CPA

CERTIFIED PUBLIC ACCOUNTANT

IRS Representation / Resolving Tax Debts

Trusted Biz Advisor Self-Employed, Gig Workers, Small Business

Nonprofit Organizations – Review / Compilations / Preparations

Corporate & Individual Taxes / Cloud Accounting

Crypto / Digital Currency FBAR & 8938 Reporting

Creative Media / Massachusetts Film Tax Credit

Fall 2023 Tax Tips

- **Covid-19 is over**. If you're under the age of 59 ½ and you took distributions from retirement plans, including IRAs, you may be subject to the 10% early distribution penalty.

- For 2024, the **annual HSA Contribution Limit** for folks with self-only coverage under an HDHP (Highly Deductible Health Plan) is $4,150 (individual) and $8,300 (family) coverage. (*see Page 7*)

- If you turned **72 years** old in 2023 **and** took a distribution from your retirement account between January 1, 2023 and July 31, 2023, you have the opportunity to roll those funds back into your account by **September 30, 2023**. This allows you to avoid the unwanted distribution and any associated taxes, thanks to the increased required beginning age of 73 under the **SECURE Act 2.0**.

- The District court has granted a partial request from the IRS, instructing the **Kraken** Exchange to provide documents identifying its users who conducted transactions totaling at least $20,000 in any single year between January 1, 2016 and December 31, 2020. If you receive a **John Doe Summons** or an IRS Notice concerning your Kraken Account, we encourage you to **contact us**. Our firm has a proven history of effectively mitigating additional taxes, penalties, and interest for our clients.

- If your child or grandchild had a **summer job**, it's definitely worth considering funding a **Roth IRA** for them. While contributions to a Roth are not tax-deductible, the funds in within the account have the potential to grow tax-free over many years.

  The contribution limit for the Roth IRA is either is the child or grandchild's earned income for the year or $6,500, whichever is lower. It's important to note that there is no requirement for the account owner to use their own funds to make the contribution. (*see Page 9*)

- **Roth Conversions** can serve as a valuable strategy for generating tax-free income in the future. When you convert funds to a Roth IRA, you will generally owe taxes on the converted amount in the year of the conversion. However, the advantage is that the converted amounts are not subject to the 10% early withdrawal penalty.

  By capitalizing on Roth Conversions, you have the potential to enjoy tax-free in the future while avoiding the early withdrawal penalty. It's a strategy that can provide significant benefits over time. (*see Page 11*)

- Maximize your savings and help the environment by taking advantage of the **Energy Efficient Home Improvement Credit**, which offers a **tax credit** of up to $1,200 per year from January 1, 2023 to December 31, 2033, for qualifying energy-efficient home improvements. (*see Page 5*)

- If you're **staking cryptocurrency** and earning additional units, remember that the fair market value of those units becomes taxable income on the day you gain control over them. (*see Page 4*)

- If you receive payments through payment cards or payment apps for **selling goods or providing services**, it's important to be aware that you may receive a **Form 1099-K** that reports those transactions. Remember to maintain good records. For further details, we recommend watching this **informative video**.

Need help? Contact us today!

WACHSLER CPA LLC • PO BOX 1007 • BURLINGTON, MA 01803 • (781) 883-3174 • INFO@IW-CPA.COM

CERTIFIED PUBLIC ACCOUNTANT

IRS Representation / Resolving Tax Debts

Trusted Biz Advisor Self-Employed, Gig Workers, Small Business

Nonprofit Organizations – Review / Compilations / Preparations

Corporate & Individual Taxes / Cloud Accounting

Crypto / Digital Currency FBAR & 8938 Reporting

Creative Media / Massachusetts Film Tax Credit

IRS Representation / Resolving Tax Debts Case Studies

John faced a staggering **$1.3 million tax bill** due to a potential error involving his cryptocurrency transactions. Coinbase's 1099-K reported $3.1 million, leading the IRS to mistakenly assume that this was a long-term capital gains with a cost basis of $0.

Billing Summary

Account balance before this change	$ 1,285,569.24
Decrease in tax	-960,863.00
Decrease in accuracy-related penalty on underpayments penalty	-192,173.00
Increase in failure-to-pay penalty	1,443.75
Decrease in interest	-120,800.74
Amount due by May 8, 2023	**$13,176.25**

But fear not! We fought on John's behalf and successfully **reduced his tax burden** to a more manageable $13,000.

When dealing with an incorrect IRS assessment, remember that professional assistance can be your saving grace.

* * * * *

Laverne recently received a concerning notice from the IRS stating that her claimed Tuition Education Credits and Dependent Credits were **denied**, resulting in a **debt of $5,518**. The issue arose when her son, Willy, forgot to check the box indicating his eligibility as a dependent on his his tax return.

```
You are claiming the Education Credits and Credits for Other
Dependents (ODC). The persons claimed as ODC cannot be claimed as a
dependent on another return, claimed Child Tax Credit or ACTC. The
amount claimed is $500.00 each person.

A separate Education Credit Form 8863 is needed for each person
claiming the Educating Credits. They cannot be claimed as a dependent
on another return. If filing Married Filing Joint, both Taxpayer need
```

To resolve this, we promptly amended Willy's tax return, including checking the necessary box. However, the IRS's lengthy processing time for amended returns exceeded six months and Laverne received another **notice threatening a Notice of Intent to Levy** if the balance remained unpaid within ten days.

