

# HABURN CPA 2023 TAX HIGHLIGHTS

## INDIVIDUAL HIGHLIGHTS

### WHEN DOES A DEPENDENT HAVE TO FILE A RETURN

A dependent must file a return if the dependent has:

- Earned income only and the total is more than \$13,850.
- Unearned income only (i.e., income which is not compensation for services) and the total is more than \$1,250.
- Both earned and unearned income and the unearned income is more than \$400 or the total income is more than \$13,850.

### STANDARD DEDUCTIONS

Filing Status:	Standard Deduction	Additional for elderly and/or blind
Single	\$13,850	\$1,850
Head of Household	\$20,800	\$1,850
Married Filing Joint	\$27,700	\$1,500
Married Filing Separately	\$13,850	\$1,500

If an individual can be claimed as a dependent on another taxpayer's return, the regular standard deduction is limited to \$1,250 or the dependent's earned income plus \$400 up to the regular standard deduction. If the individual is over 65 years of age and/or blind, the additional deduction will be added to the above.

### STANDARD MILEAGE ITEMIZED DEDUCTION RATES

The standard mileage rate allowances for 2023 are 14 cents for charitable miles and 22 cents for moving and medical.

### STUDENT LOAN INTEREST

**Taxpayers paying qualified education loans may be able to deduct up to \$2,500 of interest on the loans in 2023. There is a phase out that begins for taxpayers with modified adjusted gross income above \$75,000 for single taxpayers and \$155,000 for married filing joint taxpayers.**

### CHILD TAX CREDIT

For 2023, the credit for each child under the age of 17 is \$2,000. For taxpayers with incomes above \$200,000 (\$400,000 married filing joint), the credit is phased out by \$50 for each \$1,000 of adjusted gross income above the threshold amount. For taxpayers whose tax liability is not large enough to fully utilize the allowable credit, up to \$1,600 is refundable.

The Tax Cuts and Jobs Act created a new credit that starts in 2018 called the family credit. This is a \$500 credit for each qualifying relative. Unlike the child tax credit, the family credit is nonrefundable.

### AMERICAN OPPORTUNITY TAX CREDIT

The American Recovery and Reinvestment Act of 2009 created a \$2,500 higher education tax credit that is available for the first four years of college. The credit is based on 100% of the first \$2,000 of tuition and related expenses (including books) paid during the tax year and 25% of the next \$2,000 of tuition and related expenses paid during the tax year, subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for married couples filing jointly). 40% of the credit is refundable.

### LIFETIME LEARNING CREDIT

If a taxpayer, spouse, or dependent is a student, the taxpayer may be eligible for a nonrefundable credit of up to \$2,000 (20% of the first \$10,000 of qualified tuition and expenses). The credit is allowed for an unlimited number of years on a per taxpayer basis. It covers all 4 years of post-secondary education as well as graduate school and courses to improve job skills. There is a phase out for taxpayers with modified adjusted gross income above \$80,000 (\$160,000 married filing joint).

### RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT

**Taxpayers are allowed a 30% credit for the purchase of qualified property placed in service during 2023 including qualified solar energy property used to generate electricity, qualified solar water heating property, and geothermal heat pumps.**

**If you have made qualified energy-efficient improvements to your home after Jan. 1, 2023, you may qualify for a tax credit up to \$3,200. The maximum credit you can claim each year is \$1,200 for energy property costs and certain energy efficient home improvements, with limits on doors, windows, and home energy audits; and \$2,000 per year for qualified heat pumps, biomass stoves or biomass boilers.**

**The Inflation Reduction Act extends the credit for 11 years. Qualified property placed in service through 2032 are allowed a 30% credit. The credit will be lowered to 26% for property placed in service in 2033, and then to 22% for property placed in service in 2034.**

### PENALTY FREE IRA WITHDRAWALS

Penalty free withdrawals (prior to age 59 ½) from all IRA's are permitted for 1) undergraduate and graduate expenses (tuition, books, and room and board) for taxpayer, spouse, children or grandchildren; 2) up to \$10,000 for first-time homebuyers, defined as taxpayer(s) who has not owned a home for two years; 3) payment of medical expenses greater than 7.5% of AGI; and 4) certain hardship exceptions. An IRA withdrawal is still subject to income tax. Be aware that if you opened your ROTH IRA less than five years prior to a distribution, the 10 percent penalty can be avoided but there may be tax on the earnings that are withdrawn.

Qualified birth or adoption distributions made after December 31, 2019, have been added as a new exception to the 10% additional tax. New parents can withdraw \$5,000 out of retirement funds (per individual, per birth or adoption) and not be subject to the 10% penalty.

