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THE STRAUSS REPORT

Fall 2023

OMG: Is it really October - in this crazy year of 2023?

This tax season and this year of 2023 went more smoothly than the years before- primarily due to the increase in IRS funding and support – and less major tax changes. However, there still seems to be so many changes in our own lives - from losing or changing jobs, considering retirement, sales of houses to so many medical issues (and our working with the adult children of our clients). We have spent time working to make sure your questions are answered and that we follow up on each call or email. As you will read below, we are beginning to see major changes with the IRS which will help us- and you too. However, it is important to note that many of the changes from the past six years "sunset" in 2025 - that means the election of 2024 and who controls both the White House and Congress can have a huge impact on our tax laws now and for the years to come.

In this issue of **The Strauss Report**, we will work to help you understand the tax changes from the Inflation Reduction Act of 2022 and suggest some end of year tax strategies to consider. We will also work to answer questions on the implications of required minimum distributions from IRAs and inherited IRAs for 2023 and beyond, charitable contributions (QCDs) and how both paying and responding to IRS and IL notices has changed. We will also review the fall medical insurance season ahead, including increases in Social Security for 2024 (and an increase – as opposed to a decrease last year in Medicare premiums as well!). And finally, we will address the issues many of you (and of us) are having as we consider our finances/investments and planning our lives as we continue to get "older."

PROVISIONS OF THE INFLATION REDUCTION ACT OF 2022…

On August 16, 2022, President Biden signed into law H.R. 5376. In general this legislation:

- **Continues the Affordable Care Act premium subsidies** that lower the cost of health insurance for lower income individuals and families from now until 2025 (they were due to expire at the end of 2022)
- **Creates expanded Energy Credits** (now called the Energy Efficient Home Improvement Credit) and extended the credit to include property placed in service before January 1, 2033. For 2022, the prior credits have been revived as they were - with a lifetime credit limitation of $500. For 2023-2032 the credit amount to 30% (previously 10%) of the amount paid for qualified energy improvements, with an annual limit of $1200 - and NO lifetime limits. For windows, skylights $600 annual total credit. For doors the credit is $250 for one, $500 for more than one and $2000 (for installations after December 31, 2022) for heat pumps, water heaters and biomass stoves and boilers. This bill also expanded the credit to homes other than a principal residence - that means a second home will qualify!!
- **There is a new Clean Vehicle Credit** beginning after December 31, 2022, which eliminates the phase out of the credit based on number of vehicles sold. The Credit for each new plug drive motor vehicle can be as high as $7500. The vehicle must have final assembly in North America and the MSRP cannot exceed $55,000 for sedans and $80,000 for vans and SUVs. It is limited, however, by the taxpayers Adjusted Gross Income ($300,000 for Married Joint and $150,000 for all others).
- **There is also a new credit for previously owned vehicles** beginning in 2023. The credit is the lesser of $4,000 or 30% of the sales price - limited to $25,000. The transaction must be made through a dealer and has an income phase out.
- **Increases the IRS budget by roughly $80 Billion over ten years**. They money is broken into four main categories – enforcement ($45.6 billion), operations support ($25.3Billion), business system modernization ($4.8 Billion) and taxpayer services ($3.2 Billion). Enforcement includes auditing of high-income taxpayers (over $400,000), conducting criminal investigations and to enforce criminal statutes related to violations of IRS laws and other financial crimes. Operations support includes information technology and upgrading of their hardware and software much of which is pre-2000. The

increased funding will also be used to:

- Real progress in Customer Service (for you and for me!) has been made with this additional funding in 2023:
  - They have scanned 225 more forms than in 2022.
  - They have enabled an additional 51 forms and letters for online replies.
  - The IRS dramatically improved customer service with an 87% response rate on its main taxpayer help line. They cut wait time from 28 to three minutes, served 140,000 more taxpayers in person, cleared the backlog of unprocessed 2022 individual tax returns with no errors, launched two new digital tools and enabled a new direct deposit option for taxpayers with amended returns.
  - The IRS also hired nearly 700 employees to open or reopen 42 Taxpayer Assistance centers across the county. This is part of a total of 5,000 new hires.
- Enforcement has also been ramped up, including:
  - Pursuing tax evading millionaires using the IRS criminal investigation unit.
  - Making delinquent millionaires pay up.
  - Cracking down on Millionaire non-filers.

- **And finally, one of the most significant provisions allows Medicare to negotiate the price of certain prescriptions drugs, bringing down the cost we will pay for medications.** Taxpayers with the drug plan can now save up to $618 per average dose (on their co pays) from October through December for 34 prescriptions drugs, including those for rheumatoid arthritis, diabetes, high blood pressure and lung cancer. CMS estimates that Medicare enrollees spent over $3.4 Billion for out-of-pocket drugs in 2022. Check with your doctor and your pharmacy to be sure you get the drugs that qualify and see what the cost savings are.

<u>REQUIRED MINIMUM DISTRIBUTIONS are important…</u>

- The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed on December 20, 2019. A major part of this legislation increased the age required for minimum distributions from 70 ½ to 72. This is <u>only</u> for individuals who became 70 ½ after 12/31/2019. **Now the Secure 2.0 Act delayed this RMD age to 73 - starting in 2023! What this means is that taxpayers who turn 72 in 2023 can wait to begin their required withdrawals until 2024 - but those of us who have already started must continue. Confusing - Oh yes!!**
- **Beneficiaries of inherited IRAs (except the spouse) cannot "stretch" the IRA withdrawals over their lifetimes**. The entire account balance must be distributed within 10 years after the date of death.
- **Repeal of maximum age for traditional IRA contributions.** So long as there is earned wage or consulting) income, an IRA contribution can be made.

