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SPECIAL

**NEW TAX RULES
FOR 2023**

Dear Client:

Washington, Jan. 5, 2023

The new year brings lots of tax changes.

The massive year-end government funding legislation contains a slew of retirement savings provisions. Green-energy tax breaks and a few business-tax hikes were included in last August's Inflation Reduction Act. Other changes reflect last year's high inflation.

Let's start with the SECURE 2.0 Act...

A new law to bolster retirement savings.

It has [over 90 changes](#) to help retirement savers and to urge more employers to offer retirement plans.

Many of the changes begin after 2023.

But some important changes go into effect this year. Included in this list:

Upping the age for first taking required minimum distributions to 73 from 72.

This applies to account owners who turn 72 after 2022. If you turned 72 in 2022, you must take your first RMD by April 1. The RMD beginning age rises to 75 in 2033.

Lowering the excise tax for account owners who fail to take RMDs to 25% from 50%. It goes down to 10% if the failure is corrected in a timely manner.

Indexing to inflation the \$100,000 cap for qualified charitable distributions from IRAs and allowing a one-time QCD of up to \$50,000 through split-interest entities.

Plus more: Enhancing tax credits for small firms that offer retirement plans.

Relief for military spouses, firefighters, etc. Letting employers give low-dollar gift cards or other financial incentives to encourage worker retirement plan contributions.

Adding exceptions to the 10% additional tax for payouts taken before age 59½.

Easing the adverse tax consequences of IRAs involved in prohibited transactions.

Letting SIMPLE IRAs and SEPs accept Roth payins. Giving plan participants in 401(k)s, 403(b)s and governmental 457(b)s the option of having Roth-based employer matches.

We'll cover the changes that take effect in 2024 and later in future Letters.

Many key dollar limits on retirement plans and IRAs are higher in 2023...

Thanks to prior-year inflation. The maximum 401(k) contribution is \$22,500.

Ditto for 403(b) and 457 plans. People born before 1974 can put in \$7,500 more.

The contribution limit on SIMPLEs is \$15,500, plus \$3,500 for people age 50 and up.

The 2023 payin cap for traditional IRAs and Roth IRAs increases to \$6,500, plus \$1,000 as an additional catch-up contribution for individuals 50 and older.

The income ceilings on Roth IRA payins go up. Contributions phase out at AGIs of \$218,000 to \$228,000 for couples and \$138,000 to \$153,000 for singles.

And deduction phaseouts for traditional IRAs start at higher levels, from AGIs of \$116,000 to \$136,000 for couples and \$73,000 to \$83,000 for singles. If only one spouse is covered by a plan, the phaseout for deducting a contribution for the uncovered spouse starts at \$218,000 of AGI and ends at \$228,000.

Congress reins in abusive syndicated conservation easement donations.

A charitable contribution deduction is disallowed to owners of pass-through entities that make qualified conservation easement contributions if the deduction exceeds at least 2.5 times the owner's investment, with some important exceptions.

HIGHLIGHTS

[Energy](#) Green-energy tax breaks

[Estate & Gift Tax](#) Higher exemption

[Tax Brackets](#) Updated tables

[Capital Gains](#) Income thresholds

[Business Taxes](#) Bonus depreciation

[Tax Reporting](#) 1099-K forms

ENERGY

The maximum credit for [buying an electric vehicle](#) this year is \$7,500.

But the factors for figuring the credit are new and there are other changes.

To be eligible for the full \$7,500 credit, EVs must meet a battery component rule and a critical minerals requirement. Also, final assembly of the auto must take place in North America (this rule applies for EVs first placed in service after Aug. 16, 2022).

The manufacturer sales threshold limit is gone. Under pre-2023 rules, some popular car brands didn't qualify for the credit because it started to phase out for vehicles manufactured by a car company that sold over 200,000 EVs in the U.S. This limitation has been removed for electric vehicles purchased in 2023 and later.

But two new rules could prevent taxpayers from claiming the tax break.

Some popular high-cost EVs don't qualify. The manufacturer's suggested retail price can't exceed \$55,000 for sedans and \$80,000 for vans, SUVs and pickup trucks. And there's an income limit. Modified adjusted gross income can't exceed \$300,000 for joint return filers, \$225,000 for heads of household and \$150,000 for single filers.

Used EVs bought from a dealer qualify for a smaller credit, equal to the lesser of \$4,000 or 30% of sales price. The buyer's modified AGI can't exceed \$150,000 for joint filers, \$112,500 for heads of household and \$75,000 for single filers.

The 30% credit for [adding solar panels and the like](#) to your home is extended through 2032. It falls to 26% in 2033, 22% in 2034 and ends after 2034.

Homeowners get a tax credit for installing an alternative energy system that relies on a renewable energy source, such as solar, wind, geothermal or fuel cell technology. Battery storage technology installed in your house after 2022 is also credit-eligible.

The credit for [adding energy-efficient improvements](#) to your home is revamped.

Homeowners get up to a 30% credit for the cost of certain types of insulation, boilers, air-conditioning systems, windows, doors, etc., added to their principal residence in 2023 through 2032. There is an annual credit limit of \$1,200. This limit is lowered to \$500 in the aggregate for exterior doors and \$600 for exterior windows and skylights and for other items. The annual limit increases to \$2,000 for a biomass stove or hot water boiler, or an electric or natural gas heat pump put in the home. You can also get a credit of up to \$150 for the cost of a home energy audit.