To protect Laverne from immediate levies and alleviate her concerns, we enrolled her in a manageable **monthly payment plan of only $25**. This proactive step halted the levy threat and allowed Laverne to fulfill her tax obligations while awaiting the finalization of Willy's amended tax return. Once the IRS completes this process, any excess payments made by Laverne will be refunded accordingly.

Promptly addressing tax discrepancies, implementing proactive measures, and ensuring compliance, are essential in navigating tax challenges and safeguarding one's financial well-being.

Need help? Contact us today!

WACHSLER CPA LLC • PO BOX 1007 • BURLINGTON, MA 01803 • (781) 883-3174 • INFO@IW-CPA.COM

CERTIFIED PUBLIC ACCOUNTANT

IRS Representation / Resolving Tax Debts

Trusted Biz Advisor Self-Employed, Gig Workers, Small Business

Nonprofit Organizations – Review / Compilations /

Preparations Corporate & Individual Taxes / Cloud Accounting

Crypto / Digital Currency FBAR & 8938 Reporting

Creative Media / Massachusetts Film Tax Credit

info@iw-cpa.com **781.883.3174**

2023 Tax Highlights

2023 Tax Rates

	Single	MFJ	Head of Household	MFS
10%	<$ 11,000	<$ 22,000	<$ 15,700	<$ 11,000
12%	<$ 44,725	<$ 89,450	<$ 59,850	<$ 44,725
22%	<$ 95,375	<$ 190,750	<$ 95,350	<$ 95,375
24%	<$ 182,100	<$ 364,200	<$ 182,100	<$ 182,100
32%	<$ 231,250	<$ 462,500	<$ 231,250	<$ 231,250
35%	<$ 578,125	<$ 693,750	<$ 578,100	<$ 346,875
37%	>$ 578,126	>$ 693,751	>$ 578,101	>$ 346,876
Standard Deduction Yr **2023**	$ 13,850	$ 27,700	$ 20,800	$ 13,850
Yr **2022**	$ 12,950	$ 25,900	$ 19,400	$ 12,950
Additional Over 65 (1) Yr **2023**	$ 1,500	$ 1,850	$ 1,850	$ 1,500
Additional Over 65 (1) Yr **2022**	$ 1,400	$ 1,750	$ 1,750	$ 1,400
Additional Blind (1) Yr **2023**	$ 1,500	$ 1,850	$ 1,850	$ 1,500
Additional Blind (1) Yr **2022**	$ 1,400	$ 1,750	$ 1,750	$ 1,400

Long-Term Capital Gain & Qualified Dividends

	0%	15%	20%
Single	<$44,625	<$ 492,300	>$ 492,301
MFJ	<$89,250	<$ 553,850	>$ 553,851
HOH	<$59,750	<$ 523,050	>$ 523,051
MFS	<$44,625	<$ 276,900	>$ 276,901
Estates/Trusts	<$3,000	<$ 14,650	>$ 14,651

2023 Medicare Part B – Monthly Payment

Single, HoH	*MFJ*	*Premium*
<$ 97,000	<$ 194,000	$164.90
<$ 123,000	<$ 246,000	$230.80
<$ 153,000	<$ 306,000	$329.70
<$ 183,000	<$ 366,000	$428.60
<$ 500,000	<$ 750,000	$527.50
>$ 500,000	>$ 750,000	$560.50

Social Security — **2023** Wage Limit **$160,200**; 2022 Base - $147,000; 2021 Base - $142,800; no limit for Medicare tax;
Full Retirement Age – born before 1942 (65+ yrs old); born 1943-1953 (66+ yrs old); after 1960 (67 yrs old)
Pay up to **85% taxes** on social security benefits if AGI exceeds $21,240 (earnings limit)
COLA (Cost-of-Living Adjustment) 8.7%

Medicare Surtax/ Net Investment Income Tax — **0.9% surtax** on income subject to Medicare - W2 wages, 1099-NEC, Schedule C, Tips, etc.**Additional 3.8%** on *passive investment/unearned income* if AGI exceeds Single, HoH > $200K; MFJ > $250K; MFS > $125K

Gift Tax Exclusion — **2023** - $17,000 to any person; **2022** - $16,000 to any person

Retirement Plans

		401(k)/403(b)	*Traditional*	*ROTH IRA*	*Simple IRA*
Under age 50	*Contribution Limit*	$22,500	$6,500	$6,500	$15,500
Age 50 or older	*Contribution Limit*	$30,000	$7,500	$7,500	$18,500
Single, HoH	*Phaseout*	n/a	$73K-$83K (*covered plan*)	$138K-$153K	n/a
			$138K-$153K (*not covered by retirement plan*)		
MFJ	*Phaseout*	n/a	$116K-$136K (*covered plan*)	$218K-$228K	n/a
			$218K-$228K (*not covered by retirement plan*)		n/a
MFS	*Phaseout*	n/a	<$10K	<$10K	n/a

Self-employed - SEP IRA — **25%** of compensation (W2) or net income (LLC, Schedule C) - after business deduction this is net 20%

American Opportunity *Subject to phaseout* — 100% of up to $2,000 qualified higher-education tuition and related expenses plus 25% of the next $2,000 of expenses not to exceed **$2,500** for 4 years post-secondary education for **each** eligible student

Lifetime Learning Credit — 20% of up to $10,000 qualified tuition and related expenses; **$2,000** Maximum Credit; *Subject to phaseout*

Coverdell ESA *Subject to phaseout* — **$2,000** per beneficiary under age 18 - can be used for private elementary and high school education; corporate contributions added to employee's wages

