Getting Ready for the 2023 Tax Filing Season

Filing your 2022 tax return promises to be just as complicated as always; however, there are steps that taxpayers can take right now to ensure their tax filing experience goes smoothly. Let's look at what's new for 2022 and some key items taxpayers should consider before filing.

What's New

No above-the-line charitable deductions. During COVID, taxpayers could take up to a $600 charitable donation tax deduction on their tax returns. However, in 2022, those who take a standard deduction may not take an above-the-line deduction for charitable donations.

More people may be eligible for the Premium Tax Credit. For the tax year 2022, taxpayers may still qualify for temporarily expanded eligibility for the premium tax credit. Please call if you want more information about this topic.

Some tax credits return to 2019 levels. This means that affected taxpayers will likely receive a significantly smaller refund compared with the previous tax year. Changes include amounts for the Child Tax Credit (CTC), Earned Income Tax Credit (EITC), and Child and Dependent Care Credit.

- Those who received $3,600 per dependent in 2021 for the CTC will, if eligible, get $2,000 for the 2022 tax year.
- For the EITC, eligible taxpayers with no children who received roughly $1,500 in 2021 will now get $500 in 2022.
- The Child and Dependent Care Credit return to a maximum of $2,100 in 2022 instead of $8,000 in 2021.

Refunds may be smaller in 2023. Taxpayers will not receive an additional stimulus payment with a 2023 tax refund because there were no Economic Impact Payments for 2022. In addition, taxpayers who do not itemize and take the standard deduction won't be able to deduct their charitable contributions.

Eligibility rules changed to claim a tax credit for clean vehicles. There are several changes taxpayers should be aware of, such as the tax credit is generally available only for qualifying electric vehicles for which final assembly occurred in North America (final assembly requirement) and a transition rule for vehicles purchased before August 16, 2022. Taxpayers who want to take advantage of this tax credit should call the office for assistance in determining eligibility.

Gather 2022 Tax Documents

The best way to prepare for tax filing is to gather important tax documents - either electronic or paper - and keep them in one place. These documents include but are not limited to: Forms W-2 from employers, Forms 1099 from banks or other payers, Form 1099-K from third-party payment networks, Form 1099-NEC for nonemployee compensation, Form 1099-MISC for miscellaneous income, or Form 1099-INT if you were paid interest, as well as records documenting all digital asset transactions.

Typically, year-end forms arrive by mail or are available online mid-to-late January. Taxpayers should carefully review each income statement for accuracy and contact the issuer to correct information that needs to be updated.

Ensuring their tax records are complete before filing helps taxpayers avoid errors that lead to processing delays. When they have all their documentation, taxpayers can file an accurate return and avoid processing or refund delays or IRS letters.

Sign Up for or Into an Online Account

An IRS Online Account lets taxpayers securely access their personal tax information, including tax return transcripts, payment history, certain notices, prior year adjusted gross income, and power of attorney information. Filers can log in to verify if their name and address are correct. They should notify the IRS if their address has changed. They must notify the Social Security Administration of a legal name change to avoid a delay in processing their tax return.

Renew Expiring Tax ID Numbers

Taxpayers should ensure their Individual Tax Identification Number (ITIN) has not expired before filing a 2022 tax return. Those who need to file a tax return should now submit a Form W-7, *Application for IRS Individual Taxpayer Identification Number* to renew their ITIN. Taxpayers who fail to renew an ITIN before filing a tax return next year could face a delayed refund and may be ineligible for certain tax credits. Applying now will help avoid the rush and refund and processing delays in 2023.

Avoid Refund Delays and Understand Refund Timing

Many different factors can affect the timing of a refund after the IRS receives a return. Although the IRS generally issues most refunds in less than 21 days, taxpayers should not rely on receiving a 2022 federal tax refund by a certain date. As such, making major purchases or paying bills is not wise until the refund is received. Some returns may require additional review and may take longer to process if IRS systems detect a possible error, the return is missing information, or there is suspected identity theft or fraud.

Also, taxpayers should be aware that the IRS cannot issue refunds for people claiming the EITC or Additional Child Tax Credit (ACTC) before mid-February. The law requires the IRS to hold the entire refund – not just the portion associated with EITC or ACTC.

Use Direct Deposit for Faster Refunds

The fastest way to get a tax refund is by filing electronically and choosing direct deposit. Direct deposit is quicker than waiting for a paper check in the mail. It also avoids the possibility that a refund check could be lost, stolen, or returned to the IRS as undeliverable.

