GattoMcFerson
Certified Public Accountants

January 14, 2023

Dear Friends and Colleagues,

There have been some recent developments in the world of taxes that we felt would be useful to highlight as you start to focus on preparing your 2022 income and business tax returns.

California Disaster Relief

As a result of the recent rain storms in California, the IRS and Franchise Tax Board have granted extensions to California storm victims until May 15, 2023. These extensions apply to the following filing and payment deadlines that were normally scheduled for on or after January 8, 2023:

- Individual income tax returns, normally due April 18, 2023;
- Business return filings, normally due between March 15 and April 18, 2023;
- Third and fourth quarter estimated tax payments due on January 17, 2023, and April 18, 2023. Individual taxpayers can skip making the fourth quarter estimated tax payment and instead include it with the 2022 return as long as the return or an extension is filed on or before May 15, 2023; and
- IRA and health savings account (HSA) contributions.

The relief is automatically available to taxpayers who reside or have a business in the following counties:

Alameda, Colusa, Contra Costa, El Dorado, Fresno, Glenn, Humboldt, Kings, Lake, Los Angeles, Madera, Marin, Mariposa, Mendocino, Merced, Mono, Monterey, Napa, Orange, Placer, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma, Stanislaus, Sutter, Tehama, Tulare, Ventura, Yolo, and Yuba.

SECURE 2.0 Act Signed into Law

Among other things, this new law will increase the age for mandatory RMDs from age 72 to age 73 starting in 2023, and to age 75 starting in 2033.

It will also significantly increase the contribution limits for 2023 retirement plans, as follows:

IRA contributions have been increased to $6,500 (up from $6,000 for 2022). The $1,000 IRA catch-up contribution limit for those over 50 years old remains.

401(k) employee contribution limits have been increased to $22,500 (up from $20,500 for 2022) and the catch-up contribution limit for taxpayers above aged 50 has been increased to $7,500 (up from $6,500). The total 401(k) contribution for taxpayers age 50 and over will now be $30,000 for 2023 ($22,500 regular contribution + $7,500 catch-up contribution).

SIMPLE IRA contribution limit have been increased to $15,500 (up from $14,000)

SEP contribution limits have been increased to $66,000 (up from $61,000).

1099-K Filing Threshold

The IRS delayed the implementation of the dreaded $600 per payee 1099-K filing threshold for third-party settlement organizations (eBay, Venmo, PayPal) for payments made during the 2022 calendar year. This means the $20,000 per payee or 200 transaction thresholds will remain in effect for payments made in 2022.

The IRS stated that additional details on the delay will be available in the near future, along with additional information to help taxpayers and the industry.

Pass-Through Entity - 2022 Tax Returns

As we have discussed before, several states, including California, enacted legislation that allows S-Corporations and partnerships to pay state income taxes at the business level via their Pass-Through Entity (PTE) tax return - Form 1120S or Form 1065. This treatment allows state taxes paid at the entity level to be deductible by the shareholder/partner for Federal income tax purposes. This “work-around” was designed to avoid the current $10,000 limitation on the deductibility of state and local taxes for Federal tax purposes.

The shareholder/partner will report their share of the corporate or partnership net income to the Internal Revenue Service, but this net will be reduced by the amount of the state tax paid at the entity level. For California, the state tax deducted on the federal return will be added back into net income on the California K-1, but the owners will receive a California tax credit for the tax paid.

Boiling it down, this allows the K-1 recipient to reduce their federal Adjusted Gross Income by the state tax paid, rather than having a limited state tax deduction on Schedule A. This type of workaround has been approved by the IRS (IRS Notice 2020-75).

The California credit is claimed on the personal income tax return. The credit is applied to your taxes before withholding and estimated payments. So, if your PTE credit causes you to overpay your taxes, that amount will be refunded or applied to future years.

Student Loan Repayment by Employers

A reminder to review one item that doesn't get much attention: Section 2206 of the CARES Act, which allows employers to make up to $5,250 in tax-free annual payments directly to their employees' federal student loans.

These payments represent the best of both worlds. Employees don't pay tax on this added "income," and employers can still deduct these payments while not paying additional payroll taxes on these funds.

The provision has been extended until December 31, 2025. This potentially is a great employee recruiting/retention tool.

We will keep you posted on further developments and legislative updates. Please let us know if you have any questions.

Sincerely,

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