529 Plans — For contributions - no AGI limit. **$10K** can be used for private elementary & high school education, and repayment of student loans. Mass residents contributing to U Fund can deduct up to **$1K** (single)/ **$2K** (MFJ)

School Teacher Credit — **$300** of eligible expenses incurred (books, supplies, computer equipment, PPE)

Student Loan Interest — Up to **$2,500**. Phaseout: Single, HoH $75K-$90K; MFJ $155K-$185K; MFS no deduction

Child Tax Credit (CTC) — **Reverted back to 2020**. **$2K** per child under age 17. Phaseout: Single, HoH, MFS $200K; MFJ $400K
Massachusetts - **$180** per child under age 12; **$360** maximum credit

Dependent Care FSA — Maximum pre-tax deduction: Single, MFS: **$2,500**; MFJ: **$5,000**

Health FSA — Maximum pre-tax deduction: **$3,850** self-only; **$7,750** family. Catch up contribution $1,000 (age 55 or older)

Business Meals — Back to **50%**. Keep receipts and note date, client and business purpose

Automobile Mileage — Keep track of date, mileage; purpose of trip. **Business** miles: 1/1-6/30/22: 58.5 cents; 7/1-12/31/22: 62.5 cents

MA Senior Circuit Breaker 2023 - maximum credit (*proposed*) $2,400

MA Charitable Deduction 2023 - Federal only available as itemized deduction (Schedule A). Massachusetts claim charitable deduction

Additional Units Received When a Taxpayer Stakes Cryptocurrency

Consensus mechanisms are protocols that allow nodes in a blockchain network to agree on updates. One well-known mechanism is called **proof-of-stake**. In this mechanism, cryptocurrency holders can participate in validating transactions by staking a portion of their cryptocurrency holdings. Validators are selected based on factors like the amount of cryptocurrency staked. They confirm transactions and add blocks to the blockchain, receiving rewards for successful validation. However, if validation fails, staked units may be subject to penalties like slashing, leading to the forfeiture of staked units.

The IRS recently issued guidance on the tax treatment of these transactions by providing an example. Let's consider Andy, a taxpayer who owns 300 units of a cryptocurrency called Make-Lots-of-Money (MLM). On August 7, 2023, Andy stakes 200 and validates a new block, earning 2 MLM units as a reward. According to the MLM protocol, Andy is restricted from selling or disposing of these 2 units until August 9, 2023. After that day, Andy can freely sell or exchange the 2 units, representing his validation reward. Consequently, the **fair market value** of the 2 units on August 9, 2023 is included in Andy's **gross income** for the 2023 tax year.

Read the IRS Revenue Ruling 2023-14

Need help? Contact us today!

TAX YEAR 2023

Inflation Reduction Act—Individual Credits

Energy Efficient Home Improvement Credit

The Inflation Reduction Act renamed the Nonbusiness Energy Property Credit as the Energy Efficient Home Improvement Credit and extended the credit through the end of the 2032 tax year.

The credit is equal to 30% of the sum of the amount paid or incurred by you during the year for:
- Installed qualified energy efficiency improvements,
- Residential energy property expenditures, and
- Home energy audits.

Lifetime limitations. The following annual limitations apply.
1) The combined credit for all energy efficient home improvements is limited to $1,200 per year, except for (5) below.
2) The credit for residential energy property expenditures is limited to $600 per year.
3) The credit for windows is limited to $600 in the aggregate for all exterior windows and skylights.
4) The credit for doors is limited to $250 per year for any exterior door, and $500 in the aggregate for all exterior doors.
5) Notwithstanding (1) and (2) above, the credit allowed for heat pumps and heat pump water heaters, biomass stoves and boilers is limited to $2,000 per year.
6) The credit for energy audits is limited to $150 per year.

Qualified energy efficiency improvements. Qualified energy efficiency improvements include energy efficient insulation, exterior windows, skylights, and exterior doors that meet various energy standard requirements. Roofs have been removed from the definition of building envelope components, but air sealing insulation which reduces heat loss or heat gain of a dwelling unit has been added.

Residential energy property expenditures. Residential energy property expenditures include any of the following that meet or exceed certain high efficiency standards made to any dwelling unit used by you as a residence. The home must be located in the United States. Expenditures include the cost for labor for onsite preparation, assembly, and installation.
- Electric or natural gas heat pump water heater,
- Electric or natural gas heat pump,
- Central air conditioner,
- Natural gas, propane, or oil water heater,
- Natural gas, propane, or oil furnace or hot water boiler,
- Biomass stove or boiler which uses the burning of biomass fuel to heat a dwelling unit or to heat water for a dwelling unit,
- Oil furnace or hot water boiler, and
- Improvements to, or replacement of a panel-board, subpanel-board, branch circuits, or feeders with a load capacity of not less than 200 amps which is installed in conjunction with an energy efficiency improvement or qualified energy property.

Home energy audit. A home energy audit means an inspection and written report with respect to a dwelling unit used by you as your principal residence that identifies the most significant and cost-effective energy efficiency improvements, including an estimate of the energy and cost savings with respect to each improvement. The home energy auditor must meet certain certification requirements as established by the IRS.

Inflation Reduction Act— Individual Credits

Residential Clean Energy Credit

The Inflation Reduction Act renamed the Residential Energy Efficient Property Credit as the Residential Clean Energy Credit and extended the credit through the end of the 2034 tax year.