Prepaid debit cards or mobile apps may allow direct deposit of tax refunds. They must have routing and account numbers that can be entered on a tax return. Taxpayers can check with the mobile app provider or financial institution to confirm which numbers to use.

Last Quarterly Payment for 2022 Due January 17, 2023

Taxpayers may need to consider estimated or additional tax payments due to non-wage income from unemployment, self-employment, annuity income, or even digital assets. The Tax Withholding Estimator on IRS.gov can help wage earners determine if they need to consider an additional tax payment to avoid an unexpected tax bill when they file.

Individual Taxpayers: Tax Changes for 2023

Every year, it's a sure bet that there will be changes to current tax law, and this year is no different. From standard deductions to health savings accounts and tax rate schedules, here's a checklist of tax changes to help you plan the year ahead.

Individuals

In 2023, a number of tax provisions are affected by inflation adjustments, including Health Savings Accounts, retirement contribution limits, and the foreign earned income exclusion. The tax rate structure, which ranges from 10 to 37 percent, remains similar to 2022; however, the tax-bracket thresholds increase for each filing status. Standard deductions also rise, and as a reminder, personal exemptions have been eliminated through tax year 2025.

Standard Deduction
In 2023, the standard deduction increases to $13,850 for individuals (up from $12,950 in 2022) and to $27,700 for married couples (up from $25,900 in 2022).

Alternative Minimum Tax (AMT)
In 2023, AMT exemption amounts increase to $81,300 for individuals (up from $75,900 in 2022) and $126,500 for married couples filing jointly (up from $118,100 in 2022). Also, the phaseout threshold increases to $578,150 ($1,156,300 for married filing jointly). Both the exemption and threshold amounts are indexed annually for inflation.

"Kiddie Tax"
For taxable years beginning in 2023, the amount that can be used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax" is $1,250. The same $1,250 amount is used to determine whether a parent may elect to include a child's gross income in the parent's gross income and to calculate the "kiddie tax." For example, one of the requirements for the parental election is that a child's gross income for 2023 must be more than $1,250 but less than $12,500.

Health Savings Accounts (HSAs)
Contributions to a Health Savings Account (HSA) are used to pay the account owner's current or future medical expenses, their spouse, and any qualified dependent. Medical expenses must not be reimbursable by insurance or other sources and do not qualify for the medical expense deduction on a federal income tax return.

A qualified individual must be covered by a High Deductible Health Plan (HDHP) and not be covered by other health insurance with the exception of insurance for accidents, disability, dental care, vision care, or long-term care.

For calendar year 2023, a qualifying HDHP must have a deductible of at least $1,500 for self-only coverage or $3,000 for family coverage and must limit annual out-of-pocket expenses of the beneficiary to $7,500 for self-only coverage and $15,000 for family coverage.

Medical Savings Accounts (MSAs)
There are two types of Medical Savings Accounts (MSAs): The Archer MSA created to help self-employed individuals and employees of certain small employers, and the Medicare Advantage MSA, which is also an Archer MSA, and is designated by Medicare to be used solely to pay the qualified medical expenses of the account holder. To be eligible for a Medicare Advantage MSA, you must be enrolled in Medicare. Both MSAs require that you are enrolled in a high-deductible health plan (HDHP).

Self-only coverage. For taxable years beginning in 2023, the term "high deductible health plan" for self-only coverage means a health plan that has an annual deductible that is not less than $2,650 and not more than $3,950, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed $5,300.

Family coverage. For taxable years beginning in 2023, the term "high deductible health plan" means, for family coverage, a health plan that has an annual deductible that is not less than $5,300 and not more than $7,900, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed $9,650.

AGI Limit for Deductible Medical Expenses
In 2023, the deduction threshold for deductible medical expenses is 7.5 percent of adjusted gross income (AGI), made permanent by the Consolidated Appropriations Act, 2022.

Eligible Long-Term Care Premiums
Premiums for long-term care are treated the same as health care premiums and are deductible on your taxes subject to certain limitations. For individuals age 40 or younger at the end of 2023, the limitation is $480. Persons more than 40 but not more than 50 can deduct $890. Those more than 50 but not more than 60 can deduct

$1,790, while individuals more than 60 but not more than 70 can deduct $4,770. The maximum deduction is $5,960 and applies to anyone more than 70 years of age.

