

BOTTOM LINE

Your Tax Advocate

January 2024

Dear Clients,

I hope you all had a wonderful healthy year. Moving into 2024, I will continue the drop off/email/snail mail remote preparation option, as most of you prefer this method. In person appointments will still be available.

IRS recently announced that since they paused sending out balance due reminder notices, they will waive the late payment penalty for the period notices were put on hold. This is for the late payment penalty only and does not apply to interest. This penalty relief is supposed to happen automatically.

Retirement distribution rules have changed. You now have to start taking your **required minimum distribution (RMD)** out when your turn 73. It was 72. In general, an inherited IRA also has RMD requirements. A spouse that rolls it into their own IRA is the most common exception. The penalty for missing your RMD distribution has dropped from 50% to 25%. This can be lowered to 10% if you make up the missed RMD distribution within two years. We were able to request a waiver of the 50% penalty. I have never had this request denied. I suspect they have lowered the penalty but will start enforcing it. Please make sure you do not miss any RMDs.

The **energy credit for home improvements** has also changed this year. Previously, it was a \$500 lifetime credit. Thankfully, they are now doing an annual limit. It does not matter what you have claimed in previous years. In general, the credit is 30% of the qualified product/installation costs with additional limitations. Qualified exterior doors are \$250 per door with a \$500 annual limit. Qualified exterior windows, central A/C, water heaters and furnaces are limited to \$600 per year. The total credit, for all qualifying improvements, is limited to \$1,200 per year. Obviously, you might want to strategize your home improvement projects. Instead of replacing all your windows in one year, consider spreading it out over two or more years. Perhaps do doors in one year and insulation in another. The sales representative or manufacturer should know if the product you are interested in qualifies for the credit. After 2024, the manufacturer will have to provide a product identification number in order to claim the credit.

There is an additional credit of up to \$2,000 for an electric or natural gas heat pump (heater/air conditioner) and electric or natural gas heat pump water heater. Again, the sales representative should know if the product you are interested in qualifies for the credit. This heat pump credit is in addition to the \$1,200 maximum credit

listed above. A person could qualify for a \$3,200 energy efficient improvement credit per year. This is much better than the \$500 lifetime credit.

The credit for **electric vehicles** has also changed. For a new car, the maximum credit is \$7,500. Your adjusted gross income cannot be over \$150,000 if single, \$225,000 if head of household or \$300,000 if married filing joint. There are many requirements such as critical mineral requirements, kilowatt hours of battery capacity, gross weight, where and who did the manufacturing and a MSRP below \$80,000 for vans, sport utility and pickup trucks (\$55,000 MSRP for other qualified vehicles). The standards are increasing in 2024. A car might have qualified for a 2023 credit but won't qualify for a 2024 credit. For 2023, this credit is not refundable which means it can only lower your tax liability to zero.

Brand new in 2023, **used electric vehicles** can now qualify for up to a \$4,000 credit. Again, many requirements, a few worth noting. It must be purchased from a dealer, have a model year at least two years earlier than the calendar year when you buy it, have a sales price of \$25,000 or less, first time resold since August 16, 2022, and be a qualifying car. In addition, you cannot have claimed another used clean vehicle credit in the three years before the purchase date. Adjusted gross income limitation are half of what I listed above. If the car qualifies, the dealer will report required information to you and the IRS.

As I mentioned in last year's letter, the **1099K** requirements were supposed to change in 2022. They postponed the start date to 2023. They have again extended the start date to 2024. I suspect it will eventually be implemented.

As always, I am including the 2023 Questionnaire, Engagement Letter, Due Diligence Worksheet and a customized tax organizer. In general, the Due Diligence Worksheet only needs to be filled out if you are claiming a dependent. Please fill these out and include with your information.

When you have all your information available, please call me for an appointment or drop it off. Please make sure I have all your accurate information before we complete your return. I look forward to seeing you again and I greatly appreciate the trust you place in our service.

Sincerely,

Elizabeth Bally, CPA
Enrolled Agent