

2023 Tax Update

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South Carolina Board of Accountancy Statement

Thank you for attending today's CPE Seminar. The South Carolina Board of Accountancy asks that we read the following statement before we begin:

“It is the responsibility of the licensee to be accountable for the hours earned during the CPE course. The licensee should not engage in any other activity that would denigrate the learning objective of the course to the licensee or to others. If the other activity is unavoidable, then that time should be subtracted from the overall CPE credit.”



Agenda



- Federal Tax Items
- State Tax Items
- Miscellaneous

John Price, CPA/Referee



Federal Tax Items



Federal Tax Items

Standard Deduction

Filing Status	2023	2022	2021
Single	\$13,850	\$12,950	\$12,550
Married Joint	\$27,700	\$25,900	\$25,100
Married Separate	\$13,700	\$12,950	\$12,550
Head of Household	\$20,800	\$19,400	\$18,800

- ▶ The standard deduction is increased for taxpayers aged 65 or over and/or legally blind. For single and HOH filers, the deduction is an additional \$1,850 while MFJ and MFS filers get an additional \$1,500.

Federal Tax Items

Ordinary Income Tax Rates

► Individual tax rates for 2023

Tax Rate	Married Filing Joint & Surviving Spouse	Single	Head of Household	Married Filing Separately
10%	\$0-\$22,000	\$0-11,000	\$0-\$15,700	\$0-11,000
12%	\$22,001-\$89,450	\$11,001-\$44,725	\$15,701-59,850	\$11,001-\$44,725
22%	\$89,451-190,750	\$44,726-\$95,375	\$59,851-\$95,350	\$44,726-\$95,375
24%	\$190,751-\$364,200	\$95,376-\$182,100	\$95,351-\$182,100	\$95,376-\$182,100
32%	\$364,201-462,500	\$182,101-\$231,250	\$182,101-\$231,250	\$182,101-\$231,250
35%	\$462,501-\$693,750	\$231,251-\$578,125	\$231,251-\$578,100	\$231,251-\$346,875
37%	Over \$693,750	Over \$578,125	Over \$578,100	Over \$346,875

Federal Tax Items

Long Term Capital Gains and Qualified Dividends Income Tax Rates

► Individual tax rates for 2023

Tax Rate	Married Filing Joint & Surviving Spouse	Single	Head of Household	Married Filing Separately
0%	\$0-\$89,250	\$0-\$44,625	\$0-\$59,750	\$0-\$44,625
15%	\$89,251-\$553,850	\$44,626-\$492,300	\$59,751-\$523,050	\$44,626-\$276,900
20%	Over \$553,850	Over \$492,300	Over \$523,050	Over \$276,900

Federal Tax Items

Other 2023 Limits

- ▶ ***Social Security Limit*** - The Social Security wage base is increased to \$160,200, an almost 9% increase from the 2022 total of \$147,000.
- ▶ ***Retirement Contributions*** - The maximum amount that can be contributed to a 401(k), 403(b) and most 457 plans will be \$22,500. Individuals 50 or older may make a maximum “catch-up” contribution of \$7,500. Individuals participating in a SIMPLE retirement account may contribute a maximum of \$15,500. The maximum IRA contribution will be \$6,500 with the catch-up contribution topping out at \$1,000.
- ▶ ***Annual Gift Tax Exclusion*** - The amount of value you can gift to an individual is increased to \$17,000.
- ▶ ***Estate and Gift Tax Exemption*** - The exemption will be \$12.92 million per individual.

Federal Tax Items

Marriage Penalty?

Additional Medicare Tax

- ▶ Taxpayers may be subject to the additional Medicare tax depending upon the level of earned income subject to the Medicare tax. The additional Medicare tax is .9% which is in addition to the normal 1.45% tax each year.
- ▶ If you are a single filer and your Medicare wages/self-employment income exceed \$200,000, you pay the .9% tax on the excess over \$200,000 and you go on your merry way.
- ▶ If you and your spouse file a joint return, the excess amount is \$250,000 of earned income subject to Medicare tax between the two of you. For example, if each spouse has \$175,000 of Medicare earned income, then they will pay \$900 of additional Medicare tax which neither if them would have owed as single taxpayers.