The credit equals the sum of the applicable percentages that are made by you during the year of qualified:

- Solar electric property expenditures,
- Solar water heating property expenditures,
- Fuel cell property expenditures,
- Small wind energy property expenditures,
- Geothermal heat pump property expenditures, and
- Battery storage technology expenditures.

Applicable percentage. The applicable percentage means:

- 30% for property placed in service after December 31, 2021, and before January 1, 2033,
- 26% for property placed in service after December 31, 2032, and before January 1, 2034,
- 22% for property placed in service after December 31, 2033, and before January 1, 2035.

Clean Vehicle Credit

The Inflation Reduction Act renamed the New Qualified Plug-In Electric Drive Motor Vehicle Credit the Clean Vehicle Credit. The credit is not phased out based on manufacturer sales but expires for all vehicles placed in service after December 31, 2032. Effective for vehicles placed in service after December 31, 2022, a maximum $7,500 credit applies, but is broken out into two components.

- A $3,750 credit when the vehicle satisfies the critical minerals requirements, plus
- A $3,750 credit when the vehicle satisfies the battery components requirement.

No credit is allowed if modified adjusted gross income for the tax year or the preceding tax year exceeds:

- $300,000 MFJ or QSS.
- $225,000 HOH.
- $150,000 Single or MFS.

No credit is allowed if the manufacturer's suggested retail price exceeds $55,000 ($80,000 for a van, SUV, or pickup truck).

The final assembly of the vehicle must occur in North America. The Department of Energy has provided a list of electric vehicles that may meet the final assembly requirement.

https://afdc.energy.gov/laws/electric-vehicles-for-tax-credit

Previously-Owned Clean Vehicles Credit

The Inflation Reduction Act created a new credit for qualified buyers who place in service a previously-owned clean vehicle. The credit expires for any vehicle acquired after December 31, 2032.

The credit equals the lesser of:

- $4,000, or
- 30% of the sale price of the vehicle.

No credit is allowed if modified adjusted gross income for the tax year or the preceding tax year exceeds:

- $150,000 MFJ or QSS.
- $112,500 HOH.
- $75,000 Single or MFS.

Previously-owned clean vehicle. A previously-owned clean vehicle means a motor vehicle:

- With a model year at least 2-years earlier than the calendar year in which you acquire the vehicle,
- The original use starts with a person other than you,
- Which is acquired by you in a qualified sale, and
- Which –
  - Meets the qualifications of the Clean Vehicle Credit, or
  - Satisfies the requirements as a qualified fuel cell clean vehicle and has a GVW rating of less than 14,000 pounds.

Qualified sale. A qualified sale is the sale of a motor vehicle:

- By a qualified dealer,
- For a sale price that does not exceed $25,000, and
- Which is the first transfer of the vehicle (other than the original owner) since August 16, 2022.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

Copyright © 2023 Tax Materials, Inc.
All Rights Reserved

EMAIL: IRENE@IW-CPA.COM WWW.IW-CPA.COM PHONE: 781.883.3174

TAX YEAR 2023

Health Savings Accounts (HSAs)

Health Savings Accounts (HSAs)

A health savings account (HSA) is a tax-exempt or custodial account set up with a qualified HSA trustee to pay or reimburse certain medical expenses incurred by you, your spouse, and your qualified dependents. The medical expenses must not be reimbursable by insurance or other sources, and distributions from HSA funds will not give rise to a medical expense deduction on your tax return.

Qualifying for an HSA

To be eligible, you must meet the following requirements.

- Must be covered under a high deductible health plan (HDHP).
- Cannot have any other health coverage. ***Exception:*** Coverage for specific things, such as disability, dental care, vision care, telehealth visits, and long-term care, can be purchased in addition to the HDHP without disqualifying the HSA.
- Cannot be enrolled in Medicare.
- Cannot be eligible to be claimed as a dependent on someone else's tax return.

Last-Month Rule

If you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers), you are considered to be eligible for the entire year. Special rules apply if you do not remain an eligible individual during a full 12-month period. Exceptions apply in case of death or disability.

Spousal HSAs

The HSAs cannot be joint accounts. You and your spouse must each open a separate account. However, if only one has an account, the funds in that account can be used to pay for expenses incurred by the other spouse, as well as your other family members.

High Deductible Health Plan (HDHP)

An HDHP can provide for preventive care benefits without a deductible or with a deductible below the minimum limit ($1,500 for 2023 self-only coverage and $3,000 for 2023 family coverage). Family HDHP coverage covers an eligible individual and at least one other person.

Prescription Drug Plans

An HDHP can include a prescription plan as long as it does not provide benefits until the minimum annual deductible has been met.

Family Plans with Deductibles for Both Family and Individuals

Some family plans have deductibles for both the family as a whole and for individual family members. If either the deductible for the family as a whole, or the deductible for an individual family member, is below the minimum annual deductible for family coverage, the plan does not qualify as an HDHP.

Example: *Joe has family health insurance coverage in 2023. The annual deductible for the family plan is $4,500. His plan also has an individual deductible of $2,000 for each family member. His plan does not qualify as an HDHP because the deductible for an individual family member is below the minimum annual deductible ($3,000) for family coverage.*

Other Health Coverage

You (and your spouse if holding family coverage) generally cannot have any other health coverage that is not an HDHP. You can still be eligible even if your spouse has non-HDHP coverage, provided you are not covered by that plan.

Health Savings Accounts (HSAs)

Contributions
Contributions for a tax year must be made by the return due date (no extensions).