Medicare Taxes
The additional 0.9 percent Medicare tax on wages above $200,000 for individuals ($250,000 married filing jointly) remains in effect for 2023, as does the Medicare tax of 3.8 percent on investment (unearned) income for single taxpayers with modified adjusted gross income (AGI) more than $200,000 ($250,000 joint filers). Investment income includes dividends, interest, rents, royalties, gains from the disposition of property, and certain passive activity income. Estates, trusts, and self-employed individuals are all liable for the tax.

Foreign Earned Income Exclusion
For 2023, the foreign earned income exclusion amount is $120,000 up from $1112,000 in 2022.

Long-Term Capital Gains and Dividends
In 2023, tax rates on capital gains and dividends remain the same as 2022 rates (0%, 15%, and a top rate of 20%); however, threshold amounts have increased: the maximum zero percent rate amounts are $44,625 for individuals and $89,250 for married filing jointly. For an individual taxpayer whose income is at or above $492,300 ($553,850 married filing jointly), the rate for both capital gains and dividends is capped at 20 percent. All other taxpayers fall into the 15 percent rate amount (i.e., above $44,625 and below $492,300 for single filers).

Estate and Gift Taxes
For an estate of any decedent during calendar year 2023, the basic exclusion amount is $12.92 million, indexed for inflation (up from $12.06 million in 2022). The maximum tax rate remains at 40 percent. The annual exclusion for gifts increases to $17,000.

Individuals - Tax Credits

Adoption Credit
In 2023, a nonrefundable (only those individuals with tax liability will benefit) credit of up to $15,950 is available for qualified adoption expenses for each eligible child.

Earned Income Tax Credit
For tax year 2023, the maximum Earned Income Tax Credit (EITC) for low, and moderate-income workers and working families increases to $7,430 (up from $6,935

in 2022). The credit varies by family size, filing status, and other factors, with the maximum credit going to joint filers with three or more qualifying children.

Child Tax Credit
For 2023, the child tax credit reverts to $2,000 per child, age 17 or younger. The refundable portion of the credit increases to $1,600 in 2023, so that even if taxpayers do not owe any tax, they can still claim the credit. A $500 nonrefundable credit is also available for dependents who do not qualify for the Child Tax Credit (e.g., dependents age 17 and older).

Child and Dependent Care Tax Credit
If you pay someone to take care of your dependent (defined as being under the age of 13 at the end of the tax year or incapable of self-care) to work or look for work, you may qualify for a credit of up to $1,050 or 35 percent of $3,000 of eligible expenses in 2023. For two or more qualifying dependents, you can claim up to 35 percent of $6,000 (or $2,100) of eligible expenses. For higher-income earners (AGI of $43,000 or more), the credit percentage is reduced, but not below 20 percent, regardless of the amount of adjusted gross income. This tax credit is nonrefundable.

Clean Vehicle Tax Credit
The Inflation Reduction Act makes several additional changes to the electric vehicle tax credit that will take effect starting January 1, 2023. Vehicles eligible for the Clean Vehicle Tax Credit now include both EVs (electric vehicles) and FCEVs (fuel cell electric vehicles) but must meet two requirements to be eligible for the tax credit. The critical minerals component refers to sourcing requirements for critical mineral extraction, processing, and recycling. The battery components requirement refers to vehicles that include a traction battery that has at least seven kilowatt-hours (kWh).

Vehicles that meet critical mineral requirements are eligible for $3,750 tax credit, and vehicles that meet battery component requirements are eligible for a $3,750 tax credit. Vehicles meeting both requirements are eligible for a nonrefundable tax credit of up to $7,500; however, there are additional additional requirements regarding manufacturer suggested retail price (MSRP) thresholds for modified adjusted gross income (MAGI).

Individuals - Education

American Opportunity Tax Credit and Lifetime Learning Credit
The maximum credit is $2,500 per student for the American Opportunity Tax Credit. The Lifetime Learning Credit remains at $2,000 per return. Both credits phase out for

taxpayers with modified adjusted gross income between $80,000 and $90,000 (between $160,000 and $180,000 for joint filers). To claim the full credit for either, your modified adjusted gross income (MAGI) must be $80,000 or less ($160,000 or less for married filing jointly).

While the phaseout limits for Lifetime Learning Credit increased, taxpayers should note that the qualified tuition and expenses deduction was repealed starting in 2022.

Interest on Educational Loans
In 2023, the maximum deduction for interest paid on student loans is $2,500. The deduction begins to be phased out for higher-income taxpayers with modified adjusted gross income of more than $75,000 ($150,500 for joint filers) and is completely eliminated for taxpayers with modified adjusted gross income of $90,000 ($185,000 joint filers).