### ESTIMATED TAX PAYMENTS

No penalty for failure to pay estimated tax applies for taxes payable of less than \$1,000. Household taxes must be included in estimates. If you don't meet this exception, you are required to pay the lower of: 1) pay at least 90% of the tax shown on the current year return, or 2) pay 100% of the tax shown on the prior year's return. For individuals with adjusted gross income for 2023 in excess of \$150,000, the estimated payments should be 110% of the prior year tax liability.

### SOCIAL SECURITY EARNINGS LIMITS

The earnings limit for 2023 is \$21,240 for retirees ages 62 up to full retirement age (FRA). One dollar must be repaid for every two dollars earned over this figure. For those reaching FRA in 2023, the earnings limit for the months prior to reaching FRA is \$56,520. Starting in the month that you reach your FRA, there are no limits on your earnings.

## TAXABLE SOCIAL SECURITY INCOME

Social Security income may be taxable depending on other income received. The maximum amount of Social Security income that can be included in taxable income is 85%.

## GAIN FROM SALE OF PRINCIPAL RESIDENCE

A taxpayer generally may exclude up to \$250,000 (\$500,000 on a joint return) of gain realized on the sale or exchange of a principal residence. The taxpayer must have owned and occupied the residence as a principal residence for at least two of the five years before the sale or exchange. The IRS Reform Act says homeowners can receive a portion of the exclusion based on how long they live in the home as long as the move is due to a change in place of employment, health, or unforeseen circumstances. If a second home or rental property is converted to a principal residence after January 1, 2009, be aware that prior depreciation and/or some of the gain may be taxable.

## CAPITAL GAINS FOR INDIVIDUALS

In 2023 the capital gains rates for sales of long-term capital assets (held more than 12 months) will be determined by income instead of by tax bracket. Rates are shown in the following table.

Long-term Capital Gain Rate	Annual Income			
	Single	Married Filing Jointly	Married Filing Separately	Head of Household
0%	\$0-\$44,625	\$0-\$89,250	\$0-\$44,625	\$0-\$59,750
15%	\$44,626-\$492,300	\$89,251-\$553,850	\$44,626-\$276,900	\$59,751-\$523,050
20%	Over \$492,300	Over \$553,850	Over \$276,900	Over \$523,050

For 2023, qualified dividends will continue to be taxed at the same rates as long-term capital assets.

## INDIVIDUAL IRA CONTRIBUTIONS (TRADITIONAL OR ROTH)

If you and/or your spouse have taxable compensation (earnings subject to FICA and Medicare tax), you may be able to contribute to an Individual Retirement Account. The maximum Traditional IRA or ROTH IRA contribution for 2023 is \$6,500 if under the age of 50 and \$7,500 if age 50 or older as of the end of the year. Taxable deductions for contributions to a Traditional IRA may be limited if you or your spouse are covered by an employer provided retirement plan and if your income exceeds certain levels. Starting in 2020, the age limit of 70 ½ was removed for making contributions to a traditional or ROTH IRA. ROTH IRA contributions may be limited by your filing status and income. Contributions to any IRA account can be made up to the filing deadline of your tax return without extension. Excess contributions and income earned on the excess amount are subject to penalty if not withdrawn prior to the due date of your individual income tax return (including extension).

## REQUIRED MINIMUM DISTRIBUTIONS

**The SECURE Act made several changes for RMDs required to be made after December 31, 2019. The required beginning date is now generally April 1 of the calendar year following the calendar year in which the individual attains age 72, age 73 if they reach age 72 after December 31, 2022. Roth IRAs do not require withdrawals until after the death of the owner.**

## HEALTH SAVINGS ACCOUNT CONTRIBUTIONS (HSA)

If your health insurance meets the guidelines, you may be able to contribute to a Health Savings Account. For 2023, the maximum HSA contribution for a single taxpayer plan is \$3,850 with a minimum deductible of \$1,500. The maximum HSA contribution for a family plan is \$7,750 with a minimum deductible of \$3,000. There is an additional allowed contribution of \$1,000 if you are age 55 or older as of the end of the year. Contributions to an HSA account can be made up to the filing deadline of your tax return without extension. Excess contributions are not deductible and are subject to penalty unless the excess contributions are paid out to the account holder before the tax return deadline including extensions.

