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January 1, 2024

Happy New Year from Capital Accounting, PC!

As we embark on a new year, we want to express our sincere gratitude for your continued trust and partnership. Your business and referrals are the foundation of our success, and we remain committed to providing you with exceptional service and expert financial guidance.

Staying Ahead of Tax Changes

The tax landscape constantly evolves, and we are dedicated to informing our clients of the latest developments. Notably, we are coming to the end of the Tax Cuts and Jobs Act (TCJA), which is scheduled to sunset at the end of 2025. This legislation brought significant tax cuts, and we believe staying proactive about changes like these gives us the best chances of mitigating potential tax risks in the future.

Additionally, being that 2024 is an election year, there stand to be major changes to federal tax laws for next year and beyond. We will monitor any changes carefully to prepare you and your business for the best possible financial advantages.

Protecting Your Assets, Ensuring Your Future

In today's dynamic financial environment, safeguarding your assets and wealth is paramount. We offer comprehensive *Asset Risk Management Planning* services, helping you identify potential threats and implement strategies to protect your financial security.

BOI Reporting – Please see next page: [2023 Tax Highlights and Analysis](#).

Gather Tax Documents and Receipts

Please use the attached 2023 Client Income Tax Checklist to gather your documents. Providing these documents promptly allows us to initiate your tax preparation process efficiently.

Scheduling Your Tax Appointment, CALL (480) 783-8870

We offer flexible options, including in-person meetings, Zoom conferences, and phone consultations. Use our secure client portal, TaxDome, or drop off documents at our office for convenience. The sooner you get in contact with us, the sooner we can cater to your unique financial situation.

15215 S. 48th Street, Suite 139
Phoenix, AZ 85044
Attn: Tax Department

Tax Deadlines

Friday, March 15th: S Corporation & Partnership Tax Forms 1120S, 1065

Monday, April 15th: Individual & Corporation Tax Forms 1040, 140, & 1120

Your trust is invaluable to us. Please do not hesitate to contact us with any questions or concerns. We look forward to a prosperous 2024 for you and your business.

Sincerely,

Capital Accounting, PC

2023

TAX TIME

TAX TIME

TAX HIGHLIGHTS & ANALYSIS



We are excited to inform you that TaxDome is now our primary platform for sharing documents with both our individual and business clients. It also serves as a quick communication between you and your tax professionals this year. In case you did not receive an email containing your TaxDome login details, do not hesitate to contact us. Our team is always happy to assist you and ensure that you get up and running.

BOI Reporting

We are ready to handle the new Beneficial Ownership Information (BOI) filing requirements for our clients. Business owners who own at least 25% of a business entity will need to provide their name, date of birth, residential address, and Passport or driver's license copy and number. Existing businesses have until January 1, 2025, to file their report and new businesses within 30 days of formation. We will keep up to date on these new requirements and file the reports on behalf of our clients.

Key Changes for Tax Season 2024

Certain tax benefits related to COVID relief, such as the Child Tax Credit, reverted to Pre-American Rescue Plan tax rules or have been removed entirely in the tax year 2022 (which affected the taxes filed in 2023). This might have led to lower refunds than when COVID relief was in place. Although this is not a new tax law change for the tax year 2023, it is worth reminding you about these tax benefits since you may be claiming some of them for the first time again since COVID relief was in place.

The key tax benefits that contain provisions that reverted to Pre-American Rescue Plan tax rules and could lead to a lower tax refund include the Child Tax Credit, the Child and Dependent Care Credit, and the Earned Income Tax Credit.

Child Tax Credit

For the tax year 2023, the Child Tax Credit has been reduced from a maximum of \$3,600, which was available under COVID relief in the tax year 2021, to a maximum of \$2,000. Additionally, each dependent child must be under the age of 17 to be eligible for the credit. This credit is no longer fully refundable, only up to \$1,600. It is important to note that there were no advance payments issued for the tax year 2023. To be eligible for the full credit, your income must not exceed \$200,000 as a single taxpayer or head of household (\$400,000 married filing jointly).

Child and Dependent Care Credit

For tax year 2023, the Child and Dependent Care Credit provisions will remain the same as they were before COVID relief provided under the American Rescue Plan, just like tax year 2022. You can claim up to 35% of \$3,000 (\$1,050) of child care expenses for your dependent child under 13 years old, an incapacitated

spouse or parent, or another dependent so that you can work or look for work. If you have two or more dependents, the credit will be up to 35% of \$6,000 in expenses (\$2,100).

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is designed to help low-to-moderate-income workers and families. It can reduce the taxes you owe and even result in a larger refund for you. For the tax year 2023, the maximum credit amount is \$7,430 for a family with three children. However, individuals with no children can only claim the credit if they are between the ages of 25 and 65.

Individuals

The federal tax brackets for the 2023 tax year will remain the same as the previous year. The tax rates for different income brackets will be 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Any income over \$578,126 will be taxed at the highest rate of 37% (\$693,751 married filing jointly).