Individuals - Retirement

Contribution Limits
The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan increases to $22,500. Contribution limits for SIMPLE plans also increase to $15,500. The maximum compensation used to determine contributions increases to $330,000 (up from $305,000 in 2022).

Income Phase-out Ranges
The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by an employer-sponsored retirement plan and have modified AGI between $73,000 and $83,000.

For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by an employer-sponsored retirement plan, the phase-out range increases to $116,000 and $136,000. For an IRA contributor who is not covered by an employer-sponsored retirement plan and is married to someone who is covered, the deduction is phased out if the couple's modified AGI is between $218,000 and $228,000.

The modified AGI phase-out range for taxpayers making contributions to a Roth IRA is $138,000 and $153,000 for singles and heads of household, up from $129,000 to $144,000. For married couples filing jointly, the income phase-out range is $218,000 and $228,000, up from $204,000 to $214,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

Saver's Credit
In 2023, the AGI limit for the Saver's Credit (also known as the Retirement Savings Contribution Credit) for low and moderate-income workers is $73,000 for married couples filing jointly, up from $68,000 in 2022; $54,700 for heads of household, up from $51,000 in 2022; and $36,500 for singles and married individuals filing separately, up from $34,000 in 2022.

Businesses: Important Tax Changes in 2023

Here's what small business owners need to know about tax law changes and inflation adjustments for the year ahead.

Standard Mileage Rates
In 2023, the rate for business miles driven is 65.5 cents, up 3 cents from the midyear increase setting the rate for the second half of 2022

Section 179 Expensing
In 2023, the Section 179 expense deduction increases to a maximum deduction of $1,160,000 of the first $2,890,000 of qualifying equipment placed in service during the current tax year. This amount is indexed to inflation for tax years after 2018. The deduction was enhanced under the TCJA to include improvements to nonresidential qualified real property such as roofs, fire protection, alarm systems and security systems, and heating, ventilation, and air-conditioning systems. Also of note is that costs associated with the purchase of any sport utility vehicle, treated as a Section 179 expense, cannot exceed $28,900.

Bonus Depreciation
Businesses are allowed to immediately deduct 100% of the cost of eligible property placed in service after September 27, 2017, and before January 1, 2023, after which it will be phased downward over a four-year period: 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027 and years beyond.

Qualified Business Income Deduction
Eligible taxpayers can deduct up to 20 percent of certain business income from qualified domestic businesses and certain dividends. To qualify for the deduction,

business income must not exceed a certain dollar amount. In 2023, these threshold amounts are $182,100 for single and head-of-household filers and $364,200 for married taxpayers filing joint returns.

Research & Development Tax Credit
Starting in 2018, businesses with less than $50 million in gross receipts can use this credit to offset alternative minimum tax. Certain start-up businesses that might not have any income tax liability will be able to offset payroll taxes with the credit as well.

Work Opportunity Tax Credit (WOTC)
Extended through 2025 (The Consolidated Appropriations Act, 2022), the Work Opportunity Tax Credit is available for employers who hire long-term unemployed individuals (unemployed for 27 weeks or more) and is generally equal to 40 percent of the first $6,000 of wages paid to a new hire.

Employee Health Insurance Expenses
For taxable years beginning in 2023, the dollar amount of average wages is $30,700 ($28,700 in 2022). This amount is used for limiting the small employer health insurance credit and determining who is an eligible small employer for the credit.

Business Meals and Entertainment Expenses
Taxpayers who incur food and beverage expenses associated with operating a trade or business can deduct 100 percent (50 percent for tax years 2018-2020) of these expenses for tax years 2022 and 2023 (The Consolidated Appropriations Act, 2022) as long as the meal is provided by a restaurant.

Employer-provided Transportation Fringe Benefits
If you provide transportation fringe benefits to your employees in 2023, the maximum monthly limitation for transportation in a commuter highway vehicle, as well as any transit pass, is $300. The monthly limitation for qualified parking is $300.

While this checklist outlines important tax changes for 2023, additional changes in tax law are likely to arise during the year ahead. Do not hesitate to contact the office if you have any questions or want a head start on tax planning for your small business in the year ahead.

Highlights of the Secure 2.0 Act of 2022

The $1.66 trillion Consolidated Appropriations Act, 2023, was signed into law on December 29, 2022, by President Biden. Included in the 4,155-page bill is the SECURE Act 2.0 of 2022, which contains a number of tax provisions relating to retirement.

