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Individual Income Tax Update

For the 2023 Tax Return Filing Season

A general update on selected Federal and Wisconsin tax provisions affecting the 2023 individual tax return filing season for experienced tax and accounting professionals

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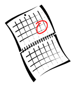
Icons to Guide You through the Outline

 New Law or Procedure Affecting 2023 Tax Returns

 Provision Affecting Future Year, 2024 and beyond

Does not apply to 2023 returns

 Planning Idea

 Teaching the Basics

 Reminder

?? Uncertainty

 Note in the Federal outline re: specific Wisconsin Provision

Abbreviations and Notes:

Tp = Taxpayer

MFJ = Married Filing Jointly, S = Single filing status, HH = Head of Household, MFS = Married Filing Separately,

Note: Limits etc are generally listed for MFJ and S status, HOH and MFS are not generally listed due to lower applicability, so you may need to look up such limits as they may differ that listed for S status

Q = Qualified

I. Current and Recent Major Federal Legislation

A. Consolidated Appropriations Act 2023, signed 12.29.22

1. The Act was an omnibus bill funding the federal government for 2023 (consisting of 4,000 pages, authorizing spending of 1.7 trillion dollars)

    a) Total of 39 Acts; 12 were spending and 27 were other topics

    (1) Ex: Electoral reform, No Tik Tok on governmental devices, $$ for Ukraine

    b) Appropriations Acts did NOT include any major tax provisions or extenders

    c) Omnibus bill DID include SECURE 2.0 Act of 2022 (Division T)

    (1) SECURE 2.0 builds upon the original SECURE Act, passed December 2019

    (a) "**SECURE**" = Setting Every Community Up for Retirement Enhancement

    (b) Reminder key components of the original SECURE (enacted December 2019):

    (i) Increased RMD age from 70½ to 72

    (ii) Elimination of stretch IRAs

    (a) Inherited IRAs must be fully liquidated within 10 years of the decedent's death

    (i) exceptions for surviving spouse, minor child of the decedent, disabled, chronically ill or a beneficiary not more than 10 years younger than the employee

    (iii) New exception to early withdrawal penalties for up to $5,000 for birth/adoption of a child

    (iv) Removed age limitation for contribution TO traditional IRAs for seniors still working

2. SECURE 2.0: Securing a Strong Retirement Act of 2022

    a) Expands **automatic enrollment** opportunities for new employer retirement plans

    (1) Requires automatic enrollment once employees are eligible to participate in the plan (for new plans established after 2025)

- (a) For the last 20 years, employers have been ALLOWED to automatically enroll employees—this Act REQUIRES NEW plans to include this provision
  - (i) Existing plans are grandfathered
- (b) Required deferral is not less than 3% and not more than 10%
- (c) The amount of the employee contribution is increased by 1% every year after automatic enrollment, up to maximum 10/15 %
- (d) Rules provide for investments selection to be in accordance with Dept of Labor regulations where participant has made no investment decisions

(2) Effective for plan years beginning after 2023, 401(k) and 403(b)

(3) Employees can opt out of automatic enrollment and the increase
- (a) Permissible withdrawals within 90 days after first elective contribution

(4) Exceptions to automatic enrollment for businesses with 10 or fewer employees, businesses in existence less than 3 years and to church and government plans

b) Employers no longer prohibited from offering small immediate incentives, such as gift cards, in exchange for employees making elective deferrals

c) Improved coverage for part-time workers (SECURE's 3 year service requirement has been reduced to 2 years)

d) Required Minimum Distributions (RMD)

(1) Increase in RMD age
- (a) Refresher: Prior law
  - (i) Original SECURE increased the RMD age from 70 ½ to age 72
- (b) New RMD age is phased in over ten years to age 73, 75
  - (i) 2023 Required beginning age is 73
Born 1951 – 1957: RMD now 73
  - (ii) Born after 1958: RMD now age 75 (Effective 2033)
- (c) Did not affect Tps who turned 72 in 2022 (1950 birth year)—their first RMD was required by April 1, 2023

(2) Eliminates RMDs for employer retirement plan based Roth accounts (Roth 401(k) and Roth 403(b), effective 2024

e) Increased Catch-Up limits

(1) Refresher: Prior law

(a) Age 50 and older, 2023 catch up contributions:

(i) $7,500 additional contribution permitted to most retirement plans, including 401(k) & 403(b)

(ii) $3,500 to SIMPLEs

(2) New Law: Effective tax years after 2024

(a) Catch up provisions will now be subject to inflation adjustment

(b) A new second catch up permitted to participants aged 60, 61, 62 or 63

(i) These individuals permitted to contribute $10,000 to 401(k) or 403(b) or $5,000 to SIMPLE (vs the current $7,500 and $3,500 respective catch-up for savers over age 50)

(c) Example 401(k) Plan limit

(i) Under age 50 = $22,500

(ii) Over age 50 = $30,000 ($7,500 catch-up)

(iii) Age 60-63 would be = $32,500 (Beginning in 2025 the catch up increases for this age bracket)

(3) Catch-up contributions for employees earning > $145,000 in the preceding year will be subject to mandatory Roth treatment (ie after tax) rules, rather than only where allowed by plan

(a) This provision was to be effective after 2023 but has been delayed to 2026 (IRS Notice 2023-62)

f) Provides assistance for **small employers** in the form of tax credits

(1) Expands the credits available for start-up costs of small employer

(2) Two new plans:

(a) Starter 401(k)

(b) 403(b) plans for tax exempt employers that did not already maintain a qualified plan

g) Saver's Credit becomes a Saver's Match in 2027

- (1) Refresher: Prior/(Current) law
  - (a) 2023 Saver's Credit maximum $2,000 (MFJ) $1,000 (S)
  - (b) 50%, 20%, or 10% of contribution made to a qualified plan or IRA (see details)
  - (c) 2023 Phase out ending at $73,000 (MFJ) $36,500 (S)
  - (d) Ineligible: Full time students, < 18 or dependent of another
- (2) New law, effective after 2026 will be a Saver's Match
  - (a) Credit simplified from current 3 tier structure to unified 50% credit with phaseout for higher incomes, subject to inflation adjustments
    - (i) Tp earning between $41k and $75k for MFJ 1$0,500 and $35,500 for S)
    - (ii) 50% match up of employees own contribution to $2,000
  - (b) Rather than a cash credit (as part of a tax refund), federal matching contribution deposited into the Tp's retirement plan or Individual Retirement Account
  - (c) Effective date of 2027 will allow Treasury Department to work through the logistics of depositing funds into Tp's retirement accounts

h) SIMPLE Plans

- (1) Employers allowed to make non-elective contributions of a uniform percentage to a SIMPLE IRA or SIMPLE 401(k) plan up to 10% of compensation, capped at $5,000
- (2) Effective after 2022, allows SIMPLE and SEP IRA participants to make Roth contributions (vs previous rules permitting pre-tax contributions only)

i) Employer assistance for student loan borrowers

- (1) Effective plan years after 2023, employers may make payments to qualified plans that match qualified student loan payments *(allowed, not required)*
- (2) Matching contribution for student loan payments must be at the same rate as elective deferrals

Example: An employee earns $50,000 annually and pays $500 per month, or $6,000 towards student loans and does not contribute to their 401(k); Student's employer has adopted this plan provision and is matching 4% of the employee contributions; as such Employer can contribute 4% of salary or $2,000 in the employee's retirement account, even though the employee contributed nothing

(3) Non-discrimination rules still apply

j) Penalties:

(1) Reduces the penalty for missed RMD from 50% to 25% of the shortfall

(a) If corrected in a timely manner, penalty is reduced to 10%

(2) Early Withdrawal Penalty

(a) Permanently removes 10% early withdrawal penalty on qualified withdrawals made as a result of federally declared disaster

(i) Effective for all federally declared disasters, rather than prior method of inclusion within specific disaster relief bill

(ii) However, new limit is $22,000, rather than historical limit of $100,000

(iii) Included in income ratably over three years

(iv) Effective for distributions occurring after 12/31/23

(b) Also provides new exceptions for victims of domestic abuse and individuals diagnosed with a terminal illness

(c) New $1,000 penalty-free withdrawal due to personal financial emergency

(i) 3 year option to repay

(ii) Effective after 12/31/23

(3) See law for specific qualifications

(4) Previous exception for birth/adoptions

(a) New three year time limit to repay

k) **Roth option now permitted for employer match** or nonelective contribution *(allowed, not required)*

(1) Results in W-2 wage inclusion

(2) Effective for employer contributions after 12/29/22; however, employer plan must include this as an option

l) New path to transfer unused **529 funds to Roth IRA**, beginning in 2024

- (1) Roth receiving the funds must be in the name of the beneficiary of the 529 plan
  - (a) Trustee to trustee transfer
- (2) 529 plan must have been maintained for 15+ years
- (3) Contributions within last 5 years are ineligible
- (4) Annual transfer limit is the IRA contribution per year (with no doubling up by a Roth contribution)
  - (a) Example: $7,000 (Roth contribution 2024 limit) less any contributions already made to a Roth account
  - (b) Lifetime maximum of $35,000
- (5) Effective for distributions after 12/31/23
- (6) Don't forget the original SECURE created an option for students to use 529 balances to pay off up to $10,000 in student loans

m) Other provisions within SECURE II:

- (1) New "Emergency" savings accounts
  - (a) Up to $2,500 post tax (Roth) basis
  - (b) Participant can withdraw up to $1,000 per year for an emergency, not subject to the 10% early withdrawal penalty
- (2) Provision expanding annuity opportunities
- (3) Sole proprietors will be allowed to make a retroactive first year 401(k) elective deferral, up to April 15th
- (4) Numerous plan administration changes meant to improve efficiency
- (5) ABLE program age limit increased
  - (a) Act increases the age before which an individual's disability or blindness must have occurred, from age 26 to 46
  - (b) Effective 2025
  - (c) Wisconsin has followed this change
- (6) New retirement savings "Lost and Found" data base
- (7) New income exclusion for first responder retirement payments for service-related disability retirement payments after they reach retirement age; effective for eligible amounts received after 12/31/26

(8) Permits distributions of up to $2,500 to purchase qualified long-term care insurance

n) What was NOT in the bill?

(1) No changes preventing the Back Door Roth technique

(2) No change to QCD age—continues to be age 701/2

(a) On a related note, the QCD limit of $100,000 will now be linked to inflation (2024)

3. Act included two other miscellaneous tax changes

a) New rules of contribution of conservation easements to a partnership

(1) Meant to deter an abusive tax shelter technique

b) HSA high deductible plan/Telehealth extension—see law for details

B. Inflation Reduction Act of 2022, Public Law 117-169, signed 8/16/22 (Details of only those provisions generally applicable to smaller practitioners)

1. The Act provided investment in clean energy, promotes reductions in carbon emissions, and extends popular Affordable Care Act premium reductions

2. Funding (Discussed below)

    a) 15% corporate minimum tax on large corporations

    b) 1% excise tax on corporate stock buyback

    c) Projected increase in IRS collections from increased IRS funding

    d) Changes to Medicare rules which help Medicare reduce the cost of certain drug purchases

3. Most provisions take effect in 2023

4. Energy Efficient <u>Home Improvement</u> Credit

    a) New credit generally effective for property placed in service after 12/31/22 and before 1/1/33

        (1) Old law applied for 2022 and prior purchases (Energy Property Credit) $500 lifetime cap

    b) New credit: Increased the limits and removed the lifetime limit, such that limits to each category are now annual limits

        (1) Overall limit of $1,200 per year (no lifetime limit)

        (2) 30% on qualified energy property $600

        (3) 30% on exterior windows and skylights $600

        (4) 30% exterior doors $250 (single door), $500 total

        (5) NEW: Home energy audit, 30%, $150 limit (Principal residence only),

        (6) Certain HVAC systems

        (7) Heat pump, heat pump water heaters & biomass stoves & boilers have separate $2,000 annual limit, no lifetime limit

        (8) New standards for some items

        (9) Note: Roofs no longer qualify

    c) Qualifying property must be used by Tp as a residence, but not necessarily primary residence (except home energy audits)

- d) Beginning in 2025, will need a product identification number to claim the credit
  - (1) Without a valid number, e-filing is expected to reject
- e) 2022 to 2032: 30%,
  - (1) Dropping in 2033 to 26% and 2034 to 22%, with no lifetime limits
- f) Refer to IRS Fact Sheet

5. **Residential Clean Energy Credit** (Formerly the Energy Efficient Credit)
   - a) Applies to solar electric, solar hot water, fuel cell, small wind energy, geothermal heat pump, biomass fuel property
     - (1) Battery storage technology added to Q expenditures after 12/31/22
   - b) Check effective dates: Placed in service after 2021 for some, 2022 for others, expires after 2034
   - c) Begins at 30% and drops to 26% and 22% in later years

6. **New Clean Vehicle Credit** (Formerly the Qualified Plug-In Electric Drive Motor Vehicle Credit)
   - a) Previous vehicle credit: Manufacturers had unit limits
   - b) Applicable to both plug-in electric vehicles and fuel cell vehicles
   - c) Effective vehicles placed in service after 12/31/22 and before 12/31/32
     - (1) 2022: Manufacturer limits still apply
       - (a) Tesla and GM have met their limits
   - d) To qualify *Final Assembly* of the vehicle must take place in North America (for placed in service after 8/15/22) and also phases in sourcing requirements for critical components of the vehicle and battery system
     - (1) Dept of Energy has published list of with final assembly in North America
       - (a) https://afdc.energy.gov/laws/electric-vehicles-for-tax-credit
       - (b) https://fueleconomy.gov/feg/tax2023.shtml
     - (2) To verify: Check the 17 character VIN at energy.gov Alternative Fuels Data Center: Electric Vehicles with Final Assembly in North America
       - (a) https://www.nhtsa.gov/vin-decoder or
       - (b) https://afdc.energy.gov/laws/electric-vehicles-for-tax-credit
       - (c) Limit of manufacturer's suggested retail price $80,000 for vans, SUVs & pickups or $55,000 for cars

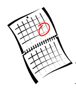
e) Computation:

(1) Maximum credit remains at $7,500 ($3,750 critical minerals + $3,750 battery component)

(2) Income limitation: Modified AGI $300,000 MFJ, $225,000 HOH, $150,000 S/MFS (Cliff limits)

(3) See details of bill for computation/and details regarding minimum battery capacity etc.…

(a) Beginning in 2023 50% of the battery must be manufactured or assembled in North America, increasing by 10% per year to 100% in 2029

f)  Beginning in 2024, the purchaser can transfer the credit to the dealer at the time of sale to get an immediate reduction in price/rebate (See rules)

(1) Buyer would have to repay the credit on return if it is determined that Tp doesn't qualify due to AGI exceeding limit

g) New: Credit for previously owned clean vehicles, effective 2023

(1) Credit lesser of $4,000 or 30% of sales price of vehicle

(2) Lower MAGI than the new vehicle credit: $150,000 MFJ; $112,500 HOH; $75,000 S/MFS

(3) Rules apply:

(a) Dealer sale only

(b) 2 model years old

(c) Price < $25,000

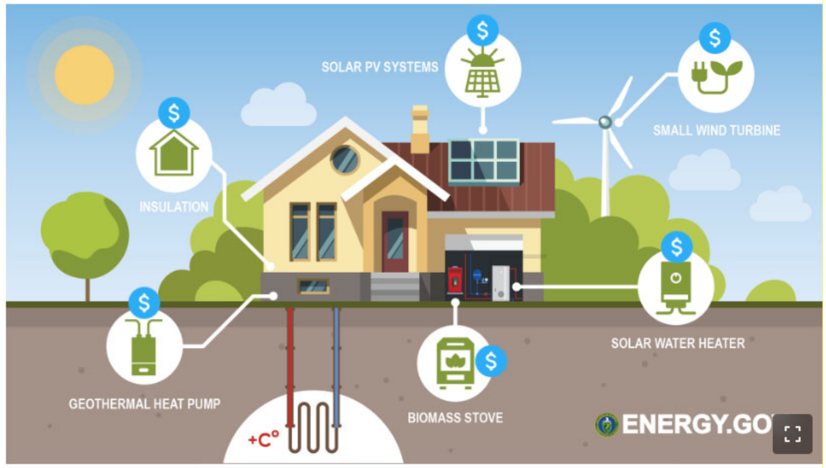
(d) First transfer only

(e) Qualified buyer (including cannot be a dependent of another Tp)

h) Also a new Credit for Qualified Commercial Clean Vehicles (See law for details)

7. Note: There are more Green Energy provisions in the bill less applicable to our average individual Tp including credit for carbon sequestration, zero-emission nuclear power facilities, biodiesel, alcohol used as fuel, electricity produced from certain renewable resources, and about ten others beyond our scope today and well beyond my vocabulary

(1) Source: Department of Energy website:



8. And now certain of these credits will be transferable

a) Allowing for example a tax-exempt entity to treat the credit as a payment of income taxes or allow selling of the credit to a Tp with taxable income

b) For more details of direct pay eligible energy tax credits : See [Publication 5817-G (6-2023) (irs.gov)]

9. **Premium Tax Credit Enhancements** from ARPA were extended 3 more years through 2025 (had been scheduled to expire end of 2022)

a) Prior to 2021 eligibility limited to those with household income under 400% of Federal Poverty Line

b) Now, through 2025, no maximum income limit for the premium tax credit

(1) Lower percentage table and removed cliff at 400% of Federal poverty line

(2) Without this extension premium subsidies would have dropped in 2023, increasing the cost of health insurance for those qualifying for subsidized premiums

c) Premiums currently capped at 8.5% of household income for these Tps

(1) Household income = Modified AGI + tax exempt interest, nontaxable social security, RR benefits & foreign income for all members of your household (see rules)

(2) Check the rules for deductions FOR AGI

(3) This provision benefits older Tps (50-65) whose premiums are age-adjusted in most states & can be up to 3 times that of young adult premiums for the same policy

(4) Average silver premium for a 60 year old couple in 2023 is more than $1,900 per month in 2023; with the ACA's premium tax credit subsidies were unavailable to people with incomes > 400% of the federal poverty line—such that premiums could cost 20% of their household income; this provision caps payments at no more than 8.5% of household income

Example: A 55 year old married couple living in Milwaukee County with household income of $100,000 qualifies for premium tax credit of $695 per month which covers about 50% of the premium cost

Next door neighbors earning the same $100,000 (507% of federal poverty line) but each age 63 qualifies for $1,149, or about 62% of monthly premium. R&D Credit:

Source: Random online calculator: KFF, confirmed at healthinsurance.org/Obamacare/subsidy calculator

d) Eligibility

(1) Enrolled in health insurance through the Marketplace

(2) US citizen or lawfully present in the US

(3) Ineligible for the premium tax credit if eligible for other minimum essential coverage" such as Medicare, Medicare or employer-sponsored coverage that is considered adequate and affordable

(4) Cannot be claimed as a dependent by another person

e) Certain qualified small businesses can now use up to $500k of the R&D credit against employer payroll taxes for up to 5 years (See bill for details)

10. Revenue Raisers:

a) Corporate Alternative Minimum Tax Reinstated

(1) Effective tax years beginning after 12/31/22

(a) 3-year average annual adjusted financial statement income > $1,000,000,000 (Not a typo, it really is $1 billion!)

(i) Reduced to $100 million for certain foreign-parented corporations

(b) 15% Tentative minimum tax on financial statement income, less AMT Foreign Tax Credit

(c) Two last minute carve outs involving certain manufacturers and corporate subsidiaries of private equity firms

b) New 1% Excise Tax on Repurchase of Corporate Stock

(1) Effective repurchases of stock after 12/31/22

(2) Covered US corporation (publicly traded securities)

(a) Exceptions: Reorganization, retirement plan contribution or ESOP, where repurchase < $1,000,000, if treated as taxable dividend, and a few other circumstances

c) Another extension of Limitation on Excess Business Loss of Noncorporate TPs

(1) Recall TCJA instituted this provision whereby non-corporate Tp were limited on total deductible trade or business losses (such as Sch C, partnership or S Corp pass throughs (Sch E), F)

(2) Under TCJA, this had been scheduled this to expire after 2025; this provision extends the limits to 2028

(3) Original loss limits $250,000/$500,000 for S & MFJ Tps

(a) 2023 limits are $289,000/$578,000 S/MFJ after inflation adjustments

(4) This loss limit is applied after the at-risk and PAL limitations

d) This legislation included $80 billion in additional IRS Funding–-an attempt to tighten the “tax gap”

(1) Discussed below

C. Recent Prior Year Legislation

1. Most of the temporary tax provisions within the Covid era legislation have expired

2. Infrastructure and Jobs Act (Signed 11/15/21)

    a) $1.2 trillion in spending, bipartisan

    b) Modest tax changes in the bill

    c) Included cryptocurrency reporting provision *(Details under "Miscellaneous" below)*

3. American Rescue Plan Act (ARPA) Signed 3/21/21

    a) Most of this bill was COVID related

    b) $1.9 trillion in spending, including the following provisions applicable to individuals

        (1) Round III of Stimulus payments

            (a) $1,400 payments (advance of 2021 credit)

        (2) Enhancement of personal credits

            (a) One-year temporary expansion of the Child Tax Credit (2021 only)

            (b) One-year enhancements to the Earned Income Credit (EIC) (2021 only)

            (c) One-year enhancements to Dependent Care Assistance Credit (2021 only)

        (3) Temporary Above the Line Charitable Contribution deduction

        (4) Extension of payroll tax credits

4. Consolidation Appropriations Act of 2021 (Signed 12/27/20)

    a) COVID spending, including

        (1) Round II of stimulus payments $600 per person

        (2) Round II PPP

        (3) STOP Temporary 100% deductibility restaurant meals for 2021 and 2022

D. Tax Cuts and Jobs Act (TCJA), Signed 12/22/17-

1. 100 Bonus depreciation for equipment and machinery, with phase down:
   a) Beginning in 2023, bonus depreciation drops to 80%,
   b) 2024 falls to 60%
   c) 2025 40%
   d) 2026 Bonus Depreciation completely phases out
2. Amortization of R&D Expenses
   a) Beginning in 2022 TCJA requires companies to amortize the cost of R&D investment over five years rather than the option of immediately expensing
3. Limit on Business Interest Expenses
   a) Beginning in 2017, TCJA limited business interest to 30% of EBITDA,
   b) Beginning in 2022, this is now limited to the tighter EBIT
4. After the end of 2025—24 months from now--the following selected significant individual provisions from TCJA will expire:
   a) Lower individual tax rates
      (1) Ex: Highest marginal rate: Current rate of 37% returns to 39.7%
   b) Standard deductions return to approx half
   c) Pease limitation returns (Cut to itemized deduction for higher income Tps)
   d) Personal exemptions return
   e) Child Tax Credit reverts to $1,000 (Currently $2,000) and certain enhancements expire, including increased refundable amount and increased phase out ranges
   f) $10,000 SALT cap expires
      (1) Removing the SALT cap will bring the AMT back into play, since SALT is the most common AMT adjustment
   g) Limits on mortgage interest deduction return to old rules
   h) AMT exemption amount and phaseout threshold return to previous (lower) levels
   i) §199A 20% Qualified Business Income deduction expires
   j) The suspension of the Miscellaneous 2% Itemized Deduction
   k) Moving deduction returns (Deduction FOR AGI)

- l) Personal casualty losses deductible (Currently limited to federally declared disaster areas)
- m) Charitable Contribution limitation returns to 50% AGI (Currently 60%)
- n) Increase in the estate tax exemption will also expire
  - (1) No claw back for those who made gift prior to the sunset and die after the sunset
- o) Certain enhancements to ABLE accounts expire

5. Certain TCJA changes were permanent, including the following significant/popular changes
   - a) Increase to the §179 was permanent
   - b) Treatment of alimony permanent
     - (1) No deduction/no taxable income for agreements executed after 12/31/18
   - c) C Corporation tax rate decrease from a top rate of 35% to a flat rate of 21% was a permanent change, effective 2018
   - d) Repeal of Corporate AMT was permanent

E. ?? Where Are We Going?

1. Federal government had been funded through November 17, 2023 (P.L. 118-15) which has been extended through either 1/19/24 or 2/2/24 (varies by agency) (P.L. 118-22 Continuing Appropriations and Other Extensions Act, 2024)

2. Recent Federal Tax Proposals

   a) Postpone the capitalization of R&D (Began in 2021, and this issue has bipartisan support)

   b) Many support removing the phasedown of Bonus Depreciation

   c) Postpone the harsher §163(j) interest expense limitations

   d) SALT cap (Since its inception there have been loud call s for outright repeal; most recent compromises called for an increase on the cap to \$20,000 or \$100,000)

   e) Some are calling for an increase in the Child Tax Credit and greater refundability

      (1) Hot policy topic

      (2) Credit had been \$2,000 with \$1,400 being refundable

      (3) Then ARPA expanded the credit to \$3,000/\$3,600 < 6 and fully refundable, provisions which have now expired

      (4) Some policy makers are still pushing to bring back the expanded credit

   f) Cuts to the IRS' \$80b additional funding

3. Continued Divided Government:

   a) Republicans have control of the House while Democrats maintain control of the Senate and presidency

      (1) Making major tax reform unlikely

   b) Instead watch for

      (1) Specialized packages

         (a) Such as CHIPS and Science Act which passed last year, targeting a tax credit for semiconductor investment

      (2) Agenda-setting type legislation

         (a) While major tax reform is unlikely to pass, each party may release packages showing what they hope to pass when their party next gains control of a united government

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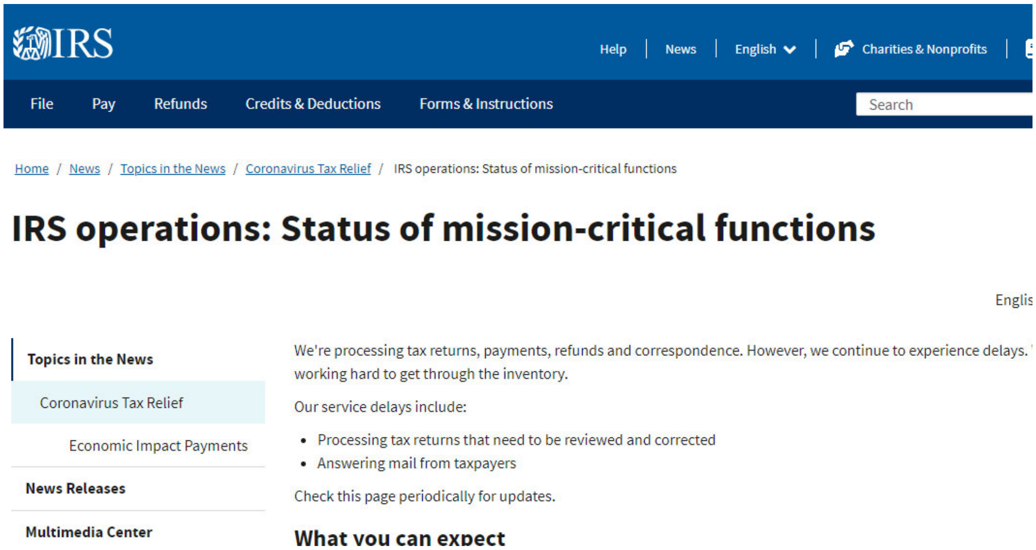
II. IRS Activities in 2023

A. Processing statistics from the IRS Newsroom



1. Some random statistics from the above IRS page:
   a) Processing of 1040s back to normal
      (1) Those with refunds processed first, then those with payments due
      (2) As of 11/25/23 there were 859,000 unprocessed individual returns, of which 700,000 had errors or required special handling and 159,000 were paper filed returns
         (a) Refunds on a paper filed return generally take 21 days longer to issue
   b) 1040X are taking 20 weeks to process
      (1) As of 11/25/23 there were 726,000 unprocessed Forms 1040X
      (2) Other practitioners are reporting success on getting a 1040X processed by making an in-person appointment with a local IRS office, with proper identity documents

B. New Commissioner Sworn in on April, 2023

1. Daniel Werfel is at the helm, following the retirement of Charles Rettig

2. He presides over an agency which
   a) Collects approximately $4.1 trillion in tax revenue annual (which represents approximately 96% of the total gross receipts of the US)

b) Employees over 85,000 employees

c) And has an annual budget of more than $12 billion (Source irs.gov news release March 13, 2023)

3. His term runs through 11/12/27

a) Commission terms are five year terms since the IRS Restructuring and Reform Act of 1998

4. Fun fact: The IRS Commissioner and IRS Chief Counsel are the only appointees withing the agency (nominated by the President, confirmed by the Senate); all other employees are career civil servants

C. $80 billion additional funding to the IRS (Inflation Reduction Act, signed 8/16/22)

1. Reduced to $60 billion under compromise between White House and Congress in this past fall's debt ceiling negotiations

2. IRS's stated goal for these funds

a) To improve service and technology

b) Increase staff (addition of 87,000 FTEs)

c) Ensure all TPs are "paying their share"

(1) This increase in funding is estimated to result in $200 billion in additional collections

3. To put this in perspective, consider:

a) IRS currently employs 93,000

b) Current annual budget is $12.7 billion, so this boost is significantly more than they spend in any year!

4. IRS plans for the original $80 billion (Spread over 9 or 10 years)

a) $45.6b for enforcement (57%)

b) $25.3b for operations support (including information technology systems)

c) $3.2b for Tp services (including pre-filing assistance & Education, filing and account services and funding for TP Advocate Service)

d) $4.8b for Business systems modernization (Improving service technology, such as automated callback system)

D. Strategic Operating Plan (Or, how to spend $80 billion dollars)

1. Released April 6, 2023

2. Goal of the Strategic Operating Plan, according to Deputy Secretary of the Treasury Wally Adyemo, is to “provide taxpayers with world-class customer service” and reduce the deficit by “hundreds of billions by pursuing tax evasion by wealthy individuals, big corporations, and complex partnerships.”