HSA Limitations

	2023	2022
Annual contribution limit is limited to:		
Self-only coverage, under age 55	$3,850	$3,650
Self-only coverage, age 55 or older	$4,850	$4,650
Family coverage, under age 55*	$7,750	$7,300
Family coverage, age 55 or older*	$8,750	$8,300
Minimum annual deductibles:		
Self-only coverage	$1,500	$1,400
Family coverage	$3,000	$2,800
Maximum annual deductible and out-of-pocket expense limits:		
Self-only coverage	$7,500	$7,050
Family coverage	$15,000	$14,100

* Assumes only one spouse has an HSA. For 2023, if both spouses have separate eligible HSAs, the combined family limit is $7,750. However, each spouse age 55 or older may contribute an additional $1,000. Thus, if both spouses are age 55 or older, the combined family limit is $9,750.

Rules for Married People
If both you and your spouse are eligible individuals, and either spouse has family HDHP coverage, both spouses are treated as having family HDHP coverage. The total contribution limit for 2023 is $7,750 (if both spouses are under age 55), split equally unless you agree on a different allocation. Special rules apply if either spouse is over age 55 or enrolled in Medicare.

Contribution Deduction
You can deduct HSA contributions you made out of pocket, as well as contributions made by someone else (other than your employer) on your behalf, as an adjustment to income. Deductible contributions are reported on Schedule 1 (Form 1040), *Additional Income and Adjustments to Income.*

Distributions
The following rules apply to distributions from HSAs.

- Distributions used to pay for, or to reimburse for, qualified medical expenses not covered by insurance are tax free. Distributions for any other purpose are taxable and subject to an additional 20% penalty. ***Exception:*** The 20% penalty does not apply to distributions after reaching age 65, or death.
- Distributions used to pay for medical expenses that were incurred prior to establishing the HSA are taxable.
- Qualified medical expenses include the following:
  - Medical expenses that require a prescription,
  - Over-the-counter products and medications without a prescription,
  - Insulin, and
  - Menstrual care products, including tampons, pads, liners, cups, sponges, or other similar products.
- Qualified medical expenses do not include the insurance premiums for the high deductible health plan. However, insurance premiums for long-term care (subject to limits) and health coverage while unemployed qualify. Also, if over age 65, health insurance premiums (other than Medigap premiums) are qualified medical expenses for HSA purposes.

Employer Participation
Employers can provide employees with high deductible health plan coverage and contribute to an HSA on behalf of an employee and exclude the value of the benefits from taxable wages.

Death of HSA Participant
If your spouse is the beneficiary, your spouse is treated as the participant of the HSA after your death. If someone other than your spouse inherits your HSA, it stops being an HSA and the FMV becomes taxable to the beneficiary in the year of your death. If your estate is the beneficiary, the FMV is taxable on your final Form 1040. Any taxable amount is reduced by your qualified medical expenses paid within one year after the date of death.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

Copyright © 2023 Tax Materials, Inc.
All Rights Reserved

Contact Us
There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

EMAIL: IRENE@IW-CPA.COM WWW.IW-CPA.COM PHONE: 781.883.3174

CERTIFIED PUBLIC ACCOUNTANT

IRS / State Government Representation

Trusted Biz Advisor Self-Employed, Gig Workers, Small Business

Nonprofit Organizations - Reviews / Compilations / Preparations

Corporate & Individual Taxes / Cloud Accounting

Crypto / Digital Currency FBAR & 8938 Reporting

Creative Media / Massachusetts Film Tax Credit

TAX YEAR
2023

Individual Retirement Accounts
Roth IRAs

Roth IRAs

Roth IRA Contribution Limits—2023	
Lesser of: Taxable compensation for the year, or:	
Under age 50	$6,500
Age 50 or older	$7,500

What is a Roth IRA?

A Roth IRA is an individual retirement arrangement. It is a personal savings plan that gives you tax advantages for setting aside money for retirement. An account must be designated as a Roth IRA when opened.

Roth IRA tax advantages and rules compared to a traditional IRA:

- Contributions are not deductible. Being covered by an employer retirement plan is irrelevant.
- If certain requirements are satisfied for qualified distributions, distributions are tax free.
- Can withdraw contributions any time for any reason without owing taxes or penalties.
- The required minimum distribution (RMD) rules do not apply. Distributions are not required until death of the participant.
- Contributions are not allowed when modified adjusted gross income (MAGI) is above certain limits.
- Neither a SEP IRA nor a SIMPLE IRA can be set up as a Roth IRA.

Who Can Contribute to a Roth IRA?

Generally, you can contribute to a Roth IRA if you have taxable compensation and income less than the top of the phaseout range for your filing status, see *Roth IRA Phaseouts* chart, below.

Roth IRA Phaseouts—2023

Filing Status	*MAGI*	*Contribution Limit*
Single, Head of Household, or Married Filing Separately (lived apart from spouse all year)	Less than $138,000.	Up to $6,500 ($7,500, age 50 and older).
	At least $138,000, but less than $153,000.	Contribution limit reduced.*
	$153,000 or more.	Cannot contribute to Roth IRA.
Married Filing Jointly or Qualifying Surviving Spouse	Less than $218,000.	Up to $6,500 ($7,500, age 50 and older).
	At least $218,000, but less than $228,000.	Contribution limit reduced.*
	$228,000 or more.	Cannot contribute to Roth IRA.
Married Filing Separately (lived with spouse at any time during the year)	Zero.	Up to $6,500 ($7,500, age 50 and older).
	More than zero, but less than $10,000.	Contribution limit reduced.*
	$10,000 or more.	Cannot contribution to Roth IRA.