Businesses also get lots of green-energy-related tax breaks. Among them:
Enhancement and extension of a slew of business-related energy breaks.

New energy credits for sustainable aviation fuel, production of clean hydrogen, the purchase of qualified commercial clean vehicles for business or for lease to others, and power-generating facilities with greenhouse gas emission rates at or below zero.

ESTATE & GIFT TAX

The lifetime [estate and gift tax exemption](#) for 2023 jumps to \$12,920,000.

The special estate tax valuation of real estate increases as well in 2023.

Up to \$1,310,000 of farm or business real estate can receive discount valuation, letting estates value the realty at its current use instead of fair market value.

More estate tax liability qualifies for an installment payment tax break.

If one or more closely held businesses make up greater than 35% of a 2023 estate, as much as \$700,000 of tax can be deferred, and IRS will charge only 2% interest.

The annual gift tax exclusion increases to \$17,000 per donee in 2023.

HEALTH CARE

The annual cap on [deductible contributions to HSAs](#) rises in 2023

to \$3,850 for account owners with self-only coverage and to \$7,750 for those with family coverage. Individuals born before 1969 can put in an extra \$1,000. Eligibility for HSAs is restricted. You must have a high-deductible health plan. The minimum policy deductible for 2023 is \$1,500 for self-only coverage and \$3,000 for family coverage. And out-of-pocket costs, including copayments, can't exceed \$7,500 for individual coverage and \$15,000 for family coverage in 2023.

TAX BRACKETS

The income tax brackets for individuals are much wider for 2023 because of high inflation during the 2022 fiscal year. Tax rates are unchanged.

Marrieds: If taxable income is

Not more than \$22,000
 Over \$22,000 but not more than \$89,450
 Over \$89,450 but not more than \$190,750
 Over \$190,750 but not more than \$364,200
 Over \$364,200 but not more than \$462,500
 Over \$462,500 but not more than \$693,750
 Over \$693,750

The tax is

10% of taxable income
 \$2,200.00 + 12% of excess over \$22,000
 \$10,294.00 + 22% of excess over \$89,450
 \$32,580.00 + 24% of excess over \$190,750
 \$74,208.00 + 32% of excess over \$364,200
 \$105,664.00 + 35% of excess over \$462,500
 \$186,601.50 + 37% of excess over \$693,750

Singles: If taxable income is

Not more than \$11,000
 Over \$11,000 but not more than \$44,725
 Over \$44,725 but not more than \$95,375
 Over \$95,375 but not more than \$182,100
 Over \$182,100 but not more than \$231,250
 Over \$231,250 but not more than \$578,125
 Over \$578,125

The tax is

10% of taxable income
 \$1,100.00 + 12% of excess over \$11,000
 \$5,147.00 + 22% of excess over \$44,725
 \$16,290.00 + 24% of excess over \$95,375
 \$37,104.00 + 32% of excess over \$182,100
 \$52,832.00 + 35% of excess over \$231,250
 \$174,238.25 + 37% of excess over \$578,125

Household Heads: If taxable income is

Not more than \$15,700
 Over \$15,700 but not more than \$59,850
 Over \$59,850 but not more than \$95,350
 Over \$95,350 but not more than \$182,100
 Over \$182,100 but not more than \$231,250
 Over \$231,250 but not more than \$578,100
 Over \$578,100

The tax is

10% of taxable income
 \$1,570.00 + 12% of excess over \$15,700
 \$6,868.00 + 22% of excess over \$59,850
 \$14,678.00 + 24% of excess over \$95,350
 \$35,498.00 + 32% of excess over \$182,100
 \$51,226.00 + 35% of excess over \$231,250
 \$172,623.50 + 37% of excess over \$578,100

STANDARD DEDUCTION

Standard deductions are higher for 2023. Married couples get \$27,700, plus \$1,500 for each spouse 65 or older. Singles can claim \$13,850...\$15,700 if age 65 or up. Heads of household get \$20,800 plus \$1,850 once they reach 65. Blind people receive \$1,500 more (\$1,850 if unmarried and not a surviving spouse).

CAPITAL GAINS

Tax rates on long-term capital gains and qualified dividends do not change. But the income thresholds to qualify for the various rates go up for 2023.

The 0% rate applies for individual taxpayers with taxable income up to \$44,625 on single returns, \$59,750 for head-of-household filers and \$89,250 on joint returns. The 20% rate starts at \$492,301 for singles, \$523,051 for heads of household and \$553,851 for couples filing jointly. The 15% rate is for filers with taxable incomes between the 0% and 20% break points. The 3.8% surtax on net investment income kicks in for single people with modified AGIs over \$200,000...\$250,000 for marrieds.

MINIMUM TAX

AMT exemptions rise for 2023 to \$126,500 for couples and \$81,300 for singles and household heads. The exemption phaseout zones start at \$1,156,300 for couples and \$578,150 for others. The 28% AMT rate kicks in above \$220,700.

KIDDIE TAX

The kiddie tax has less bite in 2023. The first \$1,250 of unearned income of a child under age 19...under age 24 if a full-time student...is tax-free. The next \$1,250 is taxed at the child's rate. Any excess is taxed at the parent's rate.

ADOPTION

The adoption credit is taken on up to \$15,950 of qualified expenses in 2023. The full credit is available for a special-needs adoption even if it costs less. The credit phases out for filers with modified AGIs over \$239,230 and ends at \$279,230.