Federal Tax Items

Secure 2.0 Act



Required Minimum Distribution - The Act increases the applicable age when a retirement plan participant must begin taking distributions from their 401(k), 403(b), IRA, etc. The age will now be 73 for those persons who turn 72 after December 31, 2022, and who turn 73 before January 1, 2033. The applicable age gets raised to 75 for those persons who turn 74 after December 31, 2032.



Employer Contributions - Effective December 29, 2022, employers may allow plan participants to designate employer matching and nonelective contributions as after-tax Roth contributions. Such contributions would be included in the participant's taxable wage income for the year made.

Federal Tax Items

Charitable Contributions

▶ *Two ways to be more tax efficient with your donations:*

- (1) For those individuals who are required to take a minimum distribution from their retirement account, you can make a charitable contribution to the charity of your choice directly from the account. The contribution counts toward the amount you have to take out and you don't pay tax on that portion of the distribution. An individual may donate up to \$100,000 on annual basis from their required minimum distribution.
- (2) If you have publicly traded stock that you have held for more than one year, you can receive a charitable contribution for the fair market value of the stock as of the date of transfer and you don't recognize the increase in value over your cost basis as income.

Federal Tax Items

Nonbusiness Energy Property Credit

▶ *Old Law*

Taxpayers were allowed a tax credit equal to 10% of the amount paid for residential energy property expenditures during the taxable year on their principal residence.

- *Expenditures included heat pumps, water heaters, central air conditioners and certain energy-efficient building components subject to a lifetime credit of \$500.*

Federal Tax Items

Nonbusiness Energy Property Credit

▶ *New Law*

The credit has been renamed the “Energy Efficient Home Improvement Credit” and it is applicable beginning in 2023 through 2032. The credit has been increased from 10% to 30% of the amount paid for residential energy property expenditures.

- ▶ 1. The expenditures are no longer restricted to the taxpayer’s principal residence
- ▶ 2. The \$500 lifetime credit has been replaced by a \$1,200 annual credit for these expenditures.
- ▶ 3. The \$1,200 annual credit has sub-limits. \$600 per year for items including central air and water heaters; \$600 per year for windows and skylights; and \$250 per exterior door (\$500 aggregate limit) i.e. no more than 2 doors per year.

Federal Tax Items

Nonbusiness Energy Property Credit (Continued)

- ▶ 4. There is a \$150 credit for amounts spent for a home energy audit to identify most significant and cost-effective energy efficient improvements with respect to the dwelling unit. In this case alone, it is only applicable to your principal residence.
- ▶ 5. For property placed in service after December 31, 2024, the credit will only be allowed for property produced by a qualified manufacturer and the property has to have a qualified product identification number. This number will have to be provided to the IRS on your tax return.

South Carolina Tax Items



South Carolina Tax Items

Individual Tax Rates



Old Law

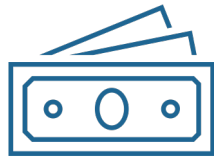
- Individual Tax Rates graduated up to a max of 7%

New Law

- Individual Tax Rates lowered to max of 6.5% beginning in 2022
- The maximum rate may decrease .1% per year until reaching 6.0% if the general fund revenues are projected to increase by at least five percent in the fiscal year that begins during the tax year. This determination will be made by February 15th of the year in question.
- There are three tax rates for South Carolina. 0% for up to \$3,200 of taxable income, 3% between \$3,201 and \$16,040 and 6.5% over \$16,040.

South Carolina Tax Items

Income Tax Rebate



If you filed your 2021 SC income tax return by October 15, 2022, you may have been eligible for an income tax rebate. The rebate is equal to the lesser of your 2021 tax liability or \$800.