*To calculate reduced contribution limit:
1) Subtract the lower limit of the phaseout range from MAGI.
2) Divide result by $10,000 (MFJ and MFS, lived with spouse) or $15,000 (all others).
3) Multiply result by maximum contribution amount.
4) Subtract the result from the maximum contribution limit.

Example: Bob, age 35, Single, $140,000 MAGI:
1) $140,000 – $138,000 = $2,000.
2) $2,000/$15,000 = 0.133.
3) 0.133 × $6,500 = $865.
4) $6,500 – $865 = $5,635 (Bob's maximum contribution limit).

Compensation. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services. It also includes commissions, self-employment income, nontaxable combat pay, military differential pay, and taxable alimony and separate maintenance payments.

EMAIL: IRENE@IW-CPA.COM WWW.IW-CPA.COM PHONE: 781.883.3174

Individual
Retirement Accounts

Roth IRAs

Contributions. Total contributions are combined with traditional IRA contributions to determine limits. For example, a $1,000 contribution to a traditional IRA will reduce total contributions allowable to a Roth IRA by $1,000. Employer contributions under a SEP or SIMPLE IRA plan do not affect this limit.

If your modified AGI is within the phaseout amounts, your contribution limit is gradually reduced.

When Can You Make Contributions?

You can make contributions to a Roth IRA for a year at any time during the year or by the due date of your return for that year (not including extensions). This means that most people can make contributions for 2023 by April 15, 2024.

Conversion Rules

There are no modified AGI limits or filing status requirements relating to rollovers from eligible retirement plans into Roth IRAs.

Conversion contribution. Money distributed from a qualified plan or IRA and reinvested within 60 days into a Roth IRA is called a conversion contribution. The distribution is taxable to the extent it does not represent a return of nondeductible basis. A conversion contribution is not subject to the 10% early withdrawal penalty. A conversion contribution can also be accomplished through a trustee-to-trustee transfer or a same trustee transfer where the trustee simply redesignates a traditional IRA as a Roth IRA rather than open up a new account or issue a new contract.

Income. In the year of conversion, the amount of the distribution from a traditional IRA or employer plan converted to a Roth IRA is included in gross income.

Employer plan conversions. Money in an employer-sponsored retirement plan, such as a 401(k), annuity, section 403(b) plan, government deferred compensation (§457 plan), or profit-sharing plan, may be directly converted to a Roth IRA.

Inherited IRA. An inherited traditional IRA from someone other than a spouse cannot be converted into a Roth IRA.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

Copyright © 2023 Tax Materials, Inc.
All Rights Reserved

Qualified Distributions

A nontaxable qualified distribution is any payment or distribution from a Roth IRA that meets the following requirements.

- It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
- The payment or distribution is:
  - Made on or after the date you reach age 59½, or
  - Made because you are disabled, or
  - Made to a beneficiary or to your estate after your death, or
  - Made to purchase a first home (up to a $10,000 lifetime limit).

Additional tax on early distributions. If you receive a nonqualified distribution, you must pay the 10% additional tax on early withdrawals penalty on the taxable part of any distributions. Exceptions apply.

Nonqualified distributions. A distribution from a Roth IRA that is not qualified may be partly taxable or nontaxable as there is a set order in which contributions and earnings are considered to be distributed from a Roth IRA. The order is as follows:

1) Regular contributions.
2) Conversion and rollover contributions, on a first-in first-out basis.
3) Earnings on contributions.

Distributions from a Roth IRA that are a return of regular contributions are not subject to tax or penalty, no matter when they are withdrawn. Only the portion of the nonqualified distribution allocable to earnings may be subject to tax and the 10% additional tax.

Are Distributions From Roth IRAs Required?

You are not required to take distributions from your Roth IRA at any age. The required minimum distributions (RMD) rules that apply to traditional IRAs do not apply to Roth IRAs while the owner is alive.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

CERTIFIED PUBLIC ACCOUNTANT

IRS / State Government Representation

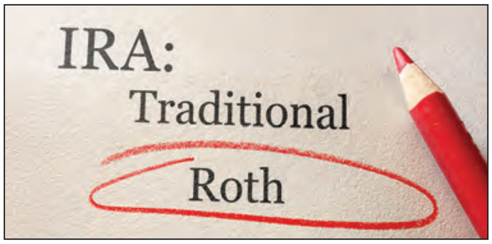
Trusted Biz Advisor Self-Employed, Gig Workers, Small Business

Nonprofit Organizations - Reviews / Compilations / Preparations

Corporate & Individual Taxes / Cloud Accounting

Crypto / Digital Currency FBAR & 8938 Reporting

Creative Media / Massachusetts Film Tax Credit



TAX YEAR
2023

Individual Retirement Accounts
Roth IRA Conversions

Roth IRA Conversions

Generally, you can only contribute to a Roth IRA if you have taxable compensation and income less than the top of the phaseout range for your filing status (see chart below). If your income is greater than that threshold amount, you are prohibited from contributing directly to a Roth IRA.

