massachusetts due April 17, 2024*

Tax Strategies for Charitable Contributions

When most Americans donate to charities, they pull money directly out of their bank account and hand it to the charity. While this can be a great way to cut down your tax bill, it will only help you if your itemized deductions are greater than the standard deduction, which, with the increased standard deductions we have now, is often not the case. If you are 70 ½ or older, you may want to consider donating funds from your IRA directly to a qualifying charity. These transfers can be excluded from income (all the way up to $100,000). This can be a great tax strategy if you are taking an RMD from your IRA that you don’t need, especially since you can take advantage of this benefit even if you don't itemize deductions. Because the amount is excluded from income, it reduces your AGI, which may also reduce the tax you pay on your social security benefits. Call me if you are interested in learning more about qualified charitable distributions.

Myth: “If I rent a room in my house, I don’t have to report the income.”
Truth: If you rent your residence for 14 days or less during the year, you are not required to report the income. However, if you rent a room in your house for more than 14 days during the year, you will be required to report that income on your tax return. You will be able to deduct certain expenses against that income, such as allocated costs for utilities, property taxes, mortgage interest, and depreciation.

Myth: “If my property was damaged or stolen, I can deduct a loss on my tax return.”
Truth: For tax years 2018 through 2025, you can only deduct a loss on personal-use property if the loss is associated with a federally declared disaster (the disaster must be listed on the FEMA website). If the loss was the result of a federally declared disaster, you may still be eligible for a deduction, but you can only deduct any amount exceeding 10% of your adjusted gross income. For example, if you make $100,000, you can only deduct the portion of the loss that exceeds $10,000.
Business owners may still claim deductions for damaged or stolen business property.

Myth: “If I lease a clean or electric vehicle, I can claim a credit on my tax return.”
Truth: In order to claim a credit for a new or used clean vehicle, you must purchase the vehicle. Many dealers are providing a $7,500 credit towards a lease for new clean vehicle leases, but that is not a credit claimed on your tax return.
Leasing a new, clean vehicle may be a way to get around vehicle MSRP limitations and income limitations for the clean vehicle credit. It may be more advantageous to lease a new clean vehicle if you have a high income or the MSRP of the vehicle is over the limitations ($55,000 for normal clean vehicles or $80,000 for trucks, vans, and SUVs). The dealer must offer this lease incentive in order for you to receive any benefit.