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THE STRAUSS REPORT

Summer 2023

TAX SEASON IS FINALLY OVER – or is it?

From our view and that of the IRS as well, the 2023 tax filing season went quite smoothly, in comparison to that of 2021 and 2022. This was due to the \$80 billion cash infusion that was provided by the Inflation Reduction Act as well as the newly appointed IRS Commissioner Danny Werfel who has extensive experience in the private sector (Boston Consulting Group) as well as over 15 years in the federal government at both the IRS and the Office of Management and Budget. He is committed to “world class customer service for taxpayers, and “world-class data management systems for IRS employees,” to both collect tax monies and make it easier for all taxpayers to both file and communicate with the IRS. This means “on the phone, in person and online” with more improvements in the coming years. The initial funding helped purchase new scanning technology which has allowed paper returns to be digitized and quickly processed, with over 1.4 million unprocessed individual and business returns cleared by mid-March. Over 5,000 new employees were hired (and trained) for the 2023 season and we can now actually reach an IRS agent on a timely basis- which is good both for us and for you too.

In this summer tax newsletter we will review tax law changes to review and consider now - as you plan for 2023 taxes, including: your required minimum distributions and contributions from your IRA, your possible investment in energy saving home improvements and electric cars, your investments for both income and tax planning with the higher interest rates and the lackluster stock market, and medical deductions as many of us (or our parents) are requiring more long term care. We will also discuss things we have been doing for clients - for taxes now, in working with the IRS and others for you and in assisting you or your beneficiaries after a death in the family.

SO WHAT HAPPENED – during this filing season?

1. Some of us had more income in 2022 than in 2021 and we also owed taxes. Why?

- **First**, Required Minimum Distributions are back. The stock market was at an all-time high at the end of 2021, so our RMD in 2022 was more than in prior years. Many of us contributed to charity from our IRA withdrawals (QCD or Qualified Charitable Distributions) but our income was still higher than last year.
- **Second**, many of us have our investments in mutual funds with stocks - and the fund managers decided to sell both the year before at the end of 2021 and in 2022 (since many people “bailed” out of stock mutual funds with the not great stock market). This was a good investment strategy (to capture the gains) but created short term and long-term capital gains on your 1099 - which was a surprise (for the second year in a row) at tax time. These gains if long term were taxed at a lower tax rate (usually 15%) for the IRS but were also taxed at 4.95% for IL. In contrast, many money managers chose to “harvest” losses in 2022, which often wiped out those LT capital gains from mutual funds and since you can only take \$3000 loss/year over any gains, this means that many of us have carryover losses for next year and the years to come. One result of this was the faulty tax revenue projections which were based on record high (and above projection) amounts from the prior year- one report showed federal tax revenue as of April 2023 decreasing by 35% from the same time last year!
- **Third**, interest rates are now the highest many of us have seen in quite a while. CDs and money

market accounts as well as I Bonds have rates ranging from 4.55% - over 5% and are “safe” investments as compared to the ups and downs of the stock market. Many of us have been pulling out of investments and keeping the funds in cash accounts- this is good for income but then also creates more taxable ordinary income on your tax return for 2023.

2. **The big Child credits (due to COVID) from 2020 and 2021 were gone** so unless you adjusted withholding, many parents got a much lesser refund in 2023 than in the prior years.
3. **SSA had the biggest increase for 2023** than we may ever see (due to rising inflation) – 8.7%! That is the good news. For so many of us (with the calculation not adjusted for inflation since 1992!), 85% of our Social Security is taxable and can show up as another unwelcome surprise at tax time. In addition, the tax tables, and the standard deduction for 2023 have both been adjusted for the higher inflation. (And yes, we are all paying so much more - for food, for gas, for drugs etc.!)
4. **Many clients are now in the “modern” age** - paying their Estimated taxes online for both the IRS and IL. We provided detailed instruction sheets and you do not need an online account for this. You get an email confirmation - as well as see it debited from your bank account. Please keep the ES worksheet with proof of payments for your 2023 taxes

Your higher total income (including Social Security and Municipal Bond Interest) impacted the amount you are paying for Medicare and your Medicare Drug Plan in 2023. The IRS and Medicare/Social Security exchange income information and letters informing you about higher costs (which get subtracted from your SSA benefits deposited into your bank account) are mailed in the Fall. The increases start at a total income of 97,000 for Singles and \$194,000 for Married/Joint. We have the chart for 2023; if you would like a copy, call, or email us so you won't be surprised later this year. The good news is this is a year-by-year computation, so if your income goes down you may not pay the higher Medicare premium next year.