## ELECTRIC VEHICLE TAX CREDIT

A credit that ranges from \$2,500 to \$7,500 is available for the purchase of an eligible electric vehicle. The Inflation Reduction Act extends the EV tax credit for 10 years to December 2032 and adds a requirement limiting the modified adjusted gross income taxpayers can have in order to qualify to \$300,000 for married couples filing jointly, \$225,000 for heads of household, and \$150,000 for all other filers. Starting April 18, 2023, any EVs placed in service must meet new critical mineral and battery component requirements in order to receive the credit.

Beginning January 1, 2023, there is a separate tax credit for used EVs of either up to \$4,000 or 30% of the price of the vehicle, whichever is less. However, a previously owned EV can't qualify if it's purchased for resale. In order to qualify for the credit, taxpayers that are married filing jointly need to have a modified adjusted gross income that is \$150,000 or less (\$112,500 or less for heads of household and \$75,000 or less for all other filers).

## BUSINESS HIGHLIGHTS

### STANDARD MILEAGE AND PER DIEM RATES

The standard mileage rate allowance under the optional method for vehicle expense for 2023 is 65.5 cents per business mile.

The IRS has provided optional per diem allowances for lodging and meals and incidental expenses (M&IE) while traveling for business and away from home. These are calculated using a high-low method based on the locality visited. The 2023 and 2024 daily rate is \$297 and \$309, respectively, for travel to any "high-cost locality", which includes a \$74 M&IE component and \$223 (2023) and \$235 (2024) for lodging.

The 2023 and 2024 daily rate is \$204 and \$214, respectively, for travel to any "low-cost locality", which includes a \$64 M&IE component and \$140 (2023) and \$150 (2024) for lodging. The 2023 and 2024 rates are effective for per diem allowances that are paid to an employee on or after October 1, 2022, or October 1, 2023, respectively, for travel away from home on or after October 1, 2022, or October 1, 2023, respectively.

The special M&IE rate for the transportation industry is \$69 per day in the continental US and \$74 per day outside the continental US.

### HEALTH DEDUCTION FOR SELF-EMPLOYED

The self-employed health insurance deduction for 2023 is 100%. Effective March 30, 2010, the self-employed health insurance deduction may also be claimed by a taxpayer with respect to a child who has not attained age 27 by the end of the tax year.

In early 2011, the IRS has revised its guidance and reversed its position by stating in the 2010 Form 1040 instructions that "Medicare Part B premiums can be used to figure the deduction." IRS guidance would suggest that Medicare Part D premiums would also qualify.

## SECTION 179 (DEPRECIATION)

Subject to a dollar limit, the election allows you to deduct, in the tax year for which the election is made, the cost of qualifying property placed in service during the tax year. The immediate deductions allowed are in lieu of capitalization and later depreciation deductions. The annual deduction limit is \$1,160,000 for 2023. The deduction is phased out (i.e., gradually reduced) if more than a specified amount of qualifying property is placed in service during the tax year. The amount is \$2,890,000 for 2023. The annual deduction limit and qualifying dollar limitation is now indexed for inflation.

## SPECIAL DEPRECIATION ALLOWANCE (BONUS DEPRECIATION)

Legislation passed in December of 2017 extended the bonus depreciation and increased the amount to 100% for assets purchased between September 27, 2017, and December 31, 2022. Beginning in 2023 the bonus depreciation rate will be phased down by 20% per year. This applies to new and used purchased property. The following types of property qualify for the 80% special depreciation allowance.

- \*MACRS property with a recovery period of 20 years or less.
- \*Water utility property.
- \*Computer Software.
- \*Certain long production period and transportation property.
- \*Qualified plant property.
- \*Qualified film, television, and theatrical production.

## SMALL BUSINESS HEALTH CARE TAX CREDIT

This credit is for small employers, less than 25 full-time workers who cover at least 50% of the cost of health care coverage for some of its workers based on the single rate. The employer must pay average annual wages below \$61,400. This credit is worth up to 50% of a small business' premium costs in 2023. However, for tax years beginning after 2013, the credit is only available if the employer purchases health insurance coverage for its employees through an Exchange.

## QUALIFIED BUSINESS INCOME (QBI) DEDUCTION – SECTION 199A

For the years 2018 through 2025, small business can deduct 20% of the lesser of qualified trade or business income or taxable income after eliminating net capital gains. If taxable income exceeds certain thresholds additional tests apply such as W-2 wages; type of business; and business investment in tangible, depreciable personal or real property.

# MINNESOTA HIGHLIGHTS

## VOLUNTEER MILEAGE REIMBURSEMENT SUBTRACTION

If you received mileage reimbursement in service of a charitable organization, you may now subtract the amount you received which exceeded the 14 cent per mile volunteer mileage rate. See Schedule M1M, Income Additions and Subtractions, for additional information.

