

Tax Update for 2022 returns and 2023 tax planning

February 14, 2023



Expired Tax Breaks

The Charitable Deduction for cash contributions is no longer available for individuals who do not itemize.

Maximum Child tax credit reduced from \$3,600 to \$2,000

Maximum Child & Dependent Care credit reduced from \$8,000 to \$2,100

Maximum Earned Income Tax credit for individuals with no children reduced from \$1,500 to \$560

Inflation Reduction Act of 2022

The maximum Nonbusiness Energy Property credit through 2022 was a \$500 lifetime credit.

The Inflation Reduction Act changed the credit to a maximum of \$1,200 annually for years 2023 through 2032 with no lifetime limit.

Eligible homeowners may qualify for a 30% tax credit for the purchase of qualifying energy-efficient solar panels, wind turbines, battery storage, heat pump water heaters, heat pumps, electrical panel upgrades, appliances, insulation, doors, windows, skylights, and home energy audits.

The credit for exterior windows, skylights, and doors is a 30% credit up to \$250 for a single door up to a maximum of \$500. It's also a 30% credit for new windows up to a maximum of \$600.

Planning tip - you have 10 years starting in 2023 - space out your improvements to not exceed the maximum credit each year.

Inflation Reduction Act Continued

- Clean vehicle credits extended through 2032 for vehicles purchased in 2023 - 2032
- New requirements - final assembly of vehicle must occur in North America and batteries must meet certain manufacturing requirements.

The Act also expanded eligibility for tax credits that may help cover health care premiums purchased through Healthcare.gov.

Secure Act 2.0

- Increased required age for people to begin taking Required Minimum Distributions (RMDs) from retirement accounts
- The applicable age is 73 for anyone born on or after January 1, 1951 through December 31, 1959.
- The applicable age is 75 for anyone born on or after January 1, 1960.
- The Act also requires the Dept of Labor, within 2 years, to create an online searchable database for lost and found retirement savings accounts. Sounds similar to the Unclaimed Property websites that each state maintains.

Secure Act 2.0

First Responders may be able to exclude certain service-related disability pension payments from gross income after reaching retirement age.

Retirement plans may make “qualified long-term care distributions”. Up to \$2,500 can then be distributed to purchase long-term care insurance.

Individuals with unused balances in 529 education savings plans will be allowed to shift those dollars, up to \$35,000, to a Roth IRA if the 529 plan has a lifespan of at least 15 years. The amount transferred can't exceed Roth IRA contribution limits in a given year.

Secure Act 2.0

- Effective Jan 1, 2023, individuals age 70 ½ or older can make a one-time gift of up to \$50,000 (adjusted annually for inflation) directly from an IRA to a charitable remainder annuity trust, a charitable remainder unitrust, or a charitable gift annuity. The amount directed into the trust or annuity will apply toward the \$100,000 annual total Qualified Charitable Distribution (QCD) gift that is already allowed.

Other tax updates

Form 1099K is used to report 3rd party payments made via credit card or payment services like Paypal or Venmo. Prior to 2022 a 1099K was required if there were more than 200 transactions totalling \$20,000 or more in a year. The American Rescue Plan of 2021 reduced the reporting threshold to \$600 in a year with 1 or more transactions. IRS has delayed enforcing the the lower threshold.

It's important to note for individuals who use services like Paypal or Venmo for personal purchases or reimbursements, e.g. splitting a meal or a rental property. Make sure you code the payment when you make it as a "personal transaction" or the recipient will receive a 1099K in the future for reimbursements totaling \$600 or more.

Other Tax updates

Ordinary tax brackets and capital gain tax brackets widened slightly for 2022

Standard deduction amounts also increased for 2022

Single - \$12,950 or \$14,700 (65 or older)

Married filing jointly - \$25,900 or \$28,700(65 or older)

Annual gift tax exclusion was \$16,000 in 2022 and is \$17,000 for 2023.