Let's take a look at the highlights:

Automatic Enrollment in Retirement Plans

Employers starting new retirement plans in tax year 2025 or later would be required to automatically enroll their employees in 401(k) and 403(b) plans. Employees would set aside not less than 3 percent but not more than 10 percent of their paycheck. There would be an automatic one percent increase yearly until the employee participant reaches 10 percent. Employees can set aside as much as 15 percent. The new tax provision doesn't apply to businesses in existence for less than three years. Furthermore, existing businesses with retirement plans already in place, employers with fewer than ten employees, and church and government plans are exempt from the new law.

Starter 401k Plans. For tax years after December 31, 2023, the new law allows employers with no retirement plans to establish starter 401k plans. Workers would be enrolled automatically, contributing at least 3 percent. Catch-up contributions are allowed for workers aged 50 and up.

Federal Match for Saver's Credit

Starting in 2027, lower to middle-income taxpayers contributing to a traditional IRA or a 401(k) at their workplace would be eligible for a 50 percent matching contribution of up to $2,000 from the federal government. The federal matching contribution will be directly deposited into their IRS or 401(k) account. Savers must be 18 or older and contribute more than $100 to receive the match. Dependents, full-time students, and nonresident aliens (unless treated taxable as a resident) are not eligible. The match phases out between $41,000 and $71,000 for joint filers, $20,500 to $35,500 for single filers, and $30,750 to $53,250 for heads of households.

Emergency Savings Funds and 401k Withdrawals

Emergency Savings Plans. Employers can now set up emergency savings plans for employees linked to their retirement accounts. Employees would be allowed to contribute 3 percent of their salary or a maximum of $2,500 to the emergency account.

401k Withdrawals for Emergency Personal Expenses. Another option employers can offer is a one-time withdrawal from their employees' 401k plans. Employees would be permitted one (1) distribution per calendar year for a maximum amount of $1,000. This tax provision will go into effect in 2024.

Student Loan Payments Count as Retirement Contributions

Starting in 2024, employees that make student loan payments to loan servicers qualify for matching contributions from their employer to a retirement plan - even if the employees do not make contributions of their own.

Part-time Workers

Starting in 2025, part-time workers are eligible to participate in their employer's 401(k) retirement plans after two years instead of three (SECURE Act 2.0, 2019). Each 12-month period for which the employee has more than 500 hours of service shall be treated as a year of service.

IRA Catch-up Contributions

Indexed to inflation. For taxable years beginning after December 31, 2023, the $1,000 catch-up contribution amount will be indexed to inflation with the amounts rounded down to the nearest multiple of $100.

Higher catch-up contributions. Starting in taxable years after December 31, 2024, catch-up contributions for workers aged 60, 61, 62, and 63 increase to $10,000 or 150 percent of the regular catch-up amount that year, whichever is greater. Cost of living adjustments will be in effect for years after December 31, 2024.

Required Minimum Distributions (RMDs) Increase to Age 73

For individuals who reach age 72 after December 31, 2022, and age 73 before January 1, 2033, the applicable age for starting RMDS is 73. For individuals who attain age 74 after December 31, 2032, the applicable age is 75. The new rules apply to distributions required to be made after December 31, 2022, for individuals who attain age 72 after such date.

To summarize: Taxpayers born between 1951 and 1959 will begin RMDs at age 73. Those born in 1960 or later will begin taking RMDs at age 75.

Roth IRAs

New Rules for Roth 401ks. Effective January 1, 2023, employers can let employees choose between having a company match in a Roth 401k or a regular 401k. Under current law, employer matching contributions must go into a regular 401k even if taxpayers put money in their Roth 401k.

Elimination of RMDs for Roth 401ks. Starting in 2024, RMDs are eliminated for Roth accounts in qualified employer plans. While Roth IRAs are not subject to RMDS, Roth 401ks are subject to RMD rules, i.e., distributions must be taken at age 72 (although they are tax-free).

Catch-up Contributions for Higher Earners. Starting in 2024, catch-up contributions for workers aged 50 and up who earn more than $145,000 must be put into a Roth retirement account rather than a traditional pretax retirement account such as a 401k. The $145,000 threshold amount will be indexed for inflation starting in 2025 and rounded down to the lowest multiple of $5,000.

Special Rules for 529 rollovers. Starting in 2024, 529 college savings plans maintained for at least 15 years can be rolled over to a Roth IRA. Any contributions (and earnings on those contributions) to the 529 plan made within the last 5 years are not eligible. The rollover must be trustee to trustee, and there is a $35,000 lifetime limit per account beneficiary.

