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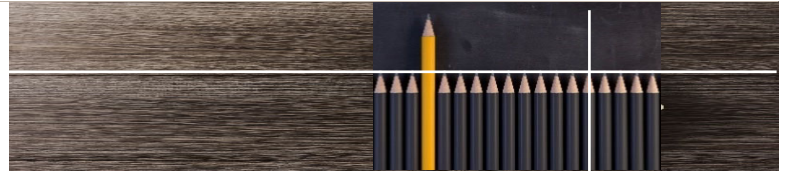
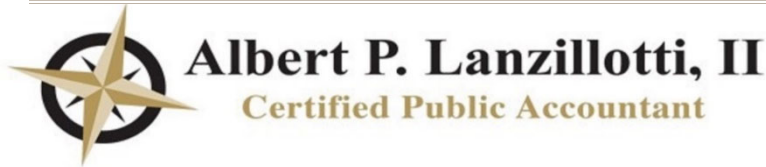
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## 2023 YEAR END TAX LETTER



### Massachusetts Tax Reform – Income & Estate Tax Changes

*Here's what it means for your wallet >>>*

Substantial changes to the Massachusetts estate tax and income tax rules recently became law under legislation titled **An Act to Improve the Commonwealth's Competitiveness, Affordability, and Equity (Act)**, which was signed by Governor Maura Healey on October 4, 2023. The Act makes the following key tax changes, **effective January 1, 2023**:

#### **Short-Term Capital Gains Rate – reduced to 8.5% on assets held less than 1 year**

Short-term capital gains will now be taxed at 8.5%, instead of the previous 12%. However, if the Massachusetts "millionaire's tax" applies (see below), the 4% surtax will bring the rate on short-term capital gains to 12.5%.

#### **Child Dependent Tax Credit – increased to \$310 per dependent**

MA previously allowed parents to claim a \$240 credit for each child under the age of 13, dependents over the age of 65, and disabled dependents of any age. The Act increases the credit to \$310 and eliminates the limit of two qualifying dependents. This means more savings for those with three or more children. **A couple with four children would receive an additional \$760.** For 2024 and beyond, the credit increases to \$440 per child.

#### **Rental Deduction – increased to \$4,000**

MA previously allowed renters to deduct 50% of their rent each year, up to \$3,000. The Act increases the deduction to \$4,000. If you pay more than \$8,000 in rent a year (and who doesn't if you rent in the Boston area), **you'll save an extra \$50 a year.**

#### **Senior Circuit Breaker Credit – more than doubled to a potential \$2,590**

MA previously allowed lower-income residents aged 65 and older to claim up to a \$1,200 credit if their property taxes and 50% of their water/sewer bills were more than 10% of their gross income (or if rent is greater than 25% of gross income). The Act doubles and inflation adjusts the credit up to \$2,590. It also increases the income limits to \$69,000 for a single individual and \$103,000 for a married couple filing jointly. The assessed value of the home cannot exceed \$1,025,000.

#### **Tax Credit for Failed Cesspool or Septic System Title 5 Expenditures – tripled to \$18,000**

MA currently allows a credit for the repair or replacement of a failed cesspool or septic system at your principal residence. For 2023, the maximum credit has tripled from \$6,000 to \$18,000 and the amount claimable per year increases from \$1,500 to \$4,000, easing the burden on homeowners facing the high cost of septic tank replacement or repair.

#### **Millionaires Tax – 4% on income above \$1 million**

MA now taxes the first \$1 million of income at 5% and any income thereafter at 9%. For 2023, married taxpayers could elect to file their returns separately with MA and jointly with the IRS, which affords favorable tax treatment at both levels. With the passage of the new Act, this loophole has been eliminated in 2024. For 2024, married couples must file their MA tax returns using the same filing status as their federal returns (that is, jointly or separately).

### Massachusetts Estate Tax



The Act raises the estate tax threshold in MA to \$2 million from \$1 million.

- These changes are effective as of January 1, 2023, and will benefit estates of decedents who died during 2023.
- Eliminates the "cliff effect"; only the amount above \$2 million is taxable, not the entire estate as it was previously.
- Further clarifies that out-of-state real estate and tangible personal property are not subject to the MA estate tax.