## PUBLIC PENSION INCOME SUBTRACTION

New for 2023 there is a subtraction for certain qualified public pension income for tax years 2023 and later. Taxpayers qualify if they earned public pension income, did not earn credit toward social security benefits on the income, and are ineligible to receive social security benefits for the same service. The subtraction is limited to \$25,000 for married taxpayers filing jointly and \$12,500 for all other filers.

## WORKING FAMILY CREDIT

The age requirement has been lowered from 21 years old to 19 years old for taxpayers with no qualifying children. See Schedule M1WFC, Minnesota Working Family Credit, for additional information.

## PASS-THROUGH ENTITY TAX CREDIT

The pass-through entity tax credit is a refundable credit for qualifying individuals of a pass-through entity which elects to pay tax at the entity level. The entity passes the refundable credit for taxes paid by the entity to the individual shareholders, partners, and beneficiaries. See Schedule M1REF, Refundable Credits, for additional information.

## SCHEDULE M1MB, BUSINESS INCOME ADDITIONS AND SUBTRACTIONS

Schedule M1MB is now used to report business related additions or subtractions previously found on Schedule M1M. These can be received as an individual, as a partner of a partnership, as a shareholder of an S corporation, or as a beneficiary of a trust.

## STANDARD DEDUCTION

The standard deduction increased for each filing status. The standard deduction is reduced if your income exceeds \$220,650 (\$110,325 if you are married and filing a separate return). These are the standard deduction amounts determined for your filing status:

- \$13,825 for Single
- \$27,650 for Married Filing Jointly or Qualifying Widower
- \$13,825 for Married Filing Separately
- \$20,800 for Head of Household

## DEPENDENT EXEMPTIONS

The dependent exemption amount is \$4,800 for each qualifying dependent in 2023. Your total exemption amount is reduced if your income exceeds certain amounts based on your filing status:

- \$220,650 for Single
- \$330,950 for Married Filing Jointly or Qualifying Widow(er)
- \$165,475 for Married Filing Separately
- \$275,800 for Head of Household

## PASS-THROUGH ENTITY TAX

A pass-through entity (PTE) tax was added that allows partnerships, LLCs, and S corporations to pay a tax on behalf of the shareholders. Owners who collectively control over 50% of the entity may elect for the PTE tax and it is binding on all owners. The tax rate is the same as the highest individual tax rate of 9.85%.

Starting in 2023 partial elections can be made if not all owners are qualifying owners, 100% allocation to Minnesota is required for resident partners, and the requirement that one qualifying owner must be subject to the limitation on state and local taxes has been removed.

## PROPERTY TAX REFUNDS

Legislation increased the refund amounts for the 2022 Homestead Credit Refund and Renter's Property Tax Refund. Refunds for taxpayers who filed a 2022 Form M1PR were increased by 20.572%. Homeowners may qualify for a special refund if their property tax increased by more than 6% from 2022 to 2023.

## TAX RATES

Individual income tax rates are 5.35%, 6.80%, 7.85% and 9.85%. The AMT rate is 6.75%.

## EDUCATION TAX CREDIT

Families with children in grades K-12 may qualify for a refundable tax credit of up to \$1,500 per child for educational expenses paid during the year. The income and credit limits are based on the number of qualifying children. For families with 1 or 2 children, household income must be below \$76,000. For families with more than 2 children, the income limit increases by \$3,000 per child.

## SUBTRACTION FOR SCHOOL EXPENSES

You may subtract a maximum of \$1,625 per qualifying child (K-6) and \$2,500 (grades 7-12) for qualifying expenses. There is no family maximum deduction. The term “qualifying child” is the same as the federal definition of a qualifying child for Earned Income Credit purposes. This will allow a custodial parent who makes educational expenditures for his or her child to claim the subtraction even if the non-custodial parent claims the child as a dependent

## MINNESOTA WORKING FAMILY CREDIT

Families that qualify for the federal earned income credit also qualify for the Minnesota Working Family Credit. Schedule M1WFC needs to be completed to determine the amount of the credit.

## CHILD TAX CREDIT

New for 2023 is a child tax credit of \$1,750 per child under 18 with no cap on number of children. The same eligibility requirements of the Working Family Credit apply. The credit is phased out for married filing jointly taxpayers with incomes over \$35,000 (\$29,500 for other filers). Schedule M1CWFC is also used for reporting this credit.

## MARRIAGE CREDIT

The marriage credit for 2023 provides married taxpayers who each have at least \$28,000 of earned income, a credit against the Minnesota regular tax. The credit ranges from \$3 to a maximum of \$1,710.