Arizona Flat Rate

Starting January 2023, the State of Arizona implemented a flat tax rate of 2.5% for all individuals with an income exceeding \$12,950 (\$25,900 if you are married and filing jointly). You will notice this change on your AZ state tax return filed this year.

Standard Deductions

For married couples who file jointly in the 2023 tax year, the standard deduction has increased to \$27,700, a rise of \$1,800 from the previous year. For single taxpayers and married individuals filing separately, the standard deduction has increased to \$13,850 for the 2023 tax year, which is a rise of \$900. The standard deduction for heads of household has also increased to \$20,800 for the 2023 tax year, up by \$1,400 from the amount for the tax year 2022.

Itemized Deductions

Itemizing may be beneficial if the total value of itemized deductions exceeds the standard deduction. For the 2023 tax year, key details include a \$10,000 cap on state and local taxes, a mortgage interest deduction limit of \$750,000 (\$1 million for pre-2017 homes), a 60% AGI limit for cash donations, a 7.5% AGI threshold for medical expenses, and no longer deductible miscellaneous itemized deductions.

The Saver's Credit

The Saver's Credit is a tax credit that can help people with low to moderate incomes reduce the amount of taxes they owe, worth up to \$1,000 (\$2,000 married filing jointly). To qualify for this credit, individuals must contribute to a qualified retirement account such as an IRA or 401(k), and your AGI must fall within specific limits. The income limit for the saver's credit, also known as the retirement savings contributions credit, is \$73,000 for married couples filing jointly for 2023, \$54,750 for heads of household, and \$36,500 for singles and married individuals filing separately.

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) has been updated for the 2023 tax year. The AMT exemption amount for individuals is now \$81,300, and for married couples filing jointly, it is \$126,500. The phase-out threshold for AMT exemption has increased as well: to \$578,150 for individuals and \$1,156,300 for married couples filing jointly.

Electric Vehicle Credit

Starting in tax year 2023, in addition to the standard tax credit of up to \$7,500 for purchasing a new electric vehicle, you may be eligible for a tax credit up to the lesser of 1) \$4,000 or 2) 30% of the sales price if you bought a *used* electric vehicle. Additionally, in 2024, dealers will have the option to transfer the credit to themselves, effectively lowering the price of the car at the point of sale.

Solar Credit

The solar energy credit remains 30% for purchasing residential energy-efficient property like solar panels and water heaters from January 1, 2022, to December 31, 2032.

Energy Efficient Home Improvement Credit

2023 and 2024 introduce an increase in the energy-efficient home improvement credit amount. The credit is up to 30% of the cost of certain qualified energy-efficient *improvements* (must be an existing home you improve on or add to, not a new home), with a maximum of \$1,200 for specific energy-efficient improvements and up to \$2,000 per year for qualified heat pumps, biomass stoves, or biomass boilers.

Gift Tax Annual Exclusion

The gift tax annual exclusion is the maximum amount of money you can give to any number of individuals or certain types of trusts each year without paying any taxes. This amount will not count towards your gift and estate tax exemption. For the year 2023, the annual exclusion amount is \$17,000 per person or up to \$34,000 for a married couple. By making use of the annual exclusion gifts, you can effectively reduce the amount of taxes you pay on your estate.

Gift/Estate Tax Exemption

The gift and estate tax exemption refers to the amount of money or property that you can transfer during your lifetime or after your death without being charged any gift or estate tax. As of 2023, this exemption stands at \$12.92 million for an individual and \$25.84 million for a married couple

Health Savings Account

It is possible to contribute to your Health Savings Accounts up to \$3,850 for individual coverage and up to \$7,750 for family coverage. Those 55 and older can contribute an extra \$1,000. It is worth noting that you may be able to deduct the contributions you made directly to your health savings account at tax time.

Flexible Spending Account

FSAs are a type of savings account that allows employees to use pre-tax money to pay for medical expenses. You can contribute up to \$3,050 in 2023, and if your employer plan allows, you can carry over up to \$610.

Arizona Short-Term Rentals

Property owners must obtain a transaction privilege tax (TPT) license and file and pay taxes with the Arizona Department of Revenue if they rent out their homes or other lodging spaces in Arizona. The type of license and taxes owed depend on the length of the stay. 29 days or less stays are taxed under the hotel/motel classification. Stays of 30 days or more are taxed under the residential rental classification. Property management companies can file taxes on behalf of their clients, but they must have a separate TPT license if they own taxable rental properties. However, property owners can pass these taxes on to their guests.

Before collecting any tax from your short-term rental guests, it is crucial to determine whether any taxes have already been paid on your behalf. Arizona mandates that all short-term rental online marketplaces,

including Airbnb and Vrbo, must collect and remit state and local taxes on behalf of Arizona's short-term rentals.

