

Items of Note for 2023 Tax Returns

The 2023 tax filing season officially starts on Monday, January 29, 2024, when the IRS will begin accepting and processing 2023 tax returns. The individual tax filing deadline is currently **Monday, April 15, 2024**.

SOME UPDATES FOR 2023 TAX RETURNS

- ***Early Withdrawal Penalty Exceptions*** - Withdrawals before age 59 ½ generally are subject to a 10% penalty unless an exception is met. The Secure 2.0 Act expanded the early withdrawal exceptions to include the below:
 - Disaster relief — up to \$22,000 for expenses related to a federally declared disaster; distributions can be included in gross income equally over three years (effective for disasters on or after January 26, 2021)
 - Terminal illness — defined as a condition that will cause death within seven years as certified by a physician (effective 2023)
 - Emergency expenses — one distribution of up to \$1,000 per calendar year for personal or family emergency expenses; no further emergency distributions allowed during three-year repayment period unless funds are repaid or new contributions are at least equal to the withdrawal (effective 2024)
 - Emergency savings account – distributions from a qualified pension-linked emergency savings account (effective 2024)
 - Domestic abuse — the lesser of \$10,000 (indexed for inflation) or 50% of the account value for an account holder who certifies that he or she has been the victim of domestic abuse during the preceding one-year period (effective 2024)

- ***Clean Vehicle Tax Credit – Some new rules apply for 2023***
 - New Vehicles - If you place a new, qualified plug-in electric vehicle (EV) or fuel cell vehicle (FCV) in 2023, you *may qualify* for a clean vehicle tax credit up to \$7,500 under Internal Revenue Code Section 30D, subject to income limitations.
 - Used Vehicles - Beginning January 1, 2023, if you buy a qualified used EV or FCV from a licensed dealer for \$25,000 or less, you *may* be eligible for a used clean vehicle tax credit (also referred to as a previously owned clean vehicle credit). The credit equals 30% of the sale price up to a maximum credit of \$4,000. At the time of sale, a seller must give you information about your vehicle's qualifications. Sellers must also register online and report the same information to the IRS. If they don't, your vehicle won't be eligible for the credit.

Both of these credits are nonrefundable, so you can't get back more on the credit than you owe in taxes. You also can't apply any excess credit to future tax years.



- **Business Meals** – The temporary allowance of a 100% business meal deduction for food or beverage provided by a restaurant expired December 31, 2022 and reverted back to 50% for 2023.
- **Excess Business Losses** – Noncorporate taxpayers can deduct a net trade or business loss up to a maximum of \$289,000 (\$578,000 for joint returns) in 2023. Any excess loss becomes an NOL and is carried forward to future tax years.
- **Increase in required minimum distribution age** – you generally have to start taking withdrawals from your IRA or retirement plan account when you reach age 72. The age for your first withdrawal increased after December 31, 2022 to age 73.
- **Energy Credits** – If you make energy improvements to your home, tax credits are available for a portion of qualifying expenses. The Inflation Reduction Act of 2022 expanded the federal tax credits for energy efficient home improvements and residential clean energy property.

You can claim either the Energy Efficient Home Improvement Credit or the Residential Clean Energy Property Credit for the year when you make qualifying improvements.

Energy Efficient Home Improvement Credit - As amended by the IRA, the energy efficient home improvement credit is increased for years after 2022, with an annual credit of generally up to \$1,200. Beginning January 1, 2023, the amount of the credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures, including (1) qualified energy efficiency improvements installed during the year, (2) residential energy property expenditures during the year, and (3) home energy audits during the year. The credit is allowed for qualifying property placed in service on or after January 1, 2023, and before January 1, 2033.

Residential Clean Energy Property Credit - The residential clean energy property credit is a 30-percent credit for certain qualified expenditures made by a taxpayer for residential energy efficient property. The IRA extended the residential clean energy property credit through 2034, modified the applicable credit percentage rates, and added battery storage technology as an eligible expenditure. The credit applies for property placed in service after December 31, 2021, and before January 1, 2033. The credit percentage rate phases down to 26 percent for property placed in service in 2033, 22 percent for property placed in service in 2034, and no credit is available for property placed in service after December 31, 2034.