3. The Plan is organized around five key objectives:

   a) Dramatically improve services to help Tps meet their obligations and receive the tax incentives for which they are eligible

   b) Quickly resolve Tp issues when they arise

   c) Focus expanded enforcement on Tps with complex tax filings and high-dollar non-compliance to address the tax gap

   d) Deliver cutting-edge technology, data and analytics to operate more effectively

   e) Attract, retain and empower a highly skilled, diverse workforce and develop a culture that us better equipped to deliver results for Tps

E. IRS is Hiring

1. In FYE 2023 the IRS hired 1,543 new enforcement employees which in FY 2024 it plans to hire 7,239 new enforcement employees

2. For customer service employees the hiring figures are 7,394 in FY 2023 and 6,489 in FY 6,489

F. Taxpayer Advocate Mid-Year Report to Congress (6/21/23)

1. Paper filed backlog is reduced

2. Changes of getting through on the phone are improved, with shorter wait times

3. Refunds generally processed quickly

4. IRS is still behind in processing amended returns and Tp correspondence

a) Explained that the employees in the IRS's Accounts Management function perform two roles—they answer the phone and process Tp correspondence, amended returns and other cases. So, the report states that the IRS was much more effective in answer the phone, only by prioritizing the phone over these other IRS operations, resulting in greater delays in processing of paper correspondence

Figure 1: Status of Unprocessed Paper-Filed Original Tax Returns Comparing Weeks Ending April 22, 2022, and April 22, 2023

Filing Season	Individual	Business	Not Specified	Total
2022	6,200,000	5,200,000	2,000,000	13,300,000
2023	1,200,000	500,000	900,000	2,600,000

Source: Taxpayer Advocate Mid-Year Report to Congress (6/21/23)

Figure 2: Status of Unprocessed Amended Tax Returns Comparing Weeks Ending April 22, 2022, and April 22, 2023

Filing Season	Individual	Business	Total
2022	2,600,000	1,100,000	3,600,000
2023	1,700,000	1,700,000	3,400,000

b) Processing time for amended returns Form 1040X as of the end of 2023 filing season was about seven months

5. A five page summary report is available at: https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/06/IR-23-119.pdf

G. IRS Announces an End to Most Unannounced Tp Visits

1. To end confusion and enhance safety

2. IR-2023-133, July 24,2023

H. Status of Direct File

1. IRS is working on a free, voluntary, direct file IRS run electronic filing program commonly referred to as Direct File

2. Pilot program for 2024 tax season (these returns we are about to file)

   a) Available in 13 states (not including Wisconsin)

III. Income

A. Alimony: Reminder of the Changes within TCJA

1. Divorce or separate agreements executed after 12/31/18
   a) No income inclusion to the recipient and no deduction to the payor
2. No changes to agreements signed prior to this date and unchanged
3. Be sure to ask new clients for details and existing clients if new agreements have been executed

B. Excess Business Losses (TCJA)

1. The $500,000 ($250,000) loss limit established by TCJA was suspended for 2018 through 2020 (CARES)
   a) 2023 inflation indexed limits: $578,000 MFJ / $289,000 S
2. Under TCJA, this loss limitation had been scheduled to end after 2025; however, the 2022 Inflation Reduction Act extended this provision to 2028

C. Social Security

1. Social Security Act was passed in 1935, thus marking 88 years of the program which provides benefits to retirees, people with disabilities, dependents and families that lose a wage earner
   a) OASDI: Old Age, Survivors. And Disability Insurance
   b) FICA: Federal Insurance Contributions Act

2. SS Beneficiaries:

Table 1.
Number of people receiving Social Security, Supplemental Security Income (SSI), or both, October 2023 (in thousands)

Type of beneficiary	Total	Social Security only	SSI only	Both Social Security and SSI
All beneficiaries	71,483	64,019	4,948	2,516
Aged 65 or older	54,206	51,811	1,029	1,365
Disabled, under age 65 [a]	11,674	6,605	3,919	1,150
Other [b]	5,603	5,603	. . .	. . .

SOURCES: Social Security Administration, Master Beneficiary Record and Supplemental Security Record, 100 percent data.

NOTES: Social Security beneficiaries who are entitled to a primary and a secondary benefit (dual entitlement) are counted only once in this table. SSI counts include recipients of federal SSI, federally administered state supplementation, or both.

. . . = not applicable.

a. Includes children receiving SSI based on their own disability.

b. Social Security beneficiaries who are neither aged nor disabled (for example, early retirees, young survivors).

CONTACT: statistics@ssa.gov.

a) 2024 COLA 3.2%

(1) affecting approximately 66 million Social Security beneficiaries (effective January 2024) and 7 million SSI beneficiaries (effective 12/29/23)

(a) Beneficiaries includes retired workers, widows, dependents, disable workers and dependents

(2) On average, monthly social security benefits will increase by $50 per month

(3) Estimated average monthly social security benefits payable (after COLA adjustment, for 2023)

(a) for all retired workers $1,907 per month ($22,884 annually)

(b) Aged couple, both receiving benefits $3,033 ($36,396 annually)

(c) paid to a widowed mother and two children $3,653 per month ($43,836 annually)

(d) paid to all disabled workers $1,537 per month ($18,444 annually)

(4) Maximum social security benefit for a worker retiring at full retirement age is $45,864 annually (up from $43,.524 in 2023)

Source: SS Fact Sheet at SS.gov news

b) Last year, 2023 COLA was 8.7%,

c) Full Retirement Age (Source: SSA.gov)

Age for full retirement benefit for retired workers

Year of birth	Full retirement age (FRA)
1937 and earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943–1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Table 2.
Social Security benefits, October 2023

Type of beneficiary	Beneficiaries		Total monthly benefits (millions of dollars)	Average monthly benefit (dollars)
	Number (thousands)	Percent		
Total	66,932	100.0	114,435	1,709.70
Old-Age and Survivors Insurance	58,359	87.2	102,841	1,762.21
Retirement benefits	52,535	78.5	94,369	1,796.31
Retired workers	49,937	74.6	92,081	1,843.96
Spouses of retired workers	1,919	2.9	1,702	887.27
Children of retired workers	680	1.0	586	861.48
Survivor benefits	5,824	8.7	8,471	1,454.56
Children of deceased workers	2,021	3.0	2,159	1,067.99
Widowed mothers and fathers	107	0.2	133	1,239.59
Nondisabled widow(er)s	3,492	5.2	5,997	1,717.41
Disabled widow(er)s	203	0.3	182	896.04
Parents of deceased workers	1	(L)	1	1,540.07
Disability Insurance	8,574	12.8	11,594	1,352.32
Disabled workers	7,420	11.1	11,051	1,489.47
Spouses of disabled workers	89	0.1	36	407.55
Children of disabled workers	1,065	1.6	507	475.53

SOURCE: Social Security Administration, Master Beneficiary Record, 100 percent data.

NOTE: (L) = less than 0.05 percent.

CONTACT: statistics@ssa.gov.

d) SS Beneficiaries continuing to also work:

(1) Retirees younger than full retirement age can earn up to $21,240 in 2023 before their benefits are reduced by $1 for every $2 in excess earnings (up from $19,560 in 2022)

(2) Limit is $56,520 in the year they reach full retirement age ($1 for $3 reduction)

3. SS taxes paid by current workers:

   a) Individual taxable earnings subject to SS tax in 2024 will increase to $168,600, up from $160,200 in 2023

      (1) Using OASDI rate of 6.2% this is a maximum increase of $10,453.20 income for each the employer and the employee, an increase of $520.80 for workers exceeding the cap

      (2) No change to Medicare 1.45% on unlimited wages

      (3) Individuals earning >$200,000 and married couples filing jointly earning >$250,000 will also pay the additional tax of .9% of wages (unchanged)

4. **The 2023 Annual Trustees Report** includes the following noteworthy facts:

   a) Combined asset reserves move back a year compared to that projected last year;

   b) The OASDI fund will be able to pay scheduled benefits on a timely basis until 2033, one year earlier than reported in the prior year report

      (1) After that date, the fund's reserves will become depleted and continuing tax income from workers will be sufficient to pay 77% of scheduled benefits

      (2) The Disability Insurance Trust Fund asset reserves are not projected to become depleted during the 75 year projection period

c) More facts from the annual report:

The key dates for the OASI, DI, and HI Trust Funds are:

Table 7: KEY DATES FOR THE TRUST FUNDS

	OASI	DI	OASDI	HI
First year cost exceeds income excluding interest[a]	2010	2044	2010	2025
First year cost exceeds total income including interest[a]	2021	[b]	2021	2025
Year asset reserves are depleted	2033	[c]	[d]2034	2031

[a] Dates indicate the first year a condition is projected to occur and then persist each year through 2097.

[b] Projected annual balances remain positive through 2097.

[c] The trust fund asset reserves are not projected to become depleted during the 75-year period ending in 2097.

[d] If the legally separate OASI and DI trust funds were combined, the hypothetical combined OASDI asset reserves would become depleted in this year.

The four trust funds are:

- Old-Age and Survivors Insurance (OASI) Trust Fund
- Disability Insurance (DI) Trust Fund
- Hospital Insurance (HI) Trust Fund
- Supplementary Medical Insurance (SMI) Trust Fund

Table 8: ADEQUACY OF THE TRUST FUNDS

	OASI	DI	OASDI	HI
Year asset reserves are depleted	2033	[a]	[b]2034	2031
Percent of scheduled benefits able to be paid:				
At the time of reserve depletion	77	[a]	80	89
For 2097	71	[a]100	74	[c]96

[a] The trust fund reserves are not projected to become depleted during the 75-year period ending in 2097. The trust fund ratio is projected to be 159 percent in 2097.

[b] If the OASI and DI trust funds were combined, hypothetically, the year the combined asset reserves would become depleted.

[c] The percent of scheduled benefits payable is projected to decline to 81 percent by 2047 before gradually increasing to 96 percent by 2097.

Source: Annual Trustees Report

5. Some more fun facts from SocialSecurity.gov:
    a) The number of Americans 65 and older will increase from about 58 million in 2022 to about 76 million by 2035
    b) In 1940 the life expectancy of a 65-year-old was almost 14 years; today it is over 20 years
    c) Nine out of ten people over age 65 were receiving SS as a benefit
    d) Reliance on SS income
        (1) SS represents about 30% of the income of the elderly
        (2) Among elderly SS beneficiaries, 37% of men and 42% of women receive 50% or more of their income from SS
        (3) Among elderly SS beneficiaries, 12% of men and 15% of women rely on SS for 90% or more of their income
    e) In 2022 there were an estimated 2.8 covered workers per each Social Security beneficiary; by 2035 the Trustees estimated that there will be 2.3 covered workers for each beneficiary

D. Medicare

1. Part B standard premiums increase by $9.80 per month for 2024 while the Part B deductible increased $14

2. Inflation Reduction Act changes to prescription drug coverage—these changes take place in 2024
    a) Significant reduction in out-of-pocket in Part D plans expected

3. Income Related Monthly Adjustment Amount (IRMAA)
    a) Taxable income reported on 2023 tax return will determine 2025 premiums
        (1) Annual assessment—
            (a) Big income jump in 2021 may have increased Medicare premiums for 2023, but a return to lower income in 2022 may decrease the 2024 premiums (reassessed annually)
    b) Modified AGI = AGI + tax exempt income
    c) Recipients can appeal IRMAA increases if life-changing event occurs:
        (1) Marriage, divorce, death of a spouse, work stoppage or reduction (Retirement)
        (2) File Form SSA-44

(3) Capital gains are generally NOT an event that would result in a successful appeal

(4) IRMAA 2023

Source: Medicare.gov

If your yearly income in 2021 (for what you pay in 2023) was			You pay each month (in 2023)
File individual tax return	File joint tax return	File married & separate tax return	
$97,000 or less	$194,000 or less	$97,000 or less	$164.90
above $97,000 up to $123,000	above $194,000 up to $246,000	Not applicable	$230.80
above $123,000 up to $153,000	above $246,000 up to $306,000	Not applicable	$329.70
above $153,000 up to $183,000	above $306,000 up to $366,000	Not applicable	$428.60
above $183,000 and less than $500,000	above $366,000 and less than $750,000	above $97,000 and less than $403,000	$527.50
$500,000 or above	$750,000 or above	$403,000 or above	$560.50

2024 IRMA (2022 Tax Return)

Single	Married Filing Jointly	Married Filing Separately	Part B Premium	Part D IRMAA
$103,000 or less	$206,000 or less	$103,000 or less	$174.70	$0 + your plan premium
$103,000 up to $129,000	$206,000 up to $258,000	N/A	$244.60	$12.90 + your plan premium
$129,000 up to $161,000	$258,000 up to $322,000	N/A	$349.40	$33.30 + your plan premium
$161,000 up to $193,000	$322,000 up to $386,000	N/A	$454.20	$53.80 + your plan premium
$193,000 and less than $500,000	$386,000 and less than $750,000	$103,000 and less than $397,000	$559.00	$74.20 + your plan premium
$500,000 or above	$750,000 and above	$397,000 or above	$594.00	$81.00 + your plan premium

IV. Above the Line Deductions

A. Educator's Out-of-Pocket Expenses

1. Reminder: Deduction increased from $250 to $300 in 2022 (under inflation adjustment rules, not legislation)

2. Married teachers filing jointly each get $300 per spouse

3. Who: K-grade 12 teacher, instructor, counselor, principal or aide in a school for at least 900 hours during the year

4. What: Unreimbursed cost of books, supplies, and other materials used in the classroom; equipment including computer equipment, software & services, Covid-19 protective items and professional development relating to the curriculum or students they teach

5. Wisconsin conforms with the increase

B. STOP Tuition Deduction Expired

1. Expired after 2020 tax year

2. $4,000 deduction, subject to income limitations

3. No further extension on the books

C. Student Loan Interest

1. Up to $2,500 of student loan interest is deductible, subject to AGI limitations ($70,000 S or $140,000 MFJ) and, of course, actual payment

2. Deferrals are over, so be sure to ask your younger clients if they paid student loans in 2023

V. Itemized Deductions

A. Standard Deduction

1. $13,850 for S; $27,700 for MFJ
    a) For TP over 65, this is $15,700 and $30,700!
2. Fun statistic: In FY 2020 (so, with the TCJA higher standard deductions) 87.3% of 1040s filed used the standard deduction
    a) For comparison purposes, 69.0% claimed the standard deduction in 2015, prior to TCJA
    b) Source: IRS.gov statistics publications

B. Charitable Contributions

1. AGI % limits for itemized deduction of charitable contributions:
    a) 60% AGI limit for CASH contributions
        (1) After 2025 the 60% AGI limitation for cash donations reverts to 50%
    b) Contribution of long-term capital gain property to a public charity limited to 30% of AGI
    c) Donations to Private Foundation
        (1) Cash donations: 30% of AGI
        (2) Long term capital gain property: 20%
    d) Corporations returned to 10% limit
2. Tp Over 701/2: Qualified Charitable Distribution
    a) From an IRA
    b) Must be over 701/2 to qualify
        (1) Note: This did NOT increase to 72/73 under either SECURE
    c) Limited to $100,000
    d) If check is written from the IRA checkbook, the check must be CASHED BY 12/31/23 to be a 2023 RMD/QCD

(1) IRA custodians are not keeping track of clients' QCDs, so Tp needs to keep records (and the checkbook is an easy manner to track)

3. Planning strategies for younger Tps (ineligible for QCDs)

a) Gift of appreciated LT CG security

(1) CG is excluded and Charitable contribution deduction (Itemized deduction) for FMV

b) Use of Donor Advised Funds to bunch deductions and use standard deduction for consistently charitable Tps with available funds

(1) Watch the amount of the contribution to a Donor Advised Fund, that the amount isn't in excess of the 60% limitation, as the carryover would defeat the goal of bunching itemized deductions every other year

4. Avoid the Scam: IRS Look up tool for Charitable organizations

a) [Search for Tax Exempt Organizations | Internal Revenue Service (irs.gov)](https://www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations) https://www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations

5. Proposed Regs issued on disallowance of deduction for conservation easement involving partnerships/S Corps

a) Aimed to curtail abusive syndicated conservation easement schemes

b) SECURE II provision, effective to contributions of property made after 12/29/22

C. Medical Expenses

1. IRS restated its position

a) Preventative health care not deductible

b) Tests and programs for diagnosis and treatment of a specific disease are deductible

c) Insulin is the only non-prescription drug deductible on Schedule A

(1) Over the counter drugs and menstrual care products can be reimbursed by HSAs, MSAs, Medical reimbursement or cafeteria plans

d) IRS FAQ Information Release 2023-47

2. Similarly, baby formula specifically marketed to protect against a particular illness is not deductible where the baby does not have the illness (Letter Ruling 202311001)

D. Private Mortgage Insurance (PMI) as Qualified Mortgage Interest

1. Had Extended through 2021 (Consolidated Appropriations Act), but was not extended

2. Wisconsin never adopted PMI provision

E. Recent Court Cases of Interest

1. Charitable donation of clothing
    a) Tax Court denied a $22,000 deduction for clothing by an individual who claimed he made 173 separate trips to Goodwill and the Salvation Army
    b) TP had a receipt for each trip
    c) However, the aggregated donations exceeded $5,000 and he failed to meet the appraisal requirements for the donation
    d) Bass v Commissioner, TC Memo 2023-41

2. Casualty Losses
    a) Couple denied the pre-2018 casualty loss for vacation home and boat
    b) Failed to prove the damage to either, the value of the losses, basis in the boat
        (1) They also did not file an insurance claim
    c) Richey v Commissioner, TC Memo 2023-43

3. Employee Business Expenses (Pre 2018)
    a) A minister and teacher were permitted deductions of $878 out of more than $38,000 claimed
    b) Lacked adequate substantiation
    c) Phillips v. Commissioner, TC Summary Opinion 2023-10

VI. Tax Rates, Credits, Penalties and Forms

A. 2023 Form 1040 Due Date: Monday, April 15, 2024

1. Extension available to October 15th—Extension to file, not to pay!

B. Ordinary Tax Rates and Capital Gains Rates

2022 Federal Tax Rates

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns
10%	$0 to $10,275	$0 to $20,550
12%	$10,275 to $41,775	$20,550 to $83,550
22%	$41,775 to $89,075	$83,550 to $178,150
24%	$89,075 to $170,050	$178,150 to $340,100
32%	$170,050 to $215,950	$340,100 to $431,900
35%	$215,950 to $539,900	$431,900 to $647,850
37%	$539,900 or more	$647,850 or more

2023 Federal Tax Rates

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns
10%	$0 to $11,000	$0 to $22,000
12%	$11,000 to $44,725	$22,000 to $89,450
22%	$44,725 to $95,375	$89,450 to $190,750
24%	$95,375 to $182,100	$190,750 to $364,200
32%	$182,100 to $231,250	$364,200 to $462,500
35%	$231,250 to $578,125	$462,500 to $693,750
37%	$578,125 or more	$693,750 or more

Long-Term Capital Gains Tax Rate 2023

FILING STATUS	0% TAXABLE INCOME	15% TAXABLE INCOME	20% TAXABLE INCOME
Single	Up to $44,625	$44,626 to $492,300	Over $492,300
Head of Household	Up to $59,750	$59,751 to $523,050	Over $523,050
Married Filing Jointly & Surviving Spouse	Up to $89,250	$89,251 to $553,850	Over $553,850
Married Filing Separately	Up to $44,625	$44,626 to $276,900	Over $276,900

Source: IRS

FINANCE STRATEGISTS

Source: Kiplinger's

C. Child Tax Credit

1. Covid enhancements were not renewed (Revert to 2019 rules)

   a) 2023 Child Tax Credit is $2,000 for each qualifying child

   b) Child must be UNDER the age of 17 on 12/31/23 to qualify

   c) Maximum amount that can be claimed as refundable is $1,600 per child (inflation increase from $1,500)

D. Child and Dependent Care Credit

1. Higher expense limits of Covid times were not renewed

   a) Eligible expenses: $3,000 for one and $6,000 for two or more qualifying persons (25%-20%, depending upon income)

2. Credit is non-refundable for 2023

E. Earned Income Credit

1. Certain Covid enhancements were not renewed

   a) To claim EIC without a qualifying child Tp must be at least age 25 but under age 65 (if married, at least one spouse must meet the age requirement)

F. Premium Tax Credit

1. ARPA enhancements WERE extended within the Inflation Reduction Act, and thus continue to apply for 2022 (Discussed above)

G. Virtual Currency Question:

1. The draft 2023 question is the same as 2022:
   a) "At any time during 2023, did you: (a) receive (as a reward, award, or payment for services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions)"
2. Instructions state the following examples do not, alone, generally require Tp to check “Yes”
   a) Holding a digital asset in a wallet or account
   b) Transferring a digital asset from one wallet/account you own to another wallet/account that you own
   c) Purchasing digital assets using US or other real currency, including through the use of electronic platforms such as PayPal and Venmo
3. The following examples DO require you to check “yes”
   a) Received digital assets as payment for property or services, or as a reward
   b) Received digital assets as a result of mining, stalking, or as a result of a hard fork
   c) Disposing of digital assets in exchange for property or services or in trade for another digital asset
   d) Sold digital assets
   e) Transferred digital assets for free, such as a bona fide gift
   f) Or otherwise disposed of a financial interest in a digital asset
4. If you received digital assets as compensation for service, report as W-2 wages
5. If you disposed of any digital assets held as a capital asset through a sale, exchange, gift or transfer, check “yes” and report your capital gain on Form 8949 and Schedule D

H. 1040 Forms

1. Draft of Form 1040, Schedules 1,2, & 3 look nearly identical to 2022

2. Instructions added that entering the taxpayer's phone number and email address is optional

    a) Consider looking for a global setting with your tax software to exclude this from printing on the federal forms (though some states may still require)

3. Change coming to the Form 1040-X to clarify Line 19-Amount Available to Pay Additional Tax

I. Penalties

1. Individual:

    a) Failure to File: 5% per month, or portion of a month, not to exceed 25% of unpaid taxes

        (1) If > 60 days late, minim failure to file penalty is lesser of $435 or 100% of tax due on the return

    b) Failure to Pay: .5% per month, or potion of a month, not to exceed 25%

        (1) If both penalties apply, credit for the late payment (for 5 months)

        (2) Late payment penalty may be reduced to .25% with an approved installment payment plan

2. Penalty relief available due to

    a) Reasonable cause—Tp exercised ordinary business care and prudence and circumstances were beyond control, such as

        (1) Death, serious illness or unavoidable absence

        (2) Fire, casualty, natural disaster or other disturbance

        (3) Unable to obtain records

        (4) Mistake was made

        (5) Erroneous advice or reliance

    b) Administrative waiver and first-time penalty abatement

        (1) See sample letter six pages below

    c) Statutory exception

d) If IRS denies request for penalty abatement, 30 days to request reconsideration with IRS appeals office

3. Interest relief is not generally granted

a) Recent increase in penalty rates

(1) 8% for individuals, for overpayments and underpayments (Qtr 4 2023)

4. Partnership/ S Corp Late filing

a) $220 for each month or portion of a month (max 12 months) per partner in 2023

b) $280 for failure to furnish K-1 ($560 or more if intentionally disregarded), maximum of $3,392,000

5. See Revenue Procedure 84-35 if < 10 partners/S s/h owners for possible abatement where partners were unaware they had a partnership or unaware of the filing requirements and reported the income

J. Special Penalty Relief for 2020 and 2021 Just Announced

1. IRS is waiving the Failure to Pay penalty on 2020 and 2021 returns (.5% per month)

a) No waiver on interest

b) No waiver on Failure to File penalty

2. Applies to

a) Individuals, businesses and tax-exempt organizations

b) Who owed less than $100,000

c) For years 2020 and 2021

3. Penalty relief is automatic

a) Eligible Tps do not need to do anything

b) Refunds will be issued for those who have already paid, beginning in January

K. Collection Efforts Resuming

1. In January the IRS will resume automated collection notices and letters to individuals with tax debts prior to 2022 and business and tax-exempts with tax debts prior to 2023
    a) The pause in collection mailings affected only follow-up reminder mailings
    b) The IRS did not suspend the mailing of the initial balance due notices

L. Remember the Mid-Tax Season Covid Legislation Excluding Unemployment?

1. Covid legislation, ARPA, enacted March 2021 which excluded up to $10,200 of unemployment compensation for 2020 where AGI < $150,000
    a) Enacted AFTER many had already filed their tax returns
2. IRS announced in January that about 14 million returns were (*eventually!*) corrected with nearly 12 million refunds, totaling 14.8 billion
    a) Average refund was $1,232

M. Extensions--Proposal

1. Two House legislators introduced a bill to make it easier for individuals to calculate their tax liability when filing for the six-month extension
2. Under current law, Tp must pay in full amount of estimated tax liability for the current year with the extension request
    a) Meaning Tp must calculate the amount they ow by the April filing deadline
3. Their proposal would allow individual Tps to qualify for an extension by paying 125% of their prior year's tax liability
    a) Reducing the stress and simplifying the extension filing process
4. Simplified Automatic Filing Extensions (SAFE) Act of 2023, H.R. 3566, introduced 5/22/23
    a) AICPA is in support of this legislation as it would "minimize Tps burden and risk of penalties and allow tax practitioners the needed flexibility to navigate an increasingly unmanageable tax bust season"

VII. Miscellaneous Tidbits re: Individual Filing

A. Cryptocurrency

1. Bipartisan Infrastructure Bill passed 11/21 dictated that for purposes of §6050l cryptocurrency is treated as cash
   a) Thus, any trade or business that receives $10,000 or more in currency (which now includes crypto) has significant reporting requirements, including Form 8300
   b) Brokers will have to file 1099s reporting customers name, address, adjusted basis and ST or LT gain or loss
      (1) Beginning date for basis tracking was to have been 1/1/23
      (2) However, brokers not required to report or file returns on the disposition of digital assets until the final regulations are issued (Announcement 2023-02)
      (3) Proposed Regs issued 8/25/23
      (4) Basis tracking begins 1/1/25
         (a) In January 2026 brokers are to issue 1099-DA for 2025 transactions
      (5) Broker broadly defined: Any person who (for consideration) is responsible for regularly providing any service affecting the transfer of digital assets of another person
2. Debate and uncertainty over Crypto for purposes of FBAR (>$10,000) and FATCA (Form 8938 total value of foreign assets >$50,000 on last day of the year or >$75,000 at any point during the year)
3. Capital gains/losses should be reported on Form 8949/Schedule D
4. Mining income is generally considered ordinary income
5. Paying/being paid in crypto should be reported at FMV at date of payment

B. Form 1099-K (Merchant Card and Third-Party Network Payments) (Such as credit cards, PayPal and Venmo)

1. Threshold had been scheduled to drop down to $600 in 2022, but IRS delayed this provision on 12/22/22 (Notice 2023-10)

2. The $600 threshold has again been delayed for tax year 2023 (Notice 2023-74)

   a) IRS is planning for a 2024 threshold of $5,000 (instead of the scheduled $600)

   b) The 2021 and 2022 thresholds were $20,000 and 200 transactions

3. Decrease is expected to result in many Tps receiving a 1099-K for the first time

   a) Lower threshold is expected to capture gig workers and rentals by Tps who may not have been reporting taxable income

   b) Likely will cause recipients confusion

      (1) Payments could include non-taxable amounts such as payments to family/friends for gifts/reimbursements/etc.

   c) Most casual sellers won't owe tax, assuming they are selling the item for less than their cost basis

      (1) Cost basis refresher:

         (a) Purchased: original cost

         (b) Inherited: FMV on DOD

         (c) Gift: carryover basis (ex: what the donor paid for it)

Examples:
Tp sells a mountain bike on eBay for $1,800 which they purchased six years ago for $4,700. Transaction results in no taxable income, and the loss on sale of personal items is nondeductible.
Tp who bought four Taylor Swift concert tickets for $150 and sold them for $900—Tp is subject to tax on the $750 per ticket profit

C. Optional Voluntary Identity Protection PINS (IP PIN)

1. Now available to ALL Tps, effective 2022
2. Apply
   a) Online
      (1) Protection begins immediately after enrollment and IP PIN is immediately available for filing
      (2) Application available online mid-January - November
   b) Paper Form 15227
      (1) For Tps who cannot verify their identity through the online process
      (2) Can take up to 180 days to complete enrollment
      (3) Limited to Tps under a certain AGI
   c) In person at local TP Assistance Office (make an appointment)
3. Important: Tps who enrolled voluntarily online (only) must got back into their Get an IP PIN application to retrieve their current IP PIN
   a) These Tps will not receive the CP 01A notice in early January
   b) All others will receive the mailed notice (Issued due to identity theft, Form 15227 or in-person)
4. To receive current year IP PIN (no CP 01A)
   a) go to IRS.gov/ippin
   b) Access the Get an IP PIN application
   c) Call IRS at 800-908-4490
      (1) After verifying name and address, notice will be mailed to Tp within 21 days
   d) If unable to retrieve the IP PIN, paper file without IP PIN
5. IPIN is good for (only) one year

D. ID.me Account for IRS e-services and Tax Pro

1. Need an ID.me account beginning 5/17/23 if tax professionals want to use any of the following:
   a) E services (such as IRS 1099 free filing)
   b) Tax Pro accounts including Client POA or responding to IRS notices
2. To establish an account: look for Your Online Account at irs.gov

E. Phishing emails

1. Per the Milwaukee Office IRS Stakeholder's Liaison:
   a) Forward phishing emails with federal tax related content to phishing@irs.gov
   b) Forward phishing text messages to 202-552-1226
   c) File a complaint with FBI: Internet Crime Complaint Center

F. IRS' First Time Penalty Abatement *(Not new, just a good reminder)*

1. Applies to the following penalties:
   a) Failure to File
   b) Failure to Pay
   c) Failure to Deposit
2. Eligibility:
   a) Must have filed all required returns (none outstanding)
   b) Must have paid or arranged to pay all tax due
      (1) Must be current on installment agreement
   c) Clean payment history for 3 preceding years
3. Applies to one year only
   a) Where penalty applies to two years, abatement will be applied to earlier year, only
4. Administrative: Request via phone (# on the notice) or in writing

5. Sample letter to the IRS requesting abatement: Main paragraphs:

> To whom it may concern:
>
> We respectfully request that the Failure to ______ penalty be abated based on the IRS's First Time Abate administrative waiver procedures, as discussed in IRM 20.1.1.3.6.1, First Time Abate (FTA).
>
> The taxpayer meets all of the first-time penalty abatement criteria as stated below:
>
> Filing compliance: All required returns have been filed.
>
> Payment compliance: All taxes have been paid (or an installment agreement is in place and Tp is current on payments).
>
> Clean Penalty History: The taxpayer has had no prior penalties in any of the prior three Years.
>
> We understand that this type of penalty abatement is a one-time consideration.

G. Reporting for Foreign Financial Assets

1. U.S. Tps are subject to BOTH IRS Form 8938 AND Treasury F114

2. IRS: Foreign Account Tax Compliance (FATCA) Foreign Asset Reporting

   a) Required to file IRS Form 8938 Statement of Specified Foreign Financial Assets if

      (1) Specified foreign financial assets of $100,000 on the last day of the tax year or more than $150,000 at any time during the year for MFJ ($50,000 and $75,000 respectively for Single Tps)

      (2) If Tp meets these amounts, be sure to file—because it's likely the foreign financial institution is required to report to the IRS

   b) Penalties are steep!