Virginia's 2022 One-Time Tax Rebate of \$250 is not taxable for federal purposes if you took the standard deduction in 2021. It may be taxable on your federal return if you itemized in 2021.

Other Ideas

Don't report a K1 for your IRA on your individual tax return. Your IRA may need to file a form 990T if the K1 reports more than \$1,000 of Unrelated Business Taxable Income (UBTI).

Open an online account with the IRS to allow you to securely access your information, e.g. tax payments, returns filed, etc. Go to irs.gov/payments/your-online-account to set it up.

Search your state's Unclaimed Property office for any forgotten accounts or uncashed dividend checks.

Virginia - vamoneysearch.gov

North Carolina - unclaimed.nccash.com

2023 Mileage Rates

- Charitable miles - \$.14 per mile; same in 2022
- Medical miles - \$.22 per mile; \$.18 for 2022
- Business miles - \$.655 per mile; \$.585 and \$.625 in 2022

North Carolina Tax updates

- Individual tax rate - 4.99%
- Standard deductions: Married filing jointly \$25,500; Single \$12,750; Head of Household \$19,125
- Retirees of the commissioned corps of NOAA or the U.S. Public Health Service were added to the Armed Forces retirees able to deduct certain military retirement payments.
- Taxpayers must add back certain discharged student loan debt excluded on their federal returns.

Virginia Tax updates

- Standard deduction increased to \$8,000 from \$4,500 for single taxpayers and \$16,000 from \$9,000 for married taxpayers filing jointly.
- Certain military benefits received by an individual age 55 or older may be subtracted from taxable income up to \$10,000 in 2022.
- A nonrefundable tax credit of up to \$1,000 is available for certain hardwood management expenses for tax years 2022 through 2024.

Virginia Tax Updates

- A deduction of up to \$500 for amounts paid or incurred for eligible educator expenses.
- Reminder that VA requires individuals to remit payment electronically if payments exceed or can reasonably be expected to exceed \$1,500. This includes payments for estimated taxes, extension payments, or any amounts due when a return is filed
- VA has a refundable credit equal to 15% of your federal Earned Income Tax Credit beginning with 2022 tax filings

Tips to Avoid Common Tax Scams

- IRS does not call or email you without prior written communication. It's a scam call if you are told you need to pay immediately or to pay a third party or if you receive a threatening message.
- You can freeze your credit with the major credit rating bureaus. Visit [identitytheft.gov](https://www.identitytheft.gov) for more information.
- File your returns as early as possible, once you have all necessary documents/information.
- You can request an Identity Protection Pin from the IRS to prevent someone else from filing a tax return using your information. Visit [IRS.gov](https://www.irs.gov) for instructions.

Free Tax Software Options

- Freefile is available if your 2022 adjusted gross income (AGI) is \$73,000 or less. Guided questions help you prepare your returns.
- Free File Fillable Forms is available if your AGI is more. It is an electronic version of IRS paper forms that can be e-filed for free and is best for people experienced in preparing their own returns.
- Visit [IRS.gov/FreeFile](https://www.irs.gov/FreeFile) for more information.

Free Tax Help

IRS Certified Volunteers are available at certain locations to provide free tax assistance to low to moderate income (AGI under \$60,000) and elderly (age 60 and older) taxpayers. Visit [IRS.gov](https://www.irs.gov) (keyword VITA)

Visit [IRS.gov](https://www.irs.gov) for IRS forms, instructions, and helpful publications.

IRS customer service 800-829-1040

Visit tax.virginia.gov for forms and instructions

VA customer service 804-367-8031

Visit [NCDOR.gov](https://www.ncdor.gov) for North Carolina forms and instructions.

NC customer service 1-877-252-3052

Due dates to file 2022 individual tax returns

- Federal – April 18, 2023 without extension and October 16, 2023 with extension
- North Carolina – same as federal
- Virginia – May 1, 2023 without extension and November 1, 2023 with extension