*Note: The Federal estate tax threshold is \$12.92 million for 2023. Unless Congress acts this higher exemption will expire Jan. 1, 2026 and revert to the pre-2018/TCJA level of approximately \$7million, adjusted for inflation.*

# IRS Audit Focus 2024 & Beyond >>>

Is the IRS going to audit your tax return?

The Inflation Reduction Act earmarked \$80 billion for the IRS over the next **10 years**. The money is intended in part to facilitate more audits of corporations, partnerships, and wealthier individuals. However, the IRS has indicated that **if you make less than \$400,000, you can probably relax**. The new IRS commissioner, Danny Werfel also added:

*“People who get W-2s or Social Security payments, or have a small business, should not be worried about some new wave of IRS audits. We’re taking that off the table.”*

So, who and what is the IRS focused on ...

- High wealth, high balance due taxpayer’s who have more than \$1 million in total income and \$250,000 in tax debt.
- 75 of the largest partnerships in the United States, including hedge funds, real estate partnerships, large law firms, and others.
- The agency also plans to target priority areas, such as **digital assets** and **Report of Foreign Bank and Financial Accounts (FBAR)** violations (see article below on the potential FBAR reporting requirement for gambling income).

Audits of wealthy individuals >>>

The IRS plans to contact more than 1,600 taxpayers and deploy dozens of revenue officers on these high-end collection cases.

As of this writing the IRS collected \$122 million from 100 audits.

## Reporting Gambling Activity including DraftKings, Fantasy Football, and More

Gambling winnings can come from many sources, such as state lotteries, scratch tickets, slot machines, table games, on-line gambling, fantasy sport leagues, and more. If you’ve watched a sports broadcast recently, you know that on-line sports betting is everywhere these days. After the Supreme Court lifted a federal ban on sports betting in 2018, platforms like **FanDuel, BETMGM, DraftKings, and Caesars Sportsbook** (among others) exploded in popularity. If it turns out to be your lucky day and you take home a net profit for the year playing on these websites, the organizers have a legal obligation to send both you and the IRS a **Form 1099-MISC**. If you receive your winnings through PayPal, Apple Pay etc., the reporting form will be on a **Form 1099-K**. Winnings from casinos or state lottery will be reported on **Form W2-G**.

You may be surprised to learn **you must report your gambling winnings even if your gambling losses are greater than winnings**. Per IRS, all gambling winnings must be reported as “other income” on your tax return. Losses, limited to winnings, may be deducted **ONLY** if you itemize your deductions and have a record of losses. Taxpayers that do not itemize **CANNOT** deduct gambling losses. The only exception to this rule relates to slot machines. The IRS allows netting of wins/losses for single session of play or when tokens are redeemed in the same calendar day at the same establishment.

Determining the taxability of gambling winnings is further complicated by the use of **virtual currencies** and, the unknowing **use of offshore or foreign bank accounts** to transfer funds. See right sidebar (FBAR) →

On-line gambling can be done with a variety of currencies from real money to virtual currency or in-game currency. Virtual or in-game currency includes gold, points, and coins. The question becomes whether winnings in the form of virtual currency are taxable? The IRS has ruled that as long as the virtual currency does not leave the gaming environment, meaning the currency is not convertible, taxpayers are not required to report the activity on their tax return.

## Reporting Gambling Losses on your Massachusetts return >>>

- Gambling losses are **NOT** deductible on your MA state tax return **UNLESS** they were incurred at a MA licensed casino (Encore, MGM) and are only deductible up to the MA casino winnings.
- In the context of sports betting, taxpayers can offset sports gambling losses incurred in-person at a MA casino but **NOT** on-line.
- For betting on-line or via a sports app, MA taxpayers placing those wagers will have to report all the winnings without being able to offset **ANY** of the losses.

## Does your Gambling activity trigger a FBAR Foreign Bank reporting requirement? >>>

Taxpayers who gamble on-line generally use on-line bank accounts to transfer money onto the platform. Unbeknownst to them these banks may be offshore or foreign banks triggering a FBAR filing. A **FinCEN Form 114, Report of Foreign Bank and Financial Accounts**, is required if:

- The value in ALL foreign accounts exceeds \$10,000 at any time during the year.
- The taxpayer has financial control or signature authority over the account.

**Neteller** and **Firepay** are two examples of on-line banks that are considered foreign accounts. Whatever on-line bank you utilize, please be aware of this tax reporting requirement and **ask your institution if you have a foreign reporting requirement**. The penalties for failing to file can be severe.