Business

Self-employed individuals, small business owners, and gig workers may be eligible for the Qualified Business Income Deduction (QBID), which allows for a deduction of 20% of eligible income before taxes. QBID is one of the most common tax write-offs for self-employed individuals, and it is available for tax year 2023 (filed in 2024) if your taxable income was below \$182,100 for individuals or \$364,200 for joint returns and certain taxpayers with higher business income.

R&D Credit

The Research and Development (R&D) tax credit is a program offered by the federal government that can help businesses reduce their tax liability on eligible domestic expenses. This credit reimburses companies for the cost of research such as product development, improvement, or design.

Legislation passed in 2017 saw the removal of full expensing of the R&D tax credit starting in 2022, which affected the taxes filed in 2023. The new legislation required companies to amortize, or spread out, their R&D deductions over 5 years. This change led to a significant increase in taxes owed for businesses that rely on the R&D credit. While lawmakers have proposed a return to the full expensing of the credit, no changes have been made yet. We will continue to monitor this situation and notify our clients who may benefit from this credit.

Deductible Mileage Rates

As a business owner, it is important to keep track of your business-related mileage as it can be tax-deductible. For the tax year 2023, the mileage rate for business is 65.5 cents per mile.

Bonus Depreciation and Section 179

Bonus depreciation fell from 80% of the cost of the asset to just 60%, and will continue to drop by 20% each year until the deduction sunsets in January 2027. For Section 179, the 2023 tax year introduces an increase to \$1,160,000 for the maximum deduction with a limit of \$2,890,000 in total property placed in service before the Section 179 limit would be reduced.

Health Insurance Deduction

Self-employed individuals can deduct premiums paid for medical, dental, and qualifying long-term care insurance for themselves, their spouses, and dependents. However, this deduction cannot exceed the earned income from their business and is not available for months when either spouse was eligible for an employer-sponsored plan. Additionally, health insurance premiums paid for employees can be deducted as employee benefit program expenses.

Meal Deduction

Deductions for business meals remain at 50% of the cost incurred for business purposes in 2023.

Retirement Accounts

For the tax year 2023, the maximum contribution limit for 401K plans increased to \$22,500, or \$30,000 if you are over 50. The maximum contribution limit for traditional and Roth IRAs has also been raised to \$6,500, or \$7,500 if you are over 50. Please note that you can contribute to your IRA until the April deadline of 2024. Moreover, you may be eligible to deduct the contribution amount from your 2023 taxes, which you will file in 2024. *See the attached 'Tax Year 2023 Key Income Tax Figures' sheet.*

Required Minimum Distributions (RMDs)

Starting in 2023, Required Minimum Distributions (RMDs) are back in effect. This means that if you have an IRA, SIMPLE IRA, SEP IRA, or retirement plan account, you will be required to start taking withdrawals from it once you reach the age of 73. The amount you need to withdraw will be calculated based on factors such as the value of your account and your expected lifespan. Roth IRAs have no required minimum distributions during the account owner's lifetime.

IRS Office

Getting in touch with the IRS for guidance can still be a challenging task. However, the good news is that the likelihood of being audited by the IRS is significantly decreased. Nonetheless, the IRS still sends out computer-generated notices, which are usually a result of document-matching processes. These notices can sometimes be incorrect, so please *contact us as soon as you receive any correspondence from the IRS*, and we will take care of it.

Do not ignore an IRS notice, it will not go away!



Tax Year 2023 Key Income Tax Figures

Individual Income Tax Rates	10%, 12%, 22%, 24%, 32%, 35%, 37%	
Additional Medicare Tax Rate	0.90%	
Net Investment Income Tax Rate	3.80%	
Standard Deductions	2023	2022
Single & Married Filing Separate	\$13,850	\$12,950
Married Filing Joint & Qualifying Widower	\$27,700	\$25,900
Head of Household	\$20,800	\$19,400
FICA Taxable Wages (Social Security)	2023	2022
	\$160,200	\$147,000
Child Tax Credit	\$2,000	\$2,000
Standard Mileage Rate	2023	2022
Business	65.5¢	62.5¢
Medical and Moving	22¢	22¢
Charitable	14¢	14¢
Section 179	2023	2022
Maximum Amount	\$1,160,000	\$1,080,000
179 SUV Limitation	\$28,900	\$27,000
Retirement Plans	2023	2022
IRA - Contribution Limit/Catch up if Age 50	6,500/1,000	6,000/1,000
SIMPLE IRA - Contribution Limit/Catch up if Age 50	15,500/3,500	14,000/3,000
401(k), 403(b), & 457 - Contribution Limit/Catch Up Age 50	22,500/7,500	20,500/6,500
Defined Contribution - Contribution Limit	\$66,000	\$61,000
Health Savings Accounts (HSA)	2023	2022
Individual - Contribution Limit	\$3,850	\$3,650
Family - Contribution Limit	\$7,750	\$7,300
Age 55 Catch-Up	\$1,000	\$1,000