New Rules for Qualified Charitable Distributions (QCDs)

The maximum annual amount (currently $100,000) an individual donor can contribute per calendar year is indexed to inflation starting in 2024. As a reminder, QCDs are a direct distribution from an IRA to a qualified charity and count toward satisfying required minimum distributions (RMDs) for the year, as long as certain rules are met.

Help is Just a Phone Call Away

If you have questions about any tax provisions in the SECURE 2.0 Act of 2022, or any other tax-related topic, do not hesitate to contact the office.

Standard Mileage Rates for 2023

Beginning on January 1, 2023, the standard mileage rates for the use of a car (also vans, pickups, or panel trucks) will be as follows. These rates apply to electric and hybrid-electric automobiles and gasoline and diesel-powered vehicles.

- 65.5 cents per mile driven for business use, up 3 cents from the midyear increase setting the rate for the second half of 2022.
- 22 cents per mile driven for medical or moving purposes for qualified active-duty members of the Armed Forces, consistent with the increased midyear rate set for the second half of 2022.
- 14 cents per mile driven in service of charitable organizations; the rate is set by statute and remains unchanged from 2022.

The standard mileage rate for business use is based on an annual study of the fixed and variable costs of operating an automobile, including depreciation, insurance, repairs, tires, maintenance, gas, and oil. The rate for medical and moving purposes is based on variable costs.

Impact of the Tax Cuts and Jobs Act. Taxpayers cannot claim a miscellaneous itemized deduction for unreimbursed employee travel expenses. Taxpayers also cannot claim a deduction for moving expenses unless they are members of the Armed Forces on active duty moving under orders to a permanent change of station.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

Taxpayers can use the standard mileage rate but generally must opt to use it in the first year the car is available for business use. Then, in later years, they can choose either the standard mileage rate or actual expenses.

Leased vehicles. Leased vehicles must use the standard mileage rate method for the entire lease period (including renewals) if the standard mileage rate is chosen.

Please contact the office if you have questions about standard mileage rates or which driving activities you should keep track of as the new tax year begins.

Reporting of $600 Third-party Payments Delayed

Due to concerns regarding the implementation timeline, reporting thresholds for third-party settlement organizations that were set to take effect on January 1, 2023, has been delayed. As such, third-party settlement organizations will not be required to report the tax year 2022 transactions on a Form 1099-K to the IRS or the payee for the lower $600 threshold amount enacted as part of the American Rescue Plan of 2021.

Instead, the calendar year 2022 will be a transition period for implementing the lowered threshold reporting for third-party settlement organizations (TPSOs), including Venmo, PayPal, and CashApp, that would have generated Form 1099-Ks for taxpayers. The additional time will help reduce confusion during the upcoming 2023 tax filing season and provide more time for taxpayers to prepare and understand the new reporting requirements. This change under the law is important because tax compliance is higher when amounts are subject to information reporting, like Form 1099-K.

Taxpayers should note, however, that the existing 1099-K reporting threshold of $20,000 in payments from over 200 transactions remains in effect. Taxpayers should also know that the law is not intended to track personal transactions such as sharing the cost of a car ride or meal, birthday, or holiday gifts, or paying a family member or another for a household bill.

Background

The American Rescue Plan of 2021 changed the reporting threshold for TPSOs. The new threshold for business transactions is $600 per year, a change from the previous threshold of more than 200 transactions per year, exceeding an aggregate amount of $20,000. Under the law, beginning January 1, 2023, a TPSO is required to report third-party network transactions paid in 2022 with any participating payee that exceed a minimum threshold of $600 in aggregate payments, regardless of the number of transactions. TPSOs report these transactions by providing individual payee's an IRS Form 1099-K, *Payment Card, and Third-Party Network Transactions*.

Transition Period

The transition period delays the reporting of transactions in excess of $600 to transactions that occur after the calendar year 2022. It is intended to facilitate an orderly transition for TPSO tax compliance and individual payee compliance with income tax reporting. A participating payee, in the case of a third-party network transaction, is any person who accepts payment from a third-party settlement organization for a business transaction.

Taxpayers who may have already received a 1099-K as a result of the statutory changes should know that the IRS is working rapidly to provide instructions and clarity so that taxpayers understand what to do. Additional details on the delay will be available in the near future, along with additional information to help taxpayers and the industry; however, don't hesitate to call the office with any immediate concerns or questions.