Perhaps you need this withdrawal for your living and/or medical expenses. Perhaps you want to take part of it out and donate it to charity as a QCD - Qualified Charitable Distribution (and many of our clients are doing this!), or perhaps you want to give it to a child or grandchild - please do so! As most of us know by now, if you donate directly to charity from your IRA, it is subtracted from your taxable income. This could reduce your taxable Social Security; the Adjusted Gross Income used for the medical deduction floor and save you taxes as well. We have been working with clients to properly complete the QCD forms with their investment advisors - call us if you want our assistance.

In addition, many of us have several IRAs - you can take your total RMD from one or take an amount from each account. The penalties for" forgetting to withdraw" were huge- 50% of the required withdrawal, but now they have been reduced by the Secure 2.0 Act:

- To 25% or even 10% if the error is corrected within two years.

While clients have occasionally slipped up, we have never had a penalty assessed….

<u>Social Security, Medicare, and you….</u>

- **Social Security recipients should see a small (quite small!) increase for 2024 – estimated to be about 3.2-3.5% vs the 8.7-8.8% rise** in their benefits for 2023 because of the reduced inflation from the Consumer Price Index. This means an average increase of $57-$62/month vs. $146 in 2023. However, Medicare premiums which dropped to $164.90 in 2022 are scheduled to increase about $10/month for 2024, further eroding any income bump or our financial concerns over high prices for housing, healthcare, and certain grocery items.

- **Upper income seniors also pay more for Medicare Part B and Part D coverage in 2024,** depending on adjusted gross income (AGI) plus any tax exempt income - over $206,000 for joint filers or $103,000 for Singles. You get a **letter in November of each year** when the IRS and SSA share tax information from your 2022 tax return. If your premiums are going up – then they are deducted from your Social Security deposited in your bank account. This is a year-by-year computation - so if your income increased for just one year, your premiums should go back down the next.

HOUSE SALES, LAND SALES - AND RENTAL SALES TOO

Many taxpayers are selling their principal residences, land held for investment, rental properties and even farms. These may be in IL or in another state. You/we have to report these sales and pay tax on the gain (except for main homes which have an exclusion of $500,000 if married and $250,000 if Single) and to IL or the other state where the property was located. Please call or email us if you have sold so we can send you what information we will need to compute your "profit" now and not wait until tax time. The decision to sell your main home (often your home for many years!) is not an easy one and we discuss with clients and their adult children issues such as aging in place vs. living in assisted living/ retirement homes.

MORE THINGS TO CONSIDER THIS FALL…

1. **The floor for medical expenses is still 7.5%.** Most people do not itemize unless they have substantial medical (which often comes from medically required caregiving or nursing home expenses) or charitable deductions or a very large mortgage,
2. **Review your withholding and income for 2023.** Your income may be higher or lower in 2023 than in years past. Many of us have had a cut in salary or may not be getting the bonus we expected. In addition, many of us have CDs in the bank which are now earning over 4-5% which could result in a lot more taxable Social Security and tax. The stock market has been both up and down, but we never know what long term capital gains from mutual funds will be until year end.
3. **Please review your health insurance now** to see what it covers and what it does not. Also, if you are furloughed or laid off, please check the cost of COBRA. You also might be eligible on your spouse's plan or through the Health Insurance Exchange due to special circumstances. Please be careful of less expensive high deductible plans – they sound good but can be very costly if you require hospitalization or major medical treatment.

6. **Review your 401K/ IRA and Other Investments**

   Many of us have several IRAs and investment accounts and have never or hardly ever reviewed how they are performing or what they are invested in. Consider:
   - **Make lists** of all accounts, passwords, login IDs and contact information.
   - **Make an appointment** with your broker or financial advisor to review performance.
   - **Consider if this is a good time to change and/or consolidate investments.**
   - **Review your investments** and possible tax strategies with us or another objective professional.

7. **Consider rolling over part of your IRA to a ROTH**. The stock market is down right now, and it might be a good time to do a ROTH conversion. Yes, you pay the taxes (only Federal) now but then you have time to grow the IRA tax free and your beneficiaries do not have to either pay tax on a ROTH or withdraw it on a fixed timetable like an inherited IRA.

8. **Read your Trust or Will - or have one done now!**

   Many of us have not looked at our will or trust in five years - or often 10 or more years. And at least one third of us do not have even a will! Your will or trust defines who will manage your affairs and money if you become incapacitated or pass away. Your will or trust defines who will get your assets and by what percentage. NOW is a good time to review who is your executor or trustee and what you have - before it is too late. We work with attorneys in the area all the time and review trust documents with you for possible tax issues.

JUDI STRAUSS in Print, on Media.

In January 2024, we are doing Zoom workshops at both the Lisle and Downers Grove Libraries- at 6:30 PM on January 23 and 30 respectively. Please sign up at the library or online.

Beth and I regularly check the phone- (the (630) 964-4018 number) and my email (judi@strausstax.com). Make sure you put our contact information in your cell phone. In addition, make sure your family knows who we are in case they need to talk with us or us to them.

Both our website (**www.strausstax.com**) and our Facebook page have up to date tax information and workshop flyers, and you can follow us on Facebook as Strauss Tax Service without being my personal friend!

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Things to Call us About this Fall:

1. **Estimates for the 4th Quarter after long term capital gains (or maybe not this year!) in our mutual funds show up in December.**
2. **I/we sold a stock. How do I compute the Basis?**
3. **Home Sales - your principal residence and other homes too.**
4. **Am I ready for retirement?**
5. **What do I need to do when someone passes on?**

Judi Strauss