The IRS is both requiring Identity Protection Pins for taxpayers whose identity has been compromised and giving them to taxpayers who want to protect themselves. They must be included in the tax return we efile – and must be renewed /changed each year. Several clients did not realize they needed a new one in 2023 and we had to help them on the IRS website: www.irs.gov. We cannot say whether it is a good idea for you and/or your spouse. It does offer protection but adds yet another layer of complexity to the tax filing process each year.

In addition, we have substantially more extensions than in prior years. Some of us are older and did not “find” all the tax documents needed; others did not want to look at taxes this year and got information to us late so there were just not enough hours to do all the work before April 18. Others usually get extensions – which are until October 15th. The issue is that the extensions which we filed are NOT an extension to pay so there could be small penalties and interest if you owe tax money. We can include possible penalties in what you owe but you may still get a notice from either the IRS or IL – or both. Call us or email your notice to us and we will review it and see what we can do for you. If it is small, it is probably easier to just pay it.

We are also tracking refunds for clients - for current year tax returns, for amended returns from 2022 and other years. We get Form 2848 (Power of Attorney) and follow up with the IRS – and cheer with you when you get your refund, when we get penalties reduced and/or problems solved.

SO WHAT CAN YOU BE DOING THIS SUMMER?

1. **We have computed required minimum distributions for most clients.** Please remember they must be taken out before December 31, 2023. The RMD can come out of each IRA or only one IRA. It does not matter so long as the total required amount is withdrawn. The new SECURE ACT 2.0 ACT signed into law on December 29, 2022, reduced the missed RMD penalty from 50% to 25% starting this year. And, if the penalty is corrected in a timely manner, the penalty is reduced further to 10% - however I have

NEVER had a client get a penalty or even a letter – ever! You can also make charitable contributions (QCD) directly from your IRA to the charity- this saves tax money since most of us are not itemizing now. In addition, the small deduction for contributions without itemizing is gone.

2. **Make your home more energy efficient!** Energy Credits are back - thanks to the Inflation Reduction Act – big time starting in 2023. The credit is equal to the lesser of the sum of amounts paid for qualifying home improvements or an annual \$1200 limit (with no lifetime exclusion). Qualified energy property (meeting [Energystar.gov](https://www.energystar.gov) standards) include central air conditioners, furnaces, water heaters, exterior doors, exterior windows, including skylights, and insulation – each have a specific credit amount.
3. **Credits for Electric vehicles are back.** The Inflation Reduction Act split the \$7500 credit for new cars, SUVs and pickup trucks (price ceiling of \$55,000 for cars and \$80,000 for SUVs or vans), into two parts- depending on where the battery components are sourced. There is no sales cap but there are still caps on buyer income (\$150,00 for Single and \$300,000 for married/joint.). In addition, used EVs sold by dealers will be eligible for a one-time credit of up to \$4000 with a “hard eligibility” ceiling of a \$25,000 sales price.
4. **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.
5. **Review your withholding.** 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. We recommend that we review your withholding for 2023 (with the all-new W-4), so you might get more take-home pay which you might need now.
6. **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:
 - **Making lists** of all accounts, passwords, and contact information
 - **Make an appointment** with your broker or financial advisor to review performance.
 - **Considering if this is a good time to change and/or consolidate investments.**
 - **Reviewing 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 way 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.

WHEW! IS THERE MORE? OF COURSE!!

- 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 only 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.

STRAUSS TAX SERVICE NEWS! We continue to work with you, prepare your taxes (both for those in the Chicago area and increasingly for those who have moved out of town - (we do so many other states now!)), do tax planning, respond to IRS notices and work with your broker, your adult children, and your attorney on the phone, on Zoom or in person. Beth Austin (and her husband Chris) have been invaluable in making sure your documents are safe and secure and provide you (and me!) the best care and customer service. We send tax folders back to you via FEDEX and give you tracking information - and email with password protection so your Social Security number and financial information is secure. Our phone number has been ported to a cellphone: 630.964-4018 and while we are not on it 24/7, we do return all calls.

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We continue to have an active Facebook Page - which is updated often. We also post both our newsletter and tax law updates on our website: www.strausstax.com. Or please call us if you have a question! We are here, as always - on the phone, via Zoom or in person too, to answer your questions, and work to give you good tax and financial advice on retirement planning, estate, and trust taxes (after a loved one passes on) and the full range of the new and complex tax laws now.

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