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THE STRAUSS REPORT

Winter 2024

TAX SEASON IS UPON US - READY OR NOT.....

While there are not so many changes for your 2023 tax returns as in the prior years, there is a LOT going on with the IRS and IL. In addition, almost all the tax laws passed in 2017 will sunset in 2025, so the 2024 election is about not only who will be our next President but who will control Congress and decide the tax laws for the years to come. The good news is the IRS received \$80 Billion from the new Inflation Reduction Act to modernize technology that is decades out of date, to improve the customer service experience for both taxpayers and tax professionals and increase compliance. With this, the IRS collected over \$520 million from over 1600 wealthy households and corporations since mid-2022 due to increased audit and collection activity. I am now mostly able to get through on my Practitioner's Priority Line to help clients solve tax issues (except that the IRS had a "dead" period the end of December and the first two weeks of January!). We can now upload and receive documents/ letters from them as well. They are beginning to scan paper returns and replies to notices, so hopefully/eventually it will not take over a year to get resolutions to problems. The official starting date for this year is January 29th and the final date of the filing season is April 15th - but most of us do not get our final investment reports until mid-February or even March.

In this issue of **The Strauss Report**, we will review both the recent changes for 2023 returns and things that have not changed for this tax filing season but could be changed by Congress after the election in 2025. We will discuss important tax laws that can trip us up such as when you must withdraw from your IRA Required Minimum Distributions) or inherited IRA, and how additional costs for Medicare based on your income come about. And finally, we will review again important things to watch out for, including medical expenses, qualified charitable contributions and sales of your principal residence or other properties (which are a lot more common now).

WHAT IS STILL WITH US NOW?

- **The lower rates** from the 2018 Tax Act for ordinary income and investment income are good for 2023 for most of us. This includes the 0% rate on investment income for taxpayers with taxable income below \$44,725 - Single and \$89,450 - Married Joint and the 15% rate for those with taxable income below \$492,300 Single and \$553,850 Married Joint.
- **The Standard deduction for 2023** is still double to \$27,700 for couples, \$13,850 for Singles and an extra \$1,850 for Singles over 65 and \$1500/per person if filing Married Jointly if over 65.
- There are no exemptions.
- The popular deduction for state and local taxes and real estate taxes is still limited to \$10,000.
- **Home mortgage** interest can only be deducted up to \$750,000 on a primary or second residence for mortgages begun after December 14, 2017. **NO** write off is allowed for interest on existing or new home equity loans from which the proceeds are used to buy a car, pay off credit card debt and the like.
- **The per child credit is still \$2000 for children under the age of 17.** As of this writing, the refundable portion is worth up to \$1600; a new piece of legislation, the Tax Relief for American Families and Workers Act of 2024 would increase this to \$1800- hopefully, it will get passed and signed into law before the start of the filing season.
- **Required Minimum Distributions did not change for 2023.** If you were over 70 ½ on 12/31/2019 you must continue to take out as before - but under the expanded IRS withdrawal tables with a longer life expectancy. If you turned 73 in 2023 you should have taken your RMD during this tax year. However, if you turned 72 in 2023, you could now wait another year - or until 2024 (at age 73) to begin taking your

required withdrawals. And while not new, since the stock market was sort of a mess in 2022, our year end values were down, creating less and often much less required minimum distributions for 2023. **However, for 2024, the stock market was up at the end of the year – so you may be surprised to discover that your 2024 RMD is a lot higher than that in 2023!**