Roth IRA Limits—2023	
Individual Contribution Limits	
Under age 50	$6,500
Age 50 or older	$7,500
Roth IRA Phaseouts	
MFJ or QSS*	$218,000 to $228,000
Single, HOH, or MFS (lived apart from spouse all year)	$138,000 to $153,000
MFS (lived with spouse at any time during the year)	$0 to $10,000
*Qualifying Surviving Spouse (QSS)	

Backdoor Roth IRA

A "backdoor Roth IRA" allows a taxpayer to bypass income limitations by first making a nondeductible contribution to a traditional IRA and then converting it into a Roth IRA. If the conversion happens soon after the original contribution, there may be little or no taxable income or tax assessed. Due to the distribution rules for traditional IRAs, this works best if you have no other traditional IRAs.

Nondeductible contributions. Generally, if you are prohibited from making a direct Roth IRA contribution, you are phased out from making a deductible traditional IRA contribution as well. Therefore, in order to make a backdoor Roth IRA contribution, you would first make a nondeductible contribution to a traditional IRA. Nondeductible contributions are considered to be made with money you have already paid tax on, or "after tax." Shortly after making a nondeductible contribution to a traditional IRA, you can convert the traditional IRA to a Roth IRA.

Recharacterization

A conversion of a traditional IRA to a Roth IRA, and a rollover from any other eligible retirement plan to a Roth IRA, cannot be recharacterized back into a traditional IRA. Accordingly, a recharacterization cannot be used to unwind a Roth IRA conversion.

Conversions

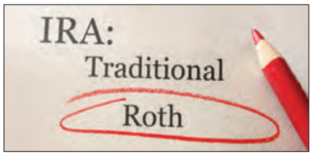
You can withdraw all or part of the assets from a traditional IRA and reinvest them in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly rolled over, the 10% additional tax on early distributions will not apply. However, a part or all of the distribution from your traditional IRA may be included in gross income and subjected to ordinary income tax.

There are no income limitations on converting a traditional IRA into a Roth IRA. The conversion is treated as a rollover, regardless of the conversion method used.

Conversion method. You can convert amounts from a traditional IRA to a Roth IRA in any of the following three ways.

- ***Rollover.*** You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.
- ***Trustee-to-trustee transfer.*** You can direct the trustee of the traditional IRA to transfer an amount from the traditional IRA to the trustee of the Roth IRA.
- ***Same trustee transfer.*** If the trustee of the traditional IRA also maintains the Roth IRA, you can direct the trustee to transfer an amount from the traditional IRA to the

EMAIL: IRENE@IW-CPA.COM WWW.IW-CPA.COM PHONE: 781.883.3174



Roth IRA. Conversions made with the same trustee can be made by redesignating the traditional IRA as a Roth IRA, rather than opening a new account or issuing a new contract.

Conversion of deductible IRA. If you convert a traditional IRA that you received a tax deduction on in a previous year to a Roth IRA, you will owe taxes on the entire amount converted.

Example: *Jaslyn has a traditional IRA with a fair market value of $500,000. All of the contributions to the traditional IRA were deductible. If Jaslyn converts the entire $500,000 traditional IRA to a Roth IRA, she will owe ordinary income taxes on the full $500,000 amount.*

Conversion of nondeductible IRA. If you make a nondeductible contribution to a traditional IRA, you can convert the entire amount tax-free. Only the earnings on the nondeductible IRA contributions are taxed.

Example: *Manny is single and has a modified AGI of $250,000. He wishes to save money in a Roth IRA so he can make nontaxable withdrawals upon retirement. In 2023, he opens a traditional IRA with a $6,500 nondeductible contribution and a couple months later, converts it to a Roth IRA. He has no other traditional IRAs. At the time of Roth conversion, the account had increased in value by $250, which is the only taxable part of the conversion.*

Conversion of part-deductible/nondeductible IRA. If you make a conversion to a Roth IRA that consists of deductible and nondeductible IRA contributions, you will owe tax on the proportion of your overall IRA balance that is considered after tax (nondeductible) as compared to before tax (deductible). You cannot choose to have the cost basis distributed first. Additionally, the values of all traditional IRAs are aggregated to determine the taxable portion of a distribution. Each distribution is partly nontaxable and partly taxable until your entire cost basis has been distributed.

Note: Because of these traditional IRA distribution rules, the backdoor Roth IRA works best if you do not have any other traditional IRAs.

Example: *Jay has $100,000 in his traditional IRA, $10,000 of which is after-tax. Therefore, 10% ($10,000 ÷ $100,000 = 10%) of his traditional IRA consists of after-tax money. If Jay wants to convert $20,000 of his traditional IRA to a Roth IRA, $2,000 ($20,000 × 10% = $2,000) would be tax free. The remaining $18,000 ($20,000 – $18,000 = $2,000) would be taxable.*

Example: *Gloria has $95,000 in her traditional IRA, all of which is pre-tax. If Gloria makes a $5,000 nondeductible (after-tax) contribution to a traditional IRA, her total IRA balance will be $100,000, $5,000 of which will be after-tax. Thus, only 5% ($5,000 ÷ $100,000 = 5%) of her Roth IRA conversion will be tax-free. If Gloria converts $5,000 from her traditional IRA to a Roth IRA after making her nondeductible contribution, just $250 would be tax free ($5,000 × 5%), while the remaining $4,750 ($5,000 – $250 = $4,750) would be taxable.*

Required Minimum Distribution (RMD)

You cannot convert amounts that must be distributed from your traditional IRA for a particular year (including the calendar year in which you reach age 73) under the required distribution rules.