      (1) $10,000 failure to file

      (2) $50,000 if fail to report after being notified by the IRS

      (3) Plus, interest and penalties on underpayment of income tax liability attributed to undisclosed foreign financial asset (20% accuracy penalty is increased to 40%)

      (4) Statute of limitations extends to six years if return omits gross income from foreign assets of > $5,000

   c) Tax return preparers have a due diligence requirement to inquire about foreign financial assets

3. Treasury Department: Report of Foreign Bank and Financial Accounts (FBAR or FinCen Report 114) (Formerly Form TD F 90-22.1)

a) Required if: US individual or entity has financial interest or signing authority over an offshore financial account and value of all foreign financial accounts exceeds $10,000 at any time during the calendar year

b) No income requirement—just the existence of a foreign financial asset over the threshold

c) Due date moved forward to April 15, effective after 12/31/15 with extension available

d) Disclosure required electronically on Treasury Department Financial Crimes Enforcement Network (FinCEN) (Not an income tax return)

(1) Electronic Form 114 http://basefiling.fincen.treas.gov/Enroll_Individual.html

e) Civil penalties for not filing: $10,000 for each non-willful violation; Willful violation > $100,000 or 50% of the account value, per occurrence???

f) The FBAR filing does NOT relieve an individual of the Form 8938 FATCA requirements (see previous item): Both forms may be required—these are separate agencies

H. Planning Strategies Ideas for Individuals

1. Standard advice of deferring income and increasing current deductions

a) UNLESS, future rate will be lower, or Tp is in a special position this year

2. Minimizing Individual Taxes

a) Mathematical—Decrease income, increase deductions, and steer around rate changes

(1) Consider inflation

(a) Automatic inflation adjustments will expand the lower tax brackets and increase the standard deduction

(2) Consider Current Deficit and the whole political arena

(a) Where are rates likely to be in the future?

(b) Where is Tp's income likely to be at that time?

(3) Keep in mind ordinary vs capital gain rates

(4) Income

(a) Always the first thing to look at—is the Tp maximizing tax-free retirement savings? (I mean, don't ask me for tricks to cut your tax bill when I see you're making $180,000 and your 401(k) contribution is $2,000!)

(i) 401(k)s et al, SEPs, IRAs for qualified Tps

(5) Deductions—With a sky high standard deduction through 2025, consider bunching

(a) Medical

(i) That is, CERTAIN elective procedures—you can maybe put off a knee replacement for a bit, but let's not delay on the heart bypass just for tax savings!

(b) Charitable—both outright gifts and contributions to Donor Advised Funds

(c) Can't do much with state and local taxes ($10,000 limit) or mortgage interest

(d) Over 70 ½ and charitable? Qualified Charitable Donation (QCD)

3. Take advantage of the new green energy or electric vehicle credits (Inflation Reduction Act of 2022)

a) Note—these are not scheduled to expire anytime soon, so timing is not essential (That is, you can wait a year, or two, for these purchases to receive the benefit, unless law changes)

VIII. Retirement Plans/Accounts

A. SECURE I (December 2019)

1. Reminders of a few random SECURE changes:
   a) SECURE I increased required minimum distribution beginning date from 70 ½ to 72; SECURE II increased RMD age to 73, beginning in 2023 (For those who turn 72 after 2022 and 73 before 2033)
   b) QCDs still at 70 ½
   c) Ended the age 70 ½ contribution limit TO IRAs for seniors still working
   d) Stretch IRAs eliminated for IRAs inherited after 1/1/20
      (1) New shortened distribution period for non-spouse benefits is ten years (with many details and exceptions)
   e) Birth or adoption of a child now exempt from the 10% early withdrawal penalty ($5,000 limit)

B. Post SECURE Distribution Options for Inherited IRAs

1. Spouses: Rollover, stretch, etc
2. Eligible Designated Beneficiary (Disabled/chronically ill/minors): Stretch IRS
3. Designated Beneficiaries: Ten year plan, with or without RMD depending upon age of account owner
4. No Beneficiary: Five year plan or decedent's life expectancy depending upon whether the decedent died before or after their required beginning
5. Roth IRAs
   a) No RMDs during account owner's lifetime but beneficiaries who inherit a Roth IRA must take RMDs per above rules
6. That is, consult with someone who knows what they are doing!
7. Resource: IRS Publication 590-B Distributions from IRAs; or any major broker firm's resource

C. SECURE: IRS Delayed RMD Rule (Notice 2022-53, 10/7/22)

1. Provided transition relief for inherited IRAs for 2021 and 2022 & death after 2019 for designated beneficiary

    a) Inherited IRAs where the decedent was required to take RMDs (that is, they died after their required beginning date), proposed regs issued in 2022 require annual distributions in years 1 – 9

        (1) An interpretation that was a surprise to the estate planning community

    b) No penalties for failure to take RMD in 2021 or 2022, non-spousal beneficiaries who inherited an account due to a 2020 death and the account owner died after the required beginning date

        (1) This implies that there will be annual required minimum distributions in 2023 and beyond

    c) Proposed Regulations, apply to distributions on or after 1/1/22

    d) Note: The regulations are not final—this annual RMD provision could still change

D. Roth Conversions

1. Amount converted is taxed as ordinary income

    a) Preferable to pay the tax with outside funds, to maximize the benefit of the conversion

2. Benefit of the Roth

    a) Future growth of the account is tax free

    b) No RMDs for original owner

    c) Paying tax sooner, hopefully at a lower rate on a smaller amount

3. Who should consider a Roth Conversion?

   a) Believe future tax rate will be higher than current rate

      (1) Popular window: Recently retired: Retirement to age 73 (when RMDs may raise income

      (2) Unusually low taxable income (Ex: Business loss)

      (3) Very wealthy families: Consider multi-generational (heirs will be at a higher rate)

   b) Ability to pay the tax from outside funds

4. Back Door Roth Conversions

   a) Contribute to a traditional IRA (earned income), and immediately convert to Roth

   b) Important: Tax-free only if IRA owner has no existing Traditional, SEP or SIMPLE IRAs

      (1) If existing IRA, then a portion of the conversion is taxable

   c) Note: Provisions in the Build Back Better Act (which did *not* pass) would have eliminated this technique—so the technique has been on the chopping block once, which means it is at risk in the future

   d) Five-year rule: Penalty if conversion is withdrawn within five years; earnings taxable if owner does not meet qualifications (Roth IRA for at least 5 years and withdrawal exception met (59 ½, disability, first time home buyer, birth/adoption of a child)

E. STOP CARES Act Hardship IRA Distributions

1. Recall: Applied to 2020, $100,000 maximum Distribution and Tp had the choice to report income all in 2020 or 1/3 in 2020, 1/3 in 2021, and 1/3 in 2022

2. 2020, 2021 and 2022: So, we are DONE with the COVID Hardship Distributions

   a) All distributions have been reported, or paid back and returns amended; that is we should see nothing related to Covid Hardship distributions in 2023

IX. Miscellaneous Estate/Gift

A. Annual Gift Tax Exemption

1. Increases from $16,000 to $17,000 for 2023

2. Increases to $18,000 in 2024

B. Lifetime Estate and Gift Tax Exemption

1. Exemption for 2022 is at $12.06 million, or $24.12 million for couples where portability election has been timely filed

2. This TCJA increase will sunset in 2025

   a) In 2026 exemption drops back to prior law's $5m cap, which after inflation adjustment is expected to be about $6.2m

   b) Gifts made prior to the sunset will not be subject to a claw back

C. Late Portability Election Relief (Rev Proc 2022-32, 7/8/22)

1. Relief extended to five years following date of death

2. For small estates not otherwise required to file an estate return (filing solely for the portability election)

3. IRS modified late relief to reduce the number of PLRs flooding in

4. File Form 706 after the death of the first-to-die spouse

D. Importance of Estate Planning

1. When was the last time you reviewed your documents?

   a) Do the documents align with your current goals

   b) Have circumstances changed?

   c) Are the individual(s) you've requested to be in charge of your affairs still appropriate?

d) Five D's

(1) Death

(2) Divorce

(3) Disability

(4) Disagreement

(5) Decade

2. Basic Documents

a) Financial POA

b) Health Care Power of Attorney

c) Traditional Will

d) Revocable Living Trust

3. Others

a) Special Needs Trust

b) Irrevocable Trusts

c) Real Estate

4. Probate

a) Beneficiary designation on, say, brokerage account or an IRA, avoids probate

b) Every estate which runs through probate must have a Closing Certificate

(1) Communicate with client—who is filing for the Closing Certificate

5. Importance of General Durable Power of Attorney

a) A recent presentation by a local estate planning attorney emphasized the importance of having a good, though financial durable POA

(1) Outside the initial emergency, Spouse cannot speak for you and a parent does not speak for a child over age 18

(a) Save your family from trouble of guardianship court and have this document for everyone in your family over 18

X. Selected Business Topics

A. Temporary 100% Deduction for Business Meals Provided by a Restaurant (Consolidated Appropriations Act and IRS Notice 2021-25)

1. This was temporary increase from 50% to 100% was effective for 2021 and 2022 (only)

2. Back to 50% deductibility for 2023

3. Wisconsin = Federal 50%

B. Standard Mileage Rates

Cents per mile

	2024	2023	2022 2nd 6 mths	2022 1st 6 mths	2021	2020	2019
Business	67	65.5	62.5	58.5	56	57.5	58
Medical/Moving*	21	22	18	18	16	17	20
Charitable	14	14	14	14	14	14	14

*Moving: For purposes of qualified active duty members of the Armed Forces

C. Depreciation

1. 179 Expense Limitation

   a) 2023 §179 limit will be $1,160,000 on investments limited to $2,890,000

   b) Wisconsin conforms to Federal on the §179 deduction

2. Bonus Depreciation (TCJA)

   a) Federal: 100% bonus depreciation expense on short lived new & used machinery and equipment purchased and placed in service 9/28/17 - 1/1/23 with phase out over 4 years thereafter

      (1) Property acquired 9/28/17 – 12/31/22 100%

      (2) 2023 80%

      (3) 2024 60%

      (4) 2025 40%

      (5) 2026 20%

      (6) 2027 None

   b) With the phase down, pay attention to Placed In Service rules (Reg. 1.167(a)-11(e)(1)

   c)  Wisconsin DOES NOT conform to Federal for Bonus Depreciation

      (1) Creating an add back of the federal bonus depreciation on current year additions and deducting annual depreciation on prior year additions where bonus had previously been taken for federal purposes

D. Business Interest Expense Limitation (TCJA and CARES) §163(j)

1. Business interest deduction limited to sum of

   a) Business interest income

   b) 30% of ATI &

   c) Floor plan financing interest

2. Depreciation is no longer an addback in computing ATI, beginning in 2022

3. Small business not subject to limit, nor are electing real property nor farming businesses

   a) Small business exception: Average annual gross receipts < $25 million (inflation adjusted)

4. Pay attention to the details on K-1s!

E. NOLs (TCJA and CARES)

1. NOLs generated in 2021 and 2022 return to prior law and may only be carried forward
   a) No carryback
   b) 80% limitation
2. Covid temporary five-year carryback period applied for NOLs arising in 2018, 2019, 2020

F. Recent Court Cases of Interest:

1. Advertising Expenses: IRS prevail in Tax Court
   a) An attorney in Colorado was denied $303,000 in advertising deductions for 2008-2013
      (1) All amounts were round dollars, relating to racing car activity, which Tp asserted promoted his litigation practice
      (2) IRS argued that the expenses were either non substantiated or not ordinary and necessary under §162 ; Tp was unable to show the court that the racing had any synergy with his Denver-based litigation practice
         (a) Racing as a good conversation started did not make it a deductible advertising expense for his law practice
   b) James William Avery v. Commissioner, US Tax Court Docket No 23237-18L 9/25/23
2. Case related to adequate record keeping
   a) Court denied deductions where “scant evidence” of expenses claimed on his reconstructed P&:L
   b) Barrios TC Memo 2023-32 (3/14/23)
3. Court denied mileage deductions due to inconsistencies, alterations and false claims of business travel when the travel was related to leisure (Mitchell v. Commissioner, TC Summary Opinion 2023-9)
4. CPA denied numerous claimed business expenses on Schedule C for lack of substantiation (Amundsen v Commissioner, TC Memo 2023-26

a) Tp was As a result of the disallowance, received a penalty for substantial understatement of income tax (Amundsen v. Commissioner, TC Summary Opinion 2023-30)

b) Similar ruling for an attorney who lacked adequate records (McPherson vs Commissioner, Tax Court Bench Opinion

5. QuickBooks summaries are insufficient substantiation for refund

   a) Kouza, No 21-12790 (ED MI, 10/30/23/)

6. Physician could not deduct legal fees as a business expense where they related to an arrest for the alleged abuse of a minor

   a) Keeton V Commissioner, TC Memo 2023-35

7. Home office deduction denied

   a) S Corp owned by several docs/medical professionals operated a Planet Fitness franchise

   b) S Corp claimed rent deductions for rent paid to three shareholders for use of their homes for meetings (3 meetings per month, one at each of these s/h home's)

   c) Rent was determined based upon hotel meeting room rental (but of larger spaces)

   d) S/H did not report the rental income, citing the rental of homes under 14 days or less 280(A)(g) exclusion

   e) Court allowed some of the meetings where documentation produced, but backed off dollar amount

      (1) Rent needed to be realistic and have a business purpose

      (2) Issuances of 1099-MISC was not addressed

   f) Sinopolo, TC Memo 2023-105 (8/14/23)

G. Digital Assets and: $10,000 Cash Form, 15 days

1. §6050I modified to include receipt of digital assets for reports due in 2024

2. Begins 12/18/23, unless extended

3. See IRS Form 8300 Reference Guide

   a) IRS Form 8300 Reference Guide | Internal Revenue Service

   b) Form 8300 now required to be filed electronically

4. Civil and criminal penalties for failure to file

H. Marijuana Business

1. Technically pot is illegal at the Federal level

2. Proposal: HHS recommended that DEA reschedule marijuana from Schedule I to III under the Controlled Substance Act

    a) Schedule I and II (but not III) are denied deductions and credits under §280E

3. This hasn't happened—but a proposal is on the table

4. On this vein: IRS seems to be leaning towards allowing the §199A QBI deduction for cannabis businesses, since the deduction is neither paid nor incurred

    a) 2/10/23 American Bar Association meeting

I. Corporate Transparency Act (Within National Defense Authorization Act for Fiscal Year 2021, Passed 1/1/21 on Congressional override of Pres Trump's veto)

1. Who: Most closely held LLCs and corporations

2. What: Reporting of beneficial owners

3. When: Effective January 1, 2024

4. Where: Reporting is through FinCen (Financial Crimes Enforcement Network, a bureau of the Department of the Treasury

5. Why: Database of companies beneficial ownership information to be sued for law enforcement purposes, aimed to protect US national security and to safeguard the US financial system from illicit use

6. How much: No filing fee

7. Specifically:

    a) Definition of "reporting company" is complex and may include many small businesses, middle market businesses, and sole practitioners

        (1) Most exemptions are reserved for entities that are already subject to substantial federal or state regulation

(2) CPA firms are listed among the 23 exemptions

(a) Also exempt: Inactive entities & tax exempt entities.