- **In addition**, the penalty (which has never really been enforced by the IRS) for not taking your RMD – mostly because you just forgot! has been reduced from 50% of the amount required to be withdrawn currently to 25% and to 10% if corrected within two years.
- **Not new - but so important is the provision called QCD (Qualifying Charitable Contributions).** These are contributions made to a charity directly from your IRA trustee or administrator. These contributions can be subtracted from your gross IRA withdrawal when we prepare your taxes, thus saving tax money and reducing your Adjusted Gross Income for medical expenses and taxable Social Security computations as well as future Medicare costs. We create a list of these when we prepare your taxes, so we need proof of each QCD donation.
- **Inherited IRAs operate under different rules than your own required distribution.** If you are a spouse and inherit an IRA, you can continue to withdraw as you would your own, a little each year under the IRS life expectancy tables. If you are a non-spouse, you must withdraw the entire amount within ten years - the account must be at -0- at that time. At the present time, you can still wait to withdraw until near or at the end of the ten-year period, but there are proposed regulations to require yearly withdrawals before that time. As of now, these are just proposed, but not finalized.
- **For IL,** we have always had a small increase in the personal exemption each year since 2000 based on inflation. For the 2023 tax year, the legislature in Springfield voted to stop these increases so your 2023 exemption will be the same as in 2022 - that equals a small tax increase for each IL taxpayer. Sneaky.

SO WHAT MAY BE DIFFERENT FOR YOU ON YOUR 2023 TAXES

1. **You may have a lot of money in banks,** in investments, money market accounts or in online accounts. In past years, these accounts paid 1% or a bit more in interest. For 2023 and beyond, many of your accounts and CDs are paying way more interest (up to 5%!). You may be surprised at the amount of interest income on your 1099INT for 2023. This interest is taxed as ordinary income – at your higher marginal tax rate.
2. **Many of us have US Savings bonds** – many of them are quite old and may have reached final maturity. They stop earning interest at maturity – if you have paper bonds, the interest is not “declared” until you cash them in (usually at your bank). If you have transferred your bonds to Treasury Direct (which is now required for new or inherited savings bonds), they are cashed in at the date of maturity and the interest credited to you immediately.
3. **Many of us have investments in mutual funds** which “kick out” Long Term Capital Gains Distributions” at the very end of each tax year – and for which we have no control. Since the stock market was quite good near the end of 2023, you may find an unwelcome surprise on your 1099. This could also be true of managed accounts with stocks where brokers sold to capture gains in December and told you- or not!
4. **You may remember (or maybe not) that your Social Security went up 8.7% in 2023,** the largest increase in many years. With the additional income from above, this may push you to have 85% of your Social Security taxed on your 2023 return. It could also cause you to pay more for Medicare and your Drug Plan in 2025 (since the premiums are based on total income, including tax exempt income on your 2023 tax return). The 85% taxable brackets for SSA of \$32,000 for Single and \$44,000 for Married Joint have not been adjusted for inflation since they were instituted in 1984 and 1992!
5. **Energy Credits got a huge boost for 2023 and beyond!** Prior to 2022, the credit was only for the taxpayer’s principal residence and was subject to a small (\$500 lifetime limit). The Inflation Reduction Act of 2022 renamed the credit to Energy Efficient Home Improvement Credit and extended the credit to include property placed in service before January 1, 2033. The lifetime limit also no longer applies. Instead the annual limit is \$1,200, with specific limitations on the amount that can be claimed for windows, doors, heat pumps, water heaters, air conditioners and furnaces, so long as they meet the EnergyStar requirements. And, best of all, the credit has been expanded to homes located in the US, so long as the taxpayer uses that property as a residence. In other words you can now claim this credit on a second home. Call if you need our worksheets for this.

6. **The tax statements 1099INT, 1099DIV and 1099B as well as 1099R forms from retirement accounts** have usually come to us in our mailboxes via snail mail. Given the recent trend toward online everything – from getting and paying bills, to buying stuff to reminders about everything from bills due or doctor's appointments, many banks and investment firms and the companies/businesses you work for will most likely be posting your tax forms online and you must download them and print them. For some of us, this is easy; for many of us it is not. We are recommending that you both review your 2022 tax return and our Checkoff listing to be sure you have all the forms you need before setting an in personal appointment or scheduling a drop off/pickup or FedEx-ing your documents to us. We are now talking with brokers and with your permission they will send us your tax forms via secured email which we will then print. We will be carefully checking your 2023 income items with those from prior years and asking if we find one or more missing. The IRS is very good and getting better at matching what they receive in income documents and what you include on your tax return – and sending CP notices a year or two later.