# Sweeping Retirement Changes >>>

The **SECURE 2.0 Act**, a significant piece of legislation enacted last year, has substantially changed retirement account rules. These changes directly impact retirement savings plans, including 401(k), 403(b), IRA, Roth accounts, and related tax breaks. The main objective of this new law is to encourage more workers to save for retirement. However, some of the complex changes have caused confusion for taxpayers and plan sponsors. Here's what you need to know ...

Provision	Effective Date	Explanation
<b>Required Minimum Distributions (RMDs)</b>	January 1, 2023	The requirement to begin taking RMDs will increase from age 72 to age 73 in 2023, and then to age 75 in 2033.  <i>The age for RMDs is 73 for those born from 1951 through 1959 and is 75 for those born in 1960 or later.</i>
<b>Required Minimum Distribution from Roths</b>	January 1, 2024	Roth IRA accounts in employer-sponsor plans, such as 401(k) plans, will be exempt from the RMD rules while the participant is alive.
<b>RMDs for surviving spouses</b>	January 1, 2024	Surviving spouses, who are the sole beneficiary of their deceased spouses' retirement account, can elect to delay the RMD payment until the deceased spouse would have reached RMD age had they lived, if later than the surviving spouse's RMD age.
<b>Expanded Catch-up Contributions</b>	January 1, 2025	An annual catch-up contribution amount for participants ages 60-63 to is available of at least \$10,000 or 150% of the regular limit on catch-up contributions, if higher.
<b>Catch-up contributions as Roth</b>	January 1, 2026  (reflects a 2-year delay)	For any participant earning over \$145,000 (indexed for inflation) for the previous tax year, their catch-up contributions must be made with after tax dollars to a designated Roth account.
<b>10% Early Withdrawal Penalty Exceptions (before age 59 ½)</b>	Various	Expanded to include federally declared qualified disasters, terminal illness, victims of domestic abuse, and emergency expense withdrawals of \$1,000 / year.  If any of the above situations apply to you, please call our office to discuss the specifics of each exception.
<b>RMD penalty reduced</b>	December 30, 2022	The penalty for failing to take an RMD decreased from 50% to 25% of the RMD amount not taken, and is further reduced to 10%, if corrected within 2 years.  A 3-year statute of limitations for the penalty is added.

## RETIREMENT PLAN CONTRIBUTION LIMITS

Plan Type	2023	2024
<b>Employee 401(k), 403(b), 457</b>	\$ 22,500	\$ 23,000
<i>Catch-up for those over age 50</i>	7,500	7,500
<b>IRA</b>	6,500	7,000
<i>Catch-up for those over age 50</i>	1,000	1,000
<b>SIMPLE</b>	15,500	16,000
<i>Catch-up for those over age 50</i>	3,500	3,500
<b>SEP IRA</b>	66,000	69,000

## 529 Plan Rollover Options – Secure Act 2.0 >>>

Beginning in 2024, beneficiaries of 529 college savings plans are allowed to roll over up to \$35,000 to a ROTH IRA, over the course of their lifetime, if certain conditions are met:

- The 529 account must have been open for more than 15 years.
- Rollovers are subject to Roth IRA annual contribution limits.
- The Roth IRA owner must have earned income.



## IRS Delays the \$600 Form 1099-K Reporting Threshold, Again >>>

The 2021 **American Rescue Plan** requires 3<sup>rd</sup> party payments platforms such as Venmo, Apple Pay, PayPal or Cash App to send Form 1099-K to taxpayers if their transactions total more than \$600 over the course of the year.

The IRS will delay this rule change for a second time and treat 2023 as "an additional transition year". This means you should receive a **Form 1099-K only if your payments exceed \$20,000 or 200 transactions for 2023.**

**Beginning in 2024, the reporting threshold will be phased in, per IRS, at \$5,000 in total payments.**

If you receive a Form 1099-K it is important that you provide us with the document and an answer to the question, **"what did you do to receive this form?"**

- Did you sell your dining room table or other housewares on Facebook Marketplace? If yes, please let us know how much you paid for each item.
- Are the payments reported transfers of cash between friends for the shared cost of dinners or a gift to a loved one? Indicate these charges as "Non-Business".
- Did you deliver groceries for DoorDash or earn tips as a hairdresser/barber, etc.?