If you have not filed your 2021 SC income tax return because of the extension granted due to Hurricane Ian, you still will be entitled to the rebate if you file your return by February 15, 2023, and you show a liability on your return.

South Carolina Tax Items

Military Retirement

New Law



- All SC taxpayers, who receive military retirement income, will be able to deduct this pay from their South Carolina taxable income regardless of their age.
- This new provision also applies to a surviving spouse who receives military income that is attributable to their deceased spouse.
- This provision is in addition to the retirement income deduction of \$3,000 for a taxpayer under the age of 65 and \$10,000 for a taxpayer 65 or over.

South Carolina Tax Items

Other Deductions



- ▶ *Contributions to the SC College Investment Program (Future Scholar)*
 - You may deduct 100% of any contributions to the SC College Investment Program made between January 1 of the tax year and April 15 of the following tax year.

- ▶ *Consumer protection services*
 - An individual may deduct the costs of a monthly or annual contract or subscription for identity theft protection and resolution services. The deduction is only for individuals who filed a return with the SCDOR for a tax year between 1998 and 2012 or whose personal identifiable information was included on another's return. The deduction is limited to \$300 for an individual taxpayer or \$1,000 for a married filing jointly return or for a return claiming dependents.

South Carolina Tax Items

Credits Update



- ▶ *Motor Fuel User Fee Credit*
 - ▶ 2022 is the final year of the credit as the final \$0.02 rate increase became effective July 1, 2022. No longer need to keep all of those gas receipts in 2023 as the credit is history.
- ▶ *SC Two-Wage Earner Credit*
 - ▶ For 2022, the two-wage earner credit is a maximum of \$327 which equates to the lower earning spouse earning at least \$46,667. The credit for 2023 and beyond will be a maximum of \$350.

South Carolina Tax Items

Tax Payments



- ▶ *Amounts due with returns and estimated tax payments*
 - If you don't wish to mail a check(s) and keeping your fingers crossed that it gets to the SCDOR, there is an alternative. Go to the SCDOR website **dor.sc.gov**. and you can make your payment through MyDORWAY. Your account will be credited right away.
 - I also recommend making payments with your credit card as you will not be charged a processing fee. You can then earn cash, miles, points on your card while paying your taxes.
 - Assuming that you file your return electronically by the April 15th deadline, you automatically have additional time to pay any balance due until May 1st.

South Carolina Tax Items

Active Trade or Business Income Entity Election



► *Election to pay tax*

- Beginning in 2021, certain pass-through entities whose operations qualify as an active trade or business under SC law may elect to pay the income tax associated with this income on the entity's return.
- The SC tax paid is allowed as a federal income tax deduction by the pass-through entity in the year of payment(s). The deduction is added back on the SC return as SC does not allow state income taxes as a deduction.
- The owners (K-1 recipients) do not report their pass-through income on their SC individual tax return as the entity has already paid the tax.

Miscellaneous



Miscellaneous

Record Retention



The general statute of limitations for the IRS and the SCDOR is three years from the filing of the return.



The general statute can be extended to six years from the filing of the return if it can be proven that there was a substantial omission of gross income from the filed return. A substantial omission is defined as the gross income omitted from the return is greater than 25% of the gross income reported on the return.



If no return is filed or the return filed is false or fraudulent, then there is no statute of limitations for either agency to assess a tax.

Miscellaneous

Record Retention - continued



Our recommendation is that you keep your tax records i.e. W-2s, 1099s, K-1s, expense receipts for a minimum of seven years



You should keep tax returns for at least the same amount of time, maybe longer



If you have something on your tax return that you will need to assist you in a future year, you need to keep that tax return for as long as necessary

Miscellaneous

Crystal Ball



Federal Tax Law

- Current tax law expires at the end of 2025
- If nothing done, all “temporary” provisions would revert to pre-2018 rules

State Tax Law

- Other than the annual general fund projection, no additional major tax legislation anticipated in the next few year

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