OMG: What else should I/we Remember?

- **Identity Protection PINs** are offered (or required) by the IRS to protect against identity theft. If you got one in 2023, you must get a new one for 2024 to include on your 2023 1040. If you had Identity theft in 2022 or before, you must also get a new IPIN. It is a good idea but can be not so easy to do online or on the phone. Call us if you need assistance or have questions.
- **The exclusion of tax on the profit from the sale of a principal residence is big-** \$250,000 for Singles and \$500,000 for Married and can include a stepped up basis of one half- if you owned it jointly with a spouse that died. Call us for our house sale worksheets. Other residences or land do not qualify, and tax may have to be paid both to the IRS and another state if required.
- **The Estate (or death) tax** will hit almost no one since the lifetime exemption is doubled to over \$13.61 million/person for 2024. However, the IL exclusion is still \$4 million (for now) so we may have to file the Federal to file the IL 700 and pay estate tax to our state. (However, these big exclusion amounts are due to sunset at the end of 2025 if there is no action by Congress and be reduced to about \$7 million per individual). The annual gift tax exclusion for 2023 was \$17,000; for 2024 it is \$18,000. If you give more, we need to complete a Form 709, but NO tax is due.
- **We are doing many more extensions than in prior years.** An extension to file is not an extension to pay. Sometimes we can include the late payment penalty and interest on your tax return; often we cannot (especially for the State of IL), and you get small bills from the IRS and IL. These are not from an error on our part - and we often just tell you to write a check...

Paying Online is the New Normal....

Most of us have been having our refunds direct deposited and any monies owed to the IRS and IL debited from our bank accounts. You have, however, been paying Estimated taxes and other tax bills with the ES coupons we give you at tax time. Given the issues both the IRS and IL have been experiencing with checks - from losing them or sometimes crediting them incorrectly in this crazy and difficult year, we have been recommending paying your ES online as well. You can do it directly through the IRS and IL websites without setting up an account- we will be giving you instructions on exactly how to do this when we prepare your 2023 taxes and compute your 2024 ES. You do not have to do this, but you get an email confirmation to print, and you can select the exact date you want the payment withdrawn – and then you can check your bank account as well.

Finally: Do not assume you will not itemize. This is your opportunity to review your income, budget, and spending for the past year and preparing toward the next. Many of us paid or prepaid medical bills (or have large medical expenses due to nursing home or COBRA costs) and made contributions at the end of the year. Churches are “getting used to” this new income flow - with less every week donations and more IRA contributions and doubling up at year end, i.e. prepaying for the year ahead. We recommend you continue to collect all the same tax records as you have done in the past, so you/we look at what you are spending and make suggestions towards both tax planning and tax savings.

JUDI STRAUSS in Print, on Media

We are working out of our Chicago office full time. We have arranged for you to have your tax information “picked up” thanks to Beth’s husband and then delivered. Or you can either drop it off/pick up at her home in Woodridge or FEDEX it to us in Chicago (and then sent back to you by FEDEX). We will complete your return either with you on Zoom or review it with you after completion via phone or Zoom. In Chicago, we are doing both in person and Zoom/phone consultations.

Beth Austin, our Office Manager, will be scheduling your appointment and Zoom or phone follow up, calling with a reminder, sending out a map if needed, letting you know we received your FEDEX package, doing pick-ups and drop offs and answering your calls. Please make sure you tell her if you have anything new this year and listen as she reminds you what to bring (including pay stubs).

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DON'T FORGET TO BRING – FOR YOUR APPOINTMENT:

- All original documents
- Histories of stock/mutual fund sales
- Medical expenses and Charitable contributions - to check itemized and for QCDs.
- Closing Statements on old and new houses
- Parcel number - principal residence (and county too!)
- 1098T (tuition) forms with backup payments
- Year – end IRA statements – and previous 8606 forms if filed
- ES payments and cancelled checks- or proof of payment
- Bank information (routing number/ account number) for refund or withdrawal
- Any new information for 2024 withholding or Estimated Taxes - including pay stubs for wages, pensions, and other retirement income.

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