(b) Full list of exemptions: https://www.fincen.gov/boi-faqs#B_1

b) Domestic and foreign corporations, LLPs, Limited partnerships, LLPs, and other entities created by filing of a document with the secretary of state (or similar office)

(1) General partnership that have not filed formation documents with state are not required to report

(2) Large operating company exception
  (a) > 20 full time US employees
  (b) which has filed income tax or information return in the US for the previous year demonstrating > $5m in gross receipts
  (c) AND operates a physical office within the US

c) Initial report includes
  (1) Full legal name of the company
    (a) Any trade name or DBA
  (2) Complete current US address
  (3) State of formation
  (4) EIN or TIN for foreign reporting company
  (5) Beneficial owner info (BOI)
    (a) Natural person/human being
    (b) Defined as: > 25% ownership interest or who exercises substantial control over the reporting company
      (i) Substantial Control:
      Senior officer; has authority over the appointment or removal of any senior officer or a majority of the BOD or directs determines or has substantial influence over important decisions including those regarding the nature, scope and attributes of the business of the reporting company
      (ii) Example: officer or director of the reporting company
  (6) Reporting the following about the beneficial owners
    (a) Full legal name of the individual
    (b) DOB
    (c) Complete current residential address of the individual
    (d) Unique identifying number (such as passport, DL or certain other governmental documents)
    (e) An image of one of the specified documents (DL, passport, or more)

d) Deadlines

  (1) Entities created before 1/1/24: initial report will be due on or before 1/1/25

  (2) Entities created in 2024 or after: 90 calendar days from date of creation/registration

    (a) Note: This was extended from 30 to 90 days on 11/29/23

e) Updated or corrected reports due 30 days after change in information

  (1) Initial report in 2024, and then updated any time there is a change

  (2) No annual reporting requirement

    (a) https://www.fincen.gov/boi-faqs

f) System: BOSS database (Beneficial Ownership Secure System)

8. These are the general rules, applicable to most of our clients--for specifics, such as ownership, definition of 90 days etc, research this matter more closely

9. Penalties:

a) Both civil and criminal can apply

b) $500 per day penalty for willful failure to file, up to $10,000 and imprisonment up to two years

10. FinCen estimates 32.6 million entities will be required to file this first year

11. Why should we care?

a) The Act poses significant potential professional liability risks for CPAs

  (1) Client gets assessed penalties for failure to comply or update, who do you think they will blame?

  (2) Further exposure to the CPA for providing incomplete “quick answers“ to complex situations

    (a) Not only could the advice be wrong, it could be straying into the ‘practice of law’

      (i) Accountants are able to interpret tax law under Title 26 of the US> Code (ie the Internal Revenue Code), however this Act falls under Title 31

b) CPAs should include a specific provision in all engagement letters disclaiming a responsibility to provide assistance under the Corporate Transparency Act, unless specifically engaged, under a separate engagement letter

c) Your liability insurance protects you from errors and omissions in the delivery of professional services included in the practice of public accounting—how this Act fits in is not yet clear

12. Action required:

a) CPAs should send a newsletter or other general client notification letter to all clients informing them of the Act and its reporting requirements

(1) For liability purposes, retain a copy of the newsletter and the distribution list

b) Paragraph should be included in all engagement letters, regardless of service, disclaiming responsibility

c) Consider adding this to firm checklists for new clients

(1) Is the potential client in compliance with Corporate Transparency Act" and do they have legal counsel to assist

d) If you are considering performing this service for clients, check with your malpractice carrier

Sample Engagement Letter Paragraph

Corporate Transparency Act/Beneficial Ownership Reporting
Assisting you with your compliance with the Corporate Transparency Act ("CTA"), including beneficial ownership information ("BOI") reporting, is not within the scope of this engagement. You have sole responsibility for your compliance with the CTA, including its BOI reporting requirements and the collection of relevant ownership information. We shall have no liability resulting from your failure to comply with CTA. Information regarding the BOI reporting requirements can be found at https://www.fincen.gov/boi. Consider consulting with legal counsel if you have questions regarding the applicability of the CTA's reporting requirements and issues surrounding the collection of relevant ownership information.

13. Good article by AICPA member insurance program: What accounting firms need to know about the Corporate Transparency Act | AICPA (cpai.com) https://www.cpai.com/Education-Resources/my-firm/Tax-Services/What-accounting-firms-need-to-know-about-CTA?refID=renew&utm_source=internal&utm_medium=email&utm_campaign=Risk_Report_nov_2023_nonph&utm_term=&utm_content=

14. Or the American The Corporate Transparency Act: Tidbits for Tax Practitioners (americanbar.org) https://www.americanbar.org/groups/taxation/publications/abataxtimes_home/23win/23win-prp-graff-cta/

15. FinCEN website has numerous resources

    a) Including BOI reporting FAQ Beneficial Ownership Information Reporting | FinCEN.gov https://www.fincen.gov/boi-faqs

J. ERC Claims was #1 on the IRS 2023 Dirty Dozen List

1. "The aggressive marketing of the Employee Retention Credit continues preying on innocent businesses and others," said IRS Commissioner Danny Werfel.

2. Stopped processing new ERC claims through end of 2023 (IR 2023-169 9/14/23)

3. If you have a client whose claim may be inappropriate, and processing has not yet begun, still time to withdraw the claim with no questions asked

    a) Details at https://www.irs.gov/newsroom/withdraw-an-employee-retention-credit-erc-claim

K. ERC Voluntary Disclosure Program

1. Employers who received questionable!! Employee Retention Credits may pay the funds back

    a) 80% repayment!

        (1) 80% was selected as the repayment because the promoters of the credit mills took a cut

    b) Without interest or penalty

    c) Installment payment program may be available to those unable to make the repayment at the time of signing the closing agreement

2. Program ends March 22, 2024

3. IRS continues to encourage those whose claims have not yet been processed to withdrawn dubious claims

4. See IRS FAQ for more info: Frequently asked questions about the Employee Retention Credit Voluntary Disclosure Program | Internal Revenue Service (irs.gov)

L. QuickBooks Desktop

1. Effective 7/31/24 QB will no longer sell new desktop subscriptions

M. Digital Assets

1. Watch for the addition of a new question on digital assets to drafts of Form 1065 and 1120S

   At any time during this tax year, did the partnership/corporation (a) receive (as a reward, aware, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or financial interest in a digital asset)? See instructions

N. Form 1099 Information Returns

1. New, free, online portal for businesses with an EIN to file 1099s

2. See IRS Pub 5717 for info on IRS Information Returns Intake System (IRIS)

O. Expenses Research & Experimentation

1. Beyond the scope of this seminar

2. If your company has research expenses, be sure you are monitoring the capitalization of research expenses

P. More Fun Facts from the IRS Statistics pages

1. Tps who file on extension (think more complex returns) represent generally 84% of total AGI and 80% of tax liability that will be reported for all individuals for the tax year

2. In the 2021 filing season, 154 million Form 1040s were filed

    a) 147 million of 154m total filed (95%) 1040 returns were filed electronically

    b) 122m of the 154m returns filed (79%) reported salaries and wages, 47m of the 154 m returns (30%) reported some amount of interest, and 31m (20%) reported dividends

    c) 17.4% reported income on Schedule C

    d) 2.5m (1.6%) reported Premium Tax Credit Repayment totaling $3.7m (an average of $1,467)

    e) 7.7 m returns reported education credits and 10.5m returns reported Foreign Tax Credit (5% and 6.7% respectively)

    f) Tps who file on extension (Form 4868) (more complex returns) represent generally 84% of total AGI and 80% of tax liability that will be reported for all individual filers for the year

XI. Wisconsin: Selected New and Recent Legislation,

A. Wisconsin follows the IRC as of 12/31/22, with certain exceptions

1. Depreciation & amortization using IRS in effect on 1/1/14, with certain exceptions
    a) Notably, Wisconsin does not follow bonus depreciation, though it does follow Federal 179
2. Earned income credit enhancements (from ARPA) not applicable in Wisconsin
    a) Federal: Investment income limit was raised to $10,000 (adjusted annually for inflation); Wisconsin remains at $3,800 for 2022
    b) Federal ARPA allows certain married individuals to claim EIC (Files separately from spouse and lives apart from spouse for the last 6 months of the year or has a divorce/separation agreement by end of the tax year
3. ARPA Excess business loss limitations (IRC 461(l))
    a) For federal purposes extended through 12/31/28
    b) This provision was never adopted by Wisconsin
4. Student loan forgiveness
    a) Federal ARPA provided certain student loans discharged in tax years 2021 – 2025 are excluded for federal purposes
    b) Wisconsin follows law as of 12/31/20 which excludes only student loan discharges on account of death or total and permanent disability
        (1) Also, Wisconsin follows the forgiveness exclusion for certain professions (public service loan forgiveness program)

c) Any forgiveness excluded for Federal but taxable in Wisconsin should be an addition adjustment on Schedule I

B. Capital Loss Deduction (2021 Wisconsin Act 157)

1. **NEW**: Effective 2023
2. Wisconsin capital losses limit will be increased to the federal limit of $3,000, changed from the current $500 limit
3. Applies to individuals, and pass-through entities making the entity-level election
4. So, many Tps will have different Federal and Wisconsin loss c/f for the next few years, but eventually these old loss c/f should even out, and new loss c/f will be the same for Federal and Wisconsin purposes

C. Military Pay Subtraction (2021 Wis Act 58)

1. Subtraction for basic, special or incentive pay received from the federal government under 37 USC chapters 3 and 5 while the individual is on active duty in the US Armed Forces
2. Subtraction allowed for ACTIVE-duty military pay; not allowed for inactive duty training (drill pay)
3. Effective 2021
4. See also Publication 128, Wisconsin Tax Information for Military Personnel and Veterans or Fact Sheet 1118

D. Wisconsin Same as Federal:

1. Increase to educator expenses $300 (Effective 2022, no change for 2023)
2. Meals Expense 50%
3. Transportation fringe benefits, excludable from employee 2023 wages
   a) $300 per month for qualified parking
   b) $300 per month for commuter highway vehicle transportation and transit passes

E. Child and Dependent Care Credit (2021 Wis Act 58)

1. The previous subtraction was replaced by a credit
2. Effective tax year 2022
3. Credit allowed equal to 50% of the federal child and dependent care credit (IRC 21)
4. Not available to part-year or non-residents; If married must file joint return unless considered not married
5. Credit appears on line 14, between the Itemized Deduction Credit and School Property Tax Credit:

F. College Savings Subtraction (EdVest)

1. $3,860 ($1,930 MFS) (Increase from $3,560 in 2022)

G. Wisconsin Tuition and Fees Subtraction

1. Subtraction for Wisconsin tuition is $6,974 (Down $2 from 2022)
2. See Phase out: MFJ $104-$130k; S $65-$78k; MFS $52-$65k
3. Reminder: Qualified Wisconsin schools only

H. Recent Court Cases of Interest:

1. 10% Early withdrawal penalty
    a) Tp took a distribution from his 401(k) to buy his first home
    b) IRS includes an exception to the 10% withdrawal penalty for first time homebuyers for up to $10,000 in distributions from and IRA, a provision with Wisconsin follows
    c) This Tps withdrawal was from his 401(k), NOT an IRA
    d) Scott Cech v. Wisconsin Department of Revenue (WTAC June 5, 2023)

XII. Wisconsin: Procedures and Miscellaneous

A. Decrease in Tax Rates (Individuals and Fiduciaries)

1. Lowest two brackets decreased
2. First bracket: 3.54% to 3.5% and
    a) Savings of $7.37 for MFJ, if I've done my math correctly
3. Second bracket: 4.65% Decrease to 4.4%
    a) A Savings of $46.05, again, if I did the math correctly
4. 2023 Rates

For single taxpayers, taxpayers qualified to file as head of household, estates, and trusts with taxable income:

over	but not over	2023 tax is	of the amount over
$0	$13,810	3.50%	$0
$13,810	$27,630	$483.35 + 4.40%	$13,810
$27,630	$304,170	$1,091.43 + 5.3%	$27,630
$304,170		$15,748.05 + 7.65%	$304,170

For married taxpayers filing a joint return with taxable income:

over	but not over	2023 tax is	of the amount over
$0	$18,420	3.50%	$0
$18,420	$36,840	$644.70 + 4.40%	$18,420
$36,840	$405,550	$1,455.18 + 5.3%	$36,840
$405,550		$20,996.81 + 7.65%	$405,550

B. Mailing Address for Payments

1. Last year the longstanding DOR payment address of PO Box 93208 was replaced with PO Box 3028
2. Heads up: The Post Office will no longer forward mail sent to the old address, which could result in late payment, interest and penalties

C. Federal Changes

1. Reminder: If the IRS has changed your federal return, you have 180 days to notify Wisconsin DOR of the change (this increased in 2021 from 90 days)

D. Qualified Opportunity Fund (QOF)

1. Wisconsin follows federal tax benefits
2. In addition, Wisconsin has its own QOF zones which result in additional Wisconsin subtraction or basis modification
3. See Fact Sheet 1121 or DOR FAQ for more info on procedures

E. Miscellaneous Reminders from the DOR:

1. Credit for Taxes Paid to Another State
    a) Does not apply to wages earned from reciprocity state
        (1) Illinois, Indiana, Kentucky, and Michigan
        (2) If Tp has other state's taxes withheld, must file in that state to obtain a refund of the withholding
            (a) And talk with HR to change your withholding
2. Include all schedules and attachments with the return
    a) K-1s should be attached to e-filed returns as a pdf attachment
3. Omit non-taxable wages, such as excludable military pay, from the Married Couples Credit
4. Veterans and Surviving Spouses Property Tax Credit
    a) Property taxes must be paid by 12/31
    b) If veteran dies during the year, surviving spouse must get recertification from the DVA
5. Check FEINs on W-2s—software auto fills, and employers may change FEIN
6. Farmland preservation Claims—do not include dashes in the number on Sch FC-A and Sch FC
7. Schedule H is no longer available in WI e-file (effective 2022); Now filed on My Tax Account
    a) See instructions for circumstances resulting in inability to use My Tax Account for e-filing Schedule H

F. My Tax Account (MTA): DOR is encouraging Tps to register an MTA for personal users

1. Electronic notice delivery, make/view/cancel estimated tax payments, and more

2. Optional Identity PINs available through My Tax Account

   a) Once enrolled, must use Wisconsin Identity PIN on all future returns

   b) Wisconsin PIN is different from Federal and also expires 12/31 annual; new PIN issued in January

   c) Practitioners cannot register for My Tax Account and request PIN on client's behalf—taxpayer mist sign up themselves

   d) For more info:

      (1) https://www.revenue.wi.gov/Pages/FAQS/IP-PIN.aspx

3. MTA: My Case Manager to help make the audit process smoother

   a) See Publication 701, My Case Manager User Guide

G. Annual DOR Wisconsin Tax Update for Tax Professionals

1. Slide deck available on line

   a) https://www.revenue.wi.gov/Documents/2023-Wisconsin-Tax-Update-Slides.pdf

H. Wisconsin Practitioner (only) Contact Info

1. DORTaxPractitioners@wisconsin.gov

2. 608-264-6886

I. Fun Statistics from DOR Tax Update and 2023 Wisconsin Tax Bulletins

Wisconsin Tax Return Donations

Fund	Donation Amount	Use of Donations
Endangered Resources Fund	$333,490	Protect and manage native plant and animal species, natural communities, and other natural features
Cancer Research Fund	$186,697	Donations divided equally between the Medical College of Wisconsin, Inc., and University of Wisconsin Carbone Cancer Center for cancer research projects
Veterans Trust Fund	$116,775	Used by the Wisconsin Department of Veterans Affairs for the benefit of veterans or their dependents
Multiple Sclerosis Fund	$77,673	Forwarded to the National Multiple Sclerosis Society for distribution to Wisconsin entities that operate health-related programs for people in Wisconsin with multiple sclerosis
Military Family Relief Fund	$125,840	Used by the Wisconsin Department of Military Affairs to provide financial aid to eligible immediate family members of Wisconsin residents on active duty in the U.S. Armed Forces or National Guard
Second Harvest/Feed America Fund	$227,919	Donations divided as follows: 65% to Feeding America Eastern Wisconsin (located in Milwaukee); 20% to Second Harvest Foodbank of Southern Wisconsin (located in Madison); and 15% to Feed My People (located in Eau Claire). The food banks provide food to food pantries, meal programs, shelters, and soup kitchens throughout the state
Red Cross Wisconsin Disaster Relief Fund	$152,643	Used by the American Red Cross for Wisconsin disaster relief
Special Olympics Wisconsin Fund	$107,820	Forwarded to Special Olympics Wisconsin, Inc.