## CHARITABLE DEDUCTIONS

Individuals who do not itemize on their federal income tax return are allowed to subtract contributions that would be charitable deductions under the IRS code. Up to 50% of the total contributions for the year in excess of \$500 can be subtracted.

## SUBTRACTION FOR SOCIAL SECURITY BENEFITS

The recently enacted legislation creates a personal income tax subtraction for an amount of certain Social Security benefits for tax years beginning after 2016. The maximum subtraction is \$5,840 for married couples filing joint returns, \$4,560 for single and head of household filers, and \$2,920 for married couples filing separate returns. The subtraction is reduced by 20% of provisional income over specified income thresholds.

Legislation expanded the subtraction starting in 2023. Taxpayers can now subtract using the current method or a new simplified method. The simplified method allows all taxable social security benefits to be subtracted for taxpayers with an adjusted gross income of \$78,000 or less (\$100,000 less for married filing joint). The subtraction gets phased out by 10% for every \$4,000 over the threshold.

## SUBTRACTION FOR CONTRIBUTIONS TO 529 PLANS

Effective for tax years beginning after 2016, the legislation allows personal income taxpayers to subtract up to \$1,500 (\$3,000 for married joint filers) of contributions to any state’s Sec. 529 college savings plan or prepaid tuition plan. The subtraction excludes amounts that are rolled over from other college savings plans and is limited to taxpayers who do not claim the new Sec. 529 savings plan credit.

## SECTION 529 COLLEGE SAVINGS PLAN CREDIT

Effective for tax years beginning after 2016, the legislation creates a non-refundable income tax credit for contributions to any state’s Sec. 529 college savings plan, including prepaid tuition plans. For individual filers and married couples, the credit is available in an amount equal to 50% of contributions, up to a maximum of \$500. For individual filers, the maximum credit is phased out by two percent of adjusted gross income in excess of \$88,810. The credit is fully phased out for individual filers at \$113,810 of adjusted gross income. For married couples filing joint returns, the maximum credit is phased out in two stages, and is fully phased out when AGI reaches \$184,860.

## STUDENT LOAN CREDIT

The recently enacted legislation establishes credit for principal and interest payments on higher education loans, effective for tax years beginning after 2016. The maximum credit is \$500 each year (or \$1,000 for married couples who file a joint return if both spouses made payments on a qualified loan) In order to qualify for the credit, a taxpayer must have one or more qualified education loans. “Qualified education loan” is defined as any loan used to pay for the costs of attending an undergraduate or graduate degree program at an educational institution eligible for federal financial aid, including federal direct and Perkins loans, state loans, and private student loans.

## MILITARY PERSONNEL

Minnesota residents, on active duty, stationed outside of Minnesota are no longer considered nonresidents for income tax purposes. However, you are allowed a subtraction for military compensation, if included in federal taxable income, including Active Guard Reserve (AGR) Program compensation earned under U.S. Code Title 32 and income earned under U.S. Code Title 10.

Beginning with tax year 2016, Minnesota will allow taxpayers to subtract certain military retirement pay (including pensions) when calculating Minnesota taxable income and Minnesota alternative minimum taxable income. To qualify for this subtraction, the retirement pay must be taxable on the federal return, and for:

- Service in the active component of the military (U.S. Code Title 10, sections 1401 to 1414),
- Retirement pay for service in the reserve component (U.S. Code Title 10, section 12733), or
- Survivor benefit plan payments (U.S. Code Title 10, sections 1447 to 1455).

To claim the subtraction, you must file Schedule M1M, Income Additions and Subtractions. Taxpayers who claim this subtraction may not claim the nonrefundable credit for past military service.

A Minnesota resident who served in a combat zone or qualifying hazardous duty area at any time from January 1, 2019, through December 31, 2023, may be eligible for a refundable credit. The credit for 2023 equals \$120 for each month or part month served in a combat zone for taxpayers whose military records indicate Minnesota as their home of record.

Effective January 1, 2013 – If you (and your spouse if filing a joint return) are a veteran of the military (including the National Guard and Reserves), you may qualify for a nonrefundable credit reducing your income tax by as much as \$750 for past service. You can qualify for this credit if you have been separated from service and meet one or more of the following conditions:

- You served in the military for at least 20 years;
- You have a service-related disability rated by the U.S. Department of Veterans’ Affairs as being 100 percent total and permanent; or
- You were honorably discharged and receive a pension or other retirement pay for service in the military.

Veterans with income of more than \$37,500 are not eligible for the credit.