Periodic Distributions

If you started taking substantially equal period payments from a traditional IRA, you can convert the amount in the traditional IRA to a Roth IRA and then continue the periodic payments. The 10% additional tax on early distributions will not apply even if the distributions are not qualified distributions, as long as they are part of a series of substantially equal periodic payments.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

Copyright © 2023 Tax Materials, Inc.
All Rights Reserved

IRS / State Government Representation

Trusted Biz Advisor Self-Employed, Gig Workers, Small Business

Nonprofit Organizations - Reviews / Compilations / Preparations

Corporate & Individual Taxes / Cloud Accounting

Crypto / Digital Currency FBAR & 8938 Reporting

Creative Media / Massachusetts Film Tax Credit

TAX YEAR 2023

Referrals Appreciated

Why We Appreciate Referrals

We acquire many of our clients through referrals from satisfied clients. Beyond the benefit of being able to expand our business, there are other reasons why we appreciate referrals. When a client thinks enough of us to recommend our services to a family member, friend, or co-worker, we attain a higher quality clientele than those we acquire from more random marketing efforts. A personal recommendation can help jump start the business relationship, resulting in a more efficient, effective tax engagement.

Please consider sharing this brochure with any individual who you believe might find our services useful.

Benefits of Using a Paid Preparer

With so many do-it-yourself tax programs available for sale, it is a legitimate question to ask why you should hire a paid preparer when you can create and file a tax return on a home computer.

Keep in mind that entering tax information into a computer program and making adjustments necessary to clear the program's diagnostic error messages is no substitute for understanding tax law. The Internal Revenue Code and related Treasury Regulations contain over 10,000 pages of complicated provisions. Working with a tax professional who understands how the provisions affect your specific situation and how the rules interact can provide you with the best result on your tax return. Obtaining tax benefits is often a complex process involving properly executed and timely-filed elections. Simply entering amounts into an input program may lead to lost benefits. We find that in many cases we save new clients more than the cost of our services compared to returns they have prepared themselves.

Proper reporting and filing can also help keep you off the IRS radar.

Other Benefits Include:

- When your information is compiled and we have examined and discussed your unique tax situation, we take care of preparing the forms and we file the returns electronically.
- We have access to all necessary tax forms. In certain cases, do-it-yourself tax programs may not have all the forms required to complete your tax return and/or have limitations when multiple state returns must be filed.
- We will explain details of how items of income and expense affect your return, and will make recommendations on how to reduce your tax liability.
- If you receive any communication from the IRS or state revenue department, we are available to assist you with resolution.
- As professional tax preparers, we know the proper means of reporting income and deductions, the proper forms to use, and the proper entries to make. Using a paid preparer makes your return much more likely to be "accepted as filed," meaning in most cases you will avoid the dreaded letter from the IRS triggered by a box that was not checked or a number entered on the wrong line.
- We can discuss with you the tax effects of any changes in income anticipated for the coming year, to help eliminate the guesswork involved with figuring out what your tax situation will be in future years.
- We can make recommendations for changing withholding at work to help put you in the position you want to be in when it comes time to file next year's return.

Referrals Appreciated

Tax Issues

Our clients frequently contact us for assistance in dealing with tax issues such as the following.

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Start-up or sale of business.
- Purchase or sale of a home or other real estate.
- Rental property ownership.
- Retirement.
- Divorce or separation.
- Self-employment or contract work.
- Large charitable contributions.
- Children in college.

Confidentiality

As professional tax preparers we are bound by rules of ethics to keep all of your information confidential. We take great care in handling your information, including names, addresses, birth dates, and Social Security Numbers, and items of income and deductions. We have safeguards in place to protect the security of your physical documents as well as security of electronic information used to process and file your returns with the IRS and state revenue agencies.

We adhere to strict rules regarding any disclosure or use of your personal information. We will not disclose or use any of your personal information obtained during the tax engagement for purposes other than preparation and filing of your returns unless we obtain specific written authorization from you in advance.

Checklist of Common Errors When Preparing Your Tax Return

The IRS created the following checklist based on common filing errors.

- Did you choose the correct filing status?
- Did you enter the names and Social Security Numbers for everyone listed on your return exactly as those names and numbers appear on each person's Social Security card? If there have been any name changes, be sure to contact the Social Security Administration at www.ssa.gov or call them at 800-772-1213.
- Did you enter your income on the correct lines?
- Did you calculate deductions and credits correctly, put them on the right lines and attached the necessary forms or schedules?
- Did you compute the tax correctly?
- If you received an IP PIN (Identity Protection PIN) from the IRS, is it entered on the return?
- Did you sign and date the return?
- If you filed a paper return, did you use the correct mailing address from your tax form instructions?
- If you are due a refund and requested direct deposit, did you double-check your routing and account numbers for your financial institution?
- Did you make a copy of the signed return and all schedules for your own records?

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

Copyright © 2023 Tax Materials, Inc.
All Rights Reserved

Selecting a Tax Return Preparer

- Be wary of preparers who claim they can obtain larger refunds than others can.
- Avoid preparers who base their fees on a percentage of the refund or who offer to deposit all or part of your refund into their financial accounts.
- Ensure you use a preparer with a PTIN. Paid tax return preparers must have a PTIN to prepare all or substantially all of a tax return.
- Use a reputable tax professional who enters his or her PTIN on the tax return, signs the tax return, and provides you a copy of the return (as required).
- Never sign a blank tax form.
- Check the person's credentials. Only attorneys, CPAs, and enrolled agents (EAs) can represent taxpayers before the IRS in all matters, including audits, collections, and appeals. Other tax return preparers who participate in the IRS Annual Filing Season Program (AFSP) have limited practice rights to represent taxpayers for audits of returns they prepared and signed.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.