Source: Wisconsin Tax Bulletin 220, January 2023

Commonly Used Individual Franchise/Income Tax Credits, Tax Year 2021 (Statistics as of February 16, 2023)				
Individual Income Tax Credits	**Number of Claimants Using Credit**	**Amount of Credit Used**	**Credit Available**	**Credit Carried Forward**
Taxes paid to other states credit	81,789	$459,295,412	$474,843,648	No carryforward
School property tax credit	1,798,031	$443,664,380	$511,925,346	No carryforward
Itemized deduction credit	618,669	$305,496,454	$601,769,830	No carryforward
Manufacturing credit	6,036	$306,135,683	$573,336,660	$267,200,977
Married couple credit	618,952	$258,920,052	$262,919,821	No carryforward
Earned income credit	198,816	$76,532,468	Refundable	
Homestead credit	102,516	$50,027,234	Refundable	
Veterans and surviving spouses property tax credit	12,935	$43,528,470	Refundable	
Nonrefundable research expense credit	3,761	$25,283,059	$66,286,464	$41,003,405
Agriculture credit	5,283	$19,794,022	$81,694,582	$61,900,560

Source: Wisconsin Tax Bulletin 222, July 2023

XIII. Wisconsin: Selected Business Updates

A. New Local Sales Taxes in City of Milwaukee and an Increase to Milwaukee County Sales Tax

1. City of Milwaukee
   a) New total rate 7.9% (5.0% state + .5 Milwaukee County + .4% Increased County + 2% City)
2. County (Beyond Milwaukee city limits)
   a) New total rate 5.9% (5.0% state + ..5 Milwaukee Prior County + .4% Increased County)
3. See Also DOR Fact Sheet 2414 Milwaukee Sales and Use Taxes
4. Effective for sales and purchases after January 1, 2024
5. Applies to retailers registered to collect Wisconsin sales and use tax making sales to those locations, regardless of retailer's location

B. Retailer's Discount Increased (2023 Wis Act 19)

1. Discount increased form .5% to .75%
2. Limit of retailer's discount increase from $1,000 to $8,000 per reporting period
3. Computation
   a) Sales $0 - $10: Discount is equal to the total sales tax
   b) Sales $10 - $1,333; Discount is $10
   c) Sales > $1,333 discount is .75%, limited to $8,000 per reporting period
4. Effective for taxes payable on or after 10/1/23

C. Wisconsin Sales Tax Rate and Boundary Database Files

1. https://www.revenue.wi.gov/Pages/SSTP/ratebound.aspx
2. Look up by street address & Zip Code:
   a) https://www.revenue.wi.gov/Pages/Apps/strb.aspx

D. Personal Property Tax Repealed (2023 Wis. Act 12)

1. Effective with tax assessments as of January 1, 2024
   a) Thus NO Personal Property Tax Returns required this coming spring (Form M-P, M-L)
   b) Final personal property tax bills mailed in December 2023, due by January 31, 2024
2. Act created aid payments to taxing jurisdictions for the loss of property tax revenue
3. M-R forms for Manufacturing Property Assessment (real property) are still required and are now filed within My Tax Account

E. Pass-Through Entity Representative

1. State's Tax Update slide deck says that if we didn't designate a pass through representative, they'll send a written request which Tp has 60 days to respond to, else DOR may designate
2. Can also file Form PT-% or a written statement designating a PTR to DORAuditPassThrough@wisconsin.gov

F. Research Credit

1. Increase to the refundable portion of the Research Credit, effective years beginning after 1/1/24
2. DOR issued Publication 131 in August, 2023 updating guidance on tax incentives for research

G. Pass-Through Entity Election to Pay Tax at the Entity Level

1. Some fun statistics from the DOR:
   a) What percentage of pass throughs paid the tax at the entity level?
   b) 6.97% of the 86,789 S Corporation returns filed and 3.52% of the 85,382 partnership returns filed in 2021 tax year

H. Qualified Wisconsin Business Exclusion

1. LT Capital Gain Exclusion for qualifying investments
   a) Investment made after 12/31/10 in a qualified Wisconsin business, held at least five uninterrupted years
   b) Business has at least 2 full time employees, Wisconsin payroll is at least 50% of all payroll and at least 50% of the value of all real and tangible personal property owned or rented is in Wisconsin
      (1) Excludes disregarded entities such as Single Member LLCs
2. Business must register EACH YEAR it desires to be a qualified Wisconsin Investment Business
   a) Registration for 2023 is due 1/2/24
   b) https://tap.revenue.wi.gov/QualBus/_
3. See Schedule QI, Sale of Investment in Qualified Wisconsin Business
4. Recommend that your clients register their new entities—no downside

I. Pass-through Withholding

1. Couple of cases in 2022 and 2023 reminding us of the pass-through withholding requirements
   a) Need to file the loss returns if you want to use the losses against later income
   b) Failure to withhold on out of state partners' income or pay the fiduciary tax, means trouble (in the form of taxes, interest and penalties)
   c) The withholding tax is different from income/franchise tax—withholding is required even if the nonresidents do not have a Wisconsin income tax filing requirement
   d) See cases:
      (1) RADS Partnership et al vs Wis DOR (Wis Tax Appeals Comm 8/16/22)
      (2) MacKinney Systems vs Wis DOR (Wis Tax Appeals Comm, 3/16/22)

J. Unclaimed Property Reporting

1. Holder reports are due annually on November 1st for the prior fiscal year (July 1 – June 30)
    a) Sixty day extensions available upon request, request through My Tax Account
    b) Late filed reports subject to $150 penalty
2. Unclaimed property is generally a financial asset belonging to an individual, business owner, or government that hasn't had owner activity for a specified period of time (varies by property type) and the holder is unable to contact the owner
    a) Examples: Uncashed checks, safe deposit contents, etc.
    b) The holder must report and remit the property to the DOR who acts as custodian
    c) The DOR has an auto-matching program which compares unclaimed property information to tax records and automatically pays the owner if the value is < $2,000 or sends a letter to submit a claim where the value is > $2,000
3. Voluntary disclosure program ended 2/28/22
    a) Total of 740 agreements were completed through the thirteen month program
4. Recent law reduced the maximum fee a locator service may charge from 20% to 10% of the actual value of the property

XIV. Tax Professionals

A. Renew your Wisconsin CPA license

1. Expires 12/14/23

2. New system

B. PTIN Renewal

1. 800,000 active tax return preparers, per IRS new release dtd 10/24/23

2. $19.75 this year, down from $30.75 last year

   a) $11 user fee to the IRS and $8.75 to the third party contractor administering the online process

3. Double check the number of returns processed under your PTIN while you are in your account, to be sure someone else wasn't scamming the IRS under your PTIN

C. Written Information Security Plan (WISP)

1. Security Summit partners released sample security plan designed to help small practitioners protect their data and information, August 2022

   a) IRS Publication 5708, Creating a Written Information Security Plan for your Tax & Accounting Practice

      (1) 29-page template created by members of the Security summit including tax professionals, software and industry partners, representative s from state groups and the IRS

D. Updates for Tax Professionals

1. Register for IRS Milwaukee Office Stakeholder's Liaison Monthly Mailing

   a) Send an email to Michael.Smith6@irs.gov requesting to be added to his tax professionals mailing list

2. Register for national IRS Office emails

   a) https://www.irs.gov/newsroom/e-news-subscriptionsRegister for DOR emails

3. Register for applicable DOR mailing lists

   a) https://www.revenue.wi.gov/Pages/HTML/lists.aspxbscribe to DOR E-News (wi.gov)

   b) Also be sure to read the quarterly Wisconsin Tax Bulletins, also available under the Tax Professionals tab

4. Free CPE for Tax Professionals

   a) https://www.irs.gov/businesses/small-businesses-self-employed/webinars-for-tax-practitioners

      (1) Includes 2 hours of ethics

E. Be Aware: Your Accounting Firm is a Target!

1. Your firm holds valuable client data and e-filing credentials which make you a target of cybercriminals

2. Spear phishing scams from those posing as clients, potential clients, tax software or cloud storage providers and the IRS are common

   Educate yourselves and your employees

3. Be on the lookout for:

   a) Increase in rejects because a return was already filed

   b) Clients receiving IRS or state authentication letters when they haven't filed a return yet

   c) Clients receive unexpected refunds, transcripts or notices about IRS online accounts

   d) Number of returns filed with your e-fin or PTIN exceeds the number you've submitted

   e) You receive responses to emails you didn't send

   f) Unusual computer activity such as running slower, lockouts or moving curser

4. Data breach reporting: IRS Stakeholder liaison, who will notify IRS Criminal investigation and others

   a) CL.SL.Area6@irs.gov or 206-946-3703

   b) DORIDTheft@Wiscvonsin.gov

   c) Other states

   d) Local law enforcement

   e) Affected staff and clients: See Wisconsin Data Breach Notification Law guide

   f) Insurance Company

5. New Identify Theft reporting form: Form ID-100 Identity Theft Declaration (created June 2023)

F. ChatGPT

1. Be cautious when using ChatGPT for tax related questions

   a) Database is old (so wouldn't include updated legislation)

   b) Answers can be inconsistent

   c) Sometimes fabricates answers

2. Promising technology that needs to be coupled with actual tax research by experienced tax professionals

3. Give it a try

   a) ChatGPT 3.5 is free (fee for ChatGPT 4)

   b) openai.com

G. Corporate Transparency Act

1. Go back and read the warnings under the included under Selected Business Topics above

H. Form 8822-B Change of Address or Responsible Party

1. File this Form with the IRS to change the responsible party

   a) Instructions to the form state an entity with an EIN must report a change in responsible party within 60 days of change

2. Failure to file the Form may result in unexpected consequences:

   a) Example: You are a Controller and leaving for a new job or you are the owner and sell the business. Responsible party penalties could be assessed on YOU if the successor fails to remit payroll tax deposits!

XV. DISCLAIMER

This material contains current legislation and updates through December 3, 2023. Great effort has been made to offer the most current, correct and clearly stated information herein.

This outline is written in general terms and is not intended to be all-inclusive—only selected provisions were discussed, in summary format. There are MANY, many details not included here.

This outline is written for professionals with a general knowledge of tax law and intended to give participants basic information on changes to the more common areas of tax law affecting individuals and is intended to serve as a springboard for the participants' own personal study and research, and is not a substitute for professional research, nor should it be used as a basis for any decision or action. Participants are encouraged to conduct their own independent research as the impact and application of tax law can vary widely from case to case based upon unique facts and circumstances. Sites have been provided to guide you to the appropriate legislation for further reading.

The information provided in this outline is intended as general guidance and not intended to serve as legal, accounting or tax advice under Circular 230.

While all reasonable care has been taken in the preparation of this outline, the author accepts no responsibility for any errors it may contain or for any losses sustained by any person or entity relying on this outline.

That is: Consult Your Tax Advisor!

APPENDIX A: Numbers to Know

RELATING TO STANDARD DEDUCTION AND PERSONAL EXEMPTION

	2024	2023	2022	2021	2020	2019	2018	2017
Standard Deduction								
Single		$ 13,850	$ 12,950	$ 12,550	$ 12,400	$ 12,200	$ 12,000	$ 6,350
Married Filing Joint, surviving spouse		27,700	25,900	25,100	24,800	24,400	24,000	12,700
Head of Household		20,800	19,400	18,800	18,650	18,350	18,000	9,350
Married Filing Separate		13,850	12,950	12,550	12,400	12,200	12,000	6,350
Additional Standard Deduction for Elderly & Blind								
Unmarried and not a surviving spouse		1,850	1,750	1,650	1,650	1,650	1,600	1,550
Married (each) and surviving spouse		1,500	1,400	1,350	1,300	1,300	1,300	1,250
Dependent of another		n/a	n/a	n/a	n/a	n/a	n/a	1,050
2017: Greater of $1,050 or $350 plus earned income, limited to reg std ded								
Personal & Dependency Exemption		$0	$0	$0	$0	$0	$0	4,050
Tracking, for other areas of the code		4,700	4,400	4,300	$ 4,300	$ 4,200	$ 4,150	
Haircut Phase-outs Begin at AGI of								
Itemized Deductions (Pease Limitation)								
MFJ	n/a	n/a	n/a	n/a	n/a	n/a	n/a	313,800
HH	n/a	n/a	n/a	n/a	n/a	n/a	n/a	287,650
S	n/a	n/a	n/a	n/a	n/a	n/a	n/a	261,500
MFS	n/a	n/a	n/a	n/a	n/a	n/a	n/a	156,900
Personal Exemptions Phase out range (PEP)								
MFJ: Beginning	n/a	n/a	n/a	n/a	n/a	n/a	n/a	313,800
MFJ Ending	n/a	n/a	n/a	n/a	n/a	n/a	n/a	436,300
S: Beginning	n/a	n/a	n/a	n/a	n/a	n/a	n/a	261,500
S: Ending	n/a	n/a	n/a	n/a	n/a	n/a	n/a	384,000
HOH: Beginning	n/a	n/a	n/a	n/a	n/a	n/a	n/a	287,650
HOH: Ending	n/a	n/a	n/a	n/a	n/a	n/a	n/a	410,150

PEP & Pease limitations are scheduled to return after 2025 (TCJA)

**** Please Note: Every effort was taken to ensure accuracy of the above figures including updating for new legislation. However, accidents can and do happen. Please use these figures for general purposes only and complete your own independent research before making any decisions based upon these figures. Facts are based upon current law at 12/18/2023--based upon information widely available at this time.***