**Answers to these questions will help us determine if the income is taxable and how to report it on your tax return.**

# Going Green?...

The 2023 energy efficient home improvement credit is 30% of the costs of eligible home improvements made during the tax year, with a \$1,200 annual limit.

The specific annual limits for improvements are



Because the new credit has a yearly limit rather than a lifetime limit, you could spread out your qualifying home improvements over the 10-year life of the credit, and receive up to **\$12,000 back** on your taxes.

- \$150 for home energy audits
- \$250 for exterior doors meeting Energy Star requirements (\$500 total)
- \$600 for windows and skylights meeting Energy Star requirements
- \$600 for other qualified energy property, including central air conditioners; electric panels and certain related equipment; water heaters powered by natural gas, propane, or oil; oil furnaces and water boilers
- \$2,000 for electric or natural gas heat pumps and heat pump water heaters, biomass stoves and boilers (the \$1,200/yr limit does not apply)

A separate **residential clean energy credit** which includes solar, wind and geothermal power is available for both existing homes and new construction. The credit amount increased to 30% for 2023 through 2032 then drops to 26% in 2033 and 22% for 2034.

For full FAQs on these credits visit our website at: [www.APL2CPA.com](http://www.APL2CPA.com)



## 2023 Electric Vehicle Tax Credit - Overview of Rules and Qualifications

- \$7,500 max credit for new EV's / \$4,000 max credit for used EV's, limited to 30% of the sale price
- MSRP Caps - \$80,000 SUV; \$55,000 Sedans; \$25,000 Used Cars
- Income Limits – New Cars: \$150,000 Single/\$300,000 MFJ / Used Cars: \$75,000 Single/\$150,000 MFJ
- Other qualifications include final assembly in North America and battery and critical mineral requirements

Go to [www.FuelEconomy.gov](http://www.FuelEconomy.gov) for the most up-to-date information on eligible models.

In 2024, buyers can transfer the credit to the dealer to lower the price of the car by the credit amount at the point of sale.

## 2024 Tax Season Filing Guidance >>>

### Important Reminders >>>

- *Sign your engagement letter provided herein and submit now or with your tax paperwork.*
- *Be on the lookout for an email in January with your e-Organizer, My1040Data.*
- *Include a current email address and cell phone number with your tax paperwork.*
- *If you are a business owner require your vendors and subcontractors to fill out a Form W-9 now in preparation for 1099-NEC / MISC filings due January 31, 2024.*
- *Visit our website for additional tax guidance and year-end planning.*

### SUBMIT YOUR TAX DOCUMENTS ELECTRONICALLY >>>

Please upload your tax paperwork electronically either through *My1040Data*, e-Organizer or the *Client Portal* provided on the website.

Documents submitted electronically must be in PDF format. JPEG, GIF, PNG, etc. are not acceptable formats.

### FORGO A PAPER TAX RETURN >>>

In an effort to go green we are strongly encouraging our clients to receive and sign their 2023 tax return electronically (no paper), using our secure e-Delivery tool.

### MAXIMIZE YOUR DEDUCTIONS >>>

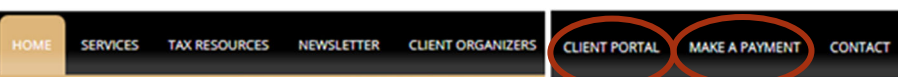
- **New baby?** Congrats! Provide a DOB and SSN.
- **Child in daycare?** Provide amount paid as well as provider name, address, and federal ID number.
- **Child in college?** Provide the Form 1098-T, tuition statement, available online in your college bursar account.
- **Purchase an electric vehicle, or install new energy efficient windows, doors, etc?** Provide receipts.
- **Pay rent?** Provide amount paid and name and address of your landlord.

### TOOLS AVAILABLE ON OUR WEBSITE >>>



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**Deadline to submit your tax documents is**

**MARCH 18, 2024**

A fee of \$150 will be charged to process an extension.

- ✓ Upload your tax documents securely through the “Client Portal”
- ✓ Make a Federal or Massachusetts estimated tax payment or pay your tax preparation fee electronically using the “Make a Payment” tab.
- ✓ Use the “Where’s my refund?” tool to find out the status of your refund. The link is located on the right sidebar menu on any page or tab within the website.