	2024	2023	2022	2021	2020	2019	2018	2017
RELATING TO INCOME, RATES, CREDITS								
Foreign Earned Income Exclusion	126,500	120,000	112,000	$ 108,700	$ 107,600	$ 105,900	$ 104,100	$ 102,100
Earnings Ceiling for Social Security								
Below full retirement age ($1 in benefits w/h for every $ in earnin	22,320	21,240	19,560	18,960	18,240	17,640	17,040	16,920
Year full retirement age reached	59,520	56,520	51,960	50,520	48,600	46,920	45,360	44,880
Full retirement age	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
FICA Taxable Wages								
OASDI (6.2%) Wage Limit	$ 168,600	$ 160,200	$ 147,000	$ 142,800	$ 137,700	$ 132,900	$ 128,400	$ 127,200
	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
Medicare (1.45%)	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
SE Tax: Same wage limits, double the rates								
Maximum SS Benefits for Working Retiring at Full Retirement A	$3,822/mth	$3,627/mth	$3,345/mth	$3,148/mth	$3,011/mth	$2,861/mth	$2,788/mth	$2,687/mth
Maximum SS Benefits for Working Retiring at age 62	$2,710/mth	$2,572/mth	$2,364/mth		$2,265/mth	$2,209/mth	$2,158/mth	$2,153/mth
Medicare Surcharge Thresholds (Earned Income .9% and NIIT 3.8%)								
Single, Head of Household	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Married Filing Joint	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Married Filing Separately	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
Note: These thresholds are not indexed for inflation								
Capital Gains Rates (Excluding NIIT)								
0%		MFJ < $89,250	MFJ < $83,350	MFJ < $80,000	MFJ < $80,000	MFJ < $78,750		
15%		S $44,626-492,300	41,676-459,750	S $40,401-445,850	S $40,000-441,450	S $39,376-434,550		
20%		MFJ > $553,850	MFJ > $517,200	MFJ > $501,6001	MFJ > $496,601	MFJ > $488,850		
Kiddie Tax on Unearned Income		2,500	2,300	2,200	2,200	2,200	2,100	2,100
$1,150 exemption and $1,150 at their own rates = $2,300								
AMT Exemption								
Single, Head of Household		81,300	75,900	73,600	72,900	71,700	70,300	54,300
Married Filing Jointly or Qualifying Widow(er)		126,500	118,100	114,600	113,400	111,700	109,400	84,500
Married Filing Separate		*63,250*	59,050	57,300	56,700	55,850	54,700	42,250
Child Tax Credit	2,000	2,000	2,000	3,000/3,600	2,000	2,000	2,000	1,000
Phase-out for Child Tax Credit ($2,000 in 2021)				*Temp*				
MFJ Begins	400,000	400,000	400,000	400,000	400,000	400,000	400,000	110,000
S, HH Begins	200,000	200,000	200,000	200,000	200,000	200,000	200,000	75,000
MFS Begins	200,000	200,000	200,000	200,000	200,000	200,000	200,000	55,000
Family Tax Credit (Non-minor dependent)	500	500	500	500	500	500	500	n/a

	2024	2023	2022	2021	2020	2019	2018	2017
RELATING TO CREDITS, continued								
Savers Credit, Max, MFJ	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Phase-out cutoff for Saver's Credit								
MFJ phase-out ends	76,500	73,000	68,000	66,000	65,000	64,000	63,000	62,000
HH ends	57,375	54,750	51,000	49,500	48,750	48,000	47,250	46,500
S, MFS ends	38,250	36,500	34,000	33,000	32,500	32,000	31,500	31,000
Adoption Credit		15,950	14,890	14,440	14,300	14,080	13,840	13,570
Also Adoption Assistance W-2 exclusion	Phase out	$239,230-$279,230						
Estimated Tax Payments AGI > 150,000	110%	110%	110%	110%	110%	110%	110%	110%
RELATING TO EDUCATION								
American Opportunity Credit (Hope Credit) Max	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500
Phase-out Range for American Opportunity Credit								
MFJ Beginning	160,000	160,000	160,000	160,000	160,000	160,000	160,000	160,000
MFJ Ending	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000
S, HH: Beginning	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
S, HH: Ending	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000
No credit for MFS								
Lifetime Learning Credit, Max	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000
Phase-out Range for Lifetime Learning								
MFJ: Beginning	160,000	160,000	160,000	160,000	118,000	116,000	114,000	112,000
MFJ Ending	180,000	180,000	180,000	180,000	138,000	136,000	134,000	132,000
S, HH: Beginning	80,000	80,000	80,000	80,000	59,000	58,000	57,000	56,000
S, HH: Ending	90,000	90,000	90,000	90,000	69,000	68,000	67,000	66,000
No credit for MFS								
Tuition Deduction	*Expired*	*Expired*	*Expired*	*Expired*	4,000	4,000	4,000	4,000
Student Loan Interest Deduction	2,500	2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500
Phase-out Range for Interest on Education Loans								
MFJ: Beginning		150,000	145,000	140,000	140,000	140,000	135,000	135,000
MFJ Ending		180,000	175,000	170,000	170,000	170,000	165,000	165,000
S, HH: Beginning		75,000	70,000	70,000	70,000	70,000	65,000	65,000
S, HH: Ending		90,000	85,000	85,000	85,000	85,000	80,000	80,000
Employer Provided Educational Assistance Exclusion Amount		5,250	5,250	5,250	5,250	5,250	5,250	5,250

	2024	2023	2022	2021	2020	2019	2018	2017
RELATING TO TRANSPORTATION, DEPRECIATION, AND OTHER EXPENSES								
Standard Mileage Rate								
Business	0.67	0.655	0.585/0.625	0.56	0.575	0.58	0.545	0.535
Charitable	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Medical and Moving (Q Active Duty Armed Forces)	0.21	0.22	0.18/0.22	0.16	0.17	0.20	0.18	0.17
Sec 199A Pass Through Deduction (TCJA)	20%	20%	20%	20%	20%	20%	20%	--
QBI Specified Services Trade/Biz: Taxable Income Threshold begins at								
MFJ		364,200	340,100	329,800	326,600	321,400	315,000	--
S		182,100	170,050	164,900	163,300	160,700	157,500	--
Qualified Transportation Fringe (per month)								
Qualified Parking	315	300	280	270	270	265	260	255
Commuter Vehicle & Transit Passes	315	300	280	270	270	265	260	255
							No Bicycle benefits	
Federal §179								
Current Sec 179 Expense	*1,220,000*	1,160,000	1,080,000	$ 1,050,000	$ 1,040,000	$ 1,000,000	$ 1,000,000	$ 510,000
On Asset Purchases	*3,050,000*	2,890,000	2,700,000	2,620,000	2,590,000	2,500,000	2,500,000	2,030,000
Qualified Real Property (See outline for definition)								
SUV Limitation	*30,500*	28,900	27,000	26,200	25,900	25,000	25,000	25,000
Wisconsin §179								
Current Depreciation Expense	Follows	Follows	Follows	Follows	Follows	Follows	Follows	Follows
Investment Limitation	Federal	Federal	Federal	Federal	Federal	Federal	Federal	Federal
Federal Bonus Depreciation	100%	100%	100%	100%	100%	100%	100%	50%
Luxury Auto Depreciation Limits: Autos, 100% Business								
Year 1 (no Code Sec 168(k))		12,200	11,200	10,200	10,100	10,100	10,000	3,160
Year 1 w/ bonus depr		20,200	19,200	18,200	18,100	18,100	18,000	11,160
Year 2		19,500	18,000	16,400	16,100	16,100	16,000	5,100
Year 3		11,700	10,800	9,800	9,700	9,700	9,600	3,050
Year 4 & later		6,960	6,460	5,860	5,760	5,760	5,760	1,875
Excess Business Loss Limitation IRC Sec 461(l)								
Single	305,000	289,000	270,000	262,000	*Provision retroactively delayed via covid*			
Married	610,000	578,000	540,000	524,000	*legislation*			

	2024	2023	2022	2021	2020	2019	2018	2017
RELATING TO MEDICAL EXPENSES								
As an Itemized Deduction				*Permanent*		SECURE ACT		
Regular Tax, Under Age 65	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI
Regular Tax , Over Age 65	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI	7.5% of AGI
Healthcare Flex Spending Accounts		$ 3,050	$ 2,850	$ 2,750	$ 2,750	$ 2,700	$ 2,650	$ 2,600
Health Savings Account (HSA)								
Maximum Contribution for Coverage by High Deductible Plan								
Self	4,150	3,850	3,650	3,600	3,550	3,500	3,450	3,400
Family	8,300	7,750	7,300	7,200	7,100	7,000	6,900	6,750
Age 55 Catch-up	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Minimum Deductible, High Deductible Health Plan								
Self	1,600	1,500	1,400	1,400	1,400	1,350	1,350	1,300
Family	3,200	3,000	2,800	2,800	2,800	2,700	2,700	2,600
Maximum Out-of-pocket, High Deductible Health Plan								
Self	8,050	7,500	7,050	7,000	6,900	6,750	6,650	6,550
Family	16,100	15,000	14,100	14,000	13,800	13,500	13,300	13,100
Medical Savings Account (MSA)								
Minimum Deductible								
Self		2,650	*2,450*	*2,400*	2,350	2,350	2,300	2,250
Family		5,300	*4,950*	*4,800*	4,750	4,650	4,600	4,500
Maximum Deductible								
Self		3,950	*3,600*	*3,600*	3,550	3,500	3,450	3,350
Family		7,900	*7,400*	*7,150*	7,100	7,000	6,850	6,750
Maximum Out-of pocket								
Self		5,300	*4,950*	*4,800*	4,750	4,650	4,600	4,500
Family		9,650	*9,050*	*8,750*	8,650	8,550	8,400	8,250
Eligible Long Term Care Premiums								
< Age 40	470	480	450	450	430	420	420	410
Age 41 - 50	880	890	850	850	810	790	780	770
Age 51 - 60	1,760	1,790	1,690	1,690	1,630	1,580	1,560	1,530
Age 61 - 70	4,710	4,770	4,510	4,520	4,350	4,220	4,160	4,090
> Age 70	5,880	5,960	5,640	5,640	5,430	5,270	5,200	5,110

	2024	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
RELATING TO RETIREMENT PLANS								
Contribution Limits								
401(k), 403(b), 457, SARSEP								
Under age 50	23,000	22,500	20,500	19,500	19,500	19,000	$ 18,500	$ 18,000
Age 50+ (w/ catch-up)	30,500	30,000	27,000	26,000	26,000	25,000	24,500	24,000
SIMPLE IRA								
Under age 50	16,000	15,500	14,000	13,500	13,500	13,000	12,500	12,500
Age 50+ (w/ catch-up)	19,500	19,000	17,000	16,500	16,500	16,000	15,500	15,500
SEP IRA								
Maximum contribution	68,000	66,000	61,000	58,000	57,000	56,000		
Maximum compensation considered for SEP IRA	*345,000*	*330,000*	305,000	290,000	285,000	280,000		
Traditional and ROTH IRA								
Under age 50	7,000	6,500	6,000	6,000	6,000	6,000	5,500	5,500
Age 50+ (w/ catch-up)	8,000	7,500	7,000	7,000	7,000	7,000	6,500	6,500
Traditional IRA Deduction Phase Out								
MFJ	123-143k	116-136k	*109-129k*	105-125k	104-124k	103-123k	101-121k	99-119k
S. HH	77-87k	73-83k	*68-78k*	66-76k	65-75k	64-74k	63-73k	62-72k
Roth IRA Contribution Eligibility: AGI								
MFJ	230-240k	218-228k	*204-214k*	198-208k	196-206k	193-203k	189-199k	186-196k
S, HH, MFS and did not live with spouse at any time	146-161k	138-153k	*129-144k*	125-140k	124-139k	122-137k	120-135k	118-133k
Eligibility for Rollover to Roth IRA: AGI								
MFJ, S, HH	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited
S	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited
Compensation limit (§ 401(a)(17))	*345,000*	*330,000*	305,000	290,000	285,000	280,000	275,000	270,000
Defined Contribution: Limits §415(c)(1)(A)	69,000	66,000	61,000	58,000	57,000	56,000	55,000	54,000
Defined Benefit Limits	*275,000*	*265,000*	245,000	230,000	230,000	225,000	220,000	215,000

	2024	2023	2022	2021	2020	2019	2018	2017
RELATING TO GIFTS AND ESTATES								
Unified Credit Equivalent								
Estate Tax Exemption*	13,610,000	12,920,000	12,060,000	$11,700,000	$11,580,000	$11,400,000	$ 11,180,000	$ 5,490,000
Gift Tax Exemption (Lifetime)	13,610,000	12,920,000	12,060,000	$11,700,000	$11,580,000	$11,400,000	$ 11,180,000	$ 5,490,000
Maximum Estate Tax Rate	40%	40%	40%	40%	40%	40%	40%	40%
Annual Gift Tax Exclusion (Double if gift splitting elected)	18,000	17,000	16,000	$15,000	$15,000	$15,000	$ 15,000	$ 14,000
Remember: Checks written directly to an educational or medical institution are not applied against the annual gift tax exclusion								
Annual gift to non-citizen spouse	185,000	175,000	$ 164,000	$ 159,000	$ 157,000	$ 155,000	$ 152,000	$ 149,000

**** Please Note: Every effort was taken to ensure accuracy of the above figures including updating for new legislation. However, accidents can and do happen. Please use these figures for general purposes only and complete your own independent research before making any decisions based upon these figures. Facts are based upon current law at 12/30/22--based upon information available at this time.***

	2024	2023	2022	2021	2020	2019	2018	2017
WISCONSIN LIMITS, CREDITS, ETC								
Wisconsin Personal Exemption								
Personal Exemption		*700*	$ 700	$ 700	$ 700	$ 700	$ 700	$ 700
Age 65		*250*	250	250	250	250	250	250
Tuition Deduction *(per student)*		6,974	6,976	6,973	6,972	6,974	6,974	$ 6,958
Phase-out range ending for tuition deduction (Indexed for inflation)		*Yes, down $2)*						
MFJ Ending		*130,730*	120,759			111,299	108,380	106,310
S, HH: Ending		*78,440*	72,459			66,779	65,030	63,790
MFS: Ending		*65,370*	60,379			55,649	54,190	53,160
EdVest Contributions (Wisconsin 529)		3,860	3,560	3,380	3,340	3,280	3,200	3,140
If MFS or Divorced parent		1,930	1,780	1,690	1,670	1,640	1,600	1,570
Maximum aggregate contribution limit								456,000
Property Tax Credit Max		300	300	300	300	300	300	300
Married Couple Credit Max		480	480	480	480	480	480	480
WISCONSIN FEDERAL 179								
Current Expense (Higher for Farms)		1,160,000	1,080,000	1,050,000	$ 1,040,000	1,000,000	1,000,000	510,000
Investment Limitation		2,890,000	2,700,000	*2,620,000*	2,590,000	2,500,000	2,500,000	2,030,000
Taxation of Social Security Benefits in Wisconsin								
% taxable in Wisconsin		0%	0%	0%	0%	0%	0%	0%
Generally results in WI modification of		85%	85%	85%	85%	85%	85%	85%
Long Term Capital Gains Exclusion		30%*	30%*	30%*	30%*	30%*	30%*	30%*
*60% for farm assets								
Child Care Expense Subtraction								
One Child		Credit	Credit	3,000	3,000	3,000	3,000	3,000
Two or More		in 2023	in 2022	6,000	6,000	6,000	6,000	6,000
Wisconsin Adoption Expense Deduction		*5000*	5,000	5,000	5,000	5,000	5,000	5,000
Qualified Productions Credit (Mfg & Ag Credit)		7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Private School Tuition Deduction (Schedule PS)								
K-8th Grade, per student		4,000	4,000	4,000	4,000	4,000	4,000	4,000
9-12th Grade, per student		10,000	10,000	10,000	10,000	10,000	10,000	10,000