GattoMcFerson
Certified Public Accountants

October 30, 2023

Dear Friends and Colleagues,

While no significant tax legislation was passed in 2023, there is still much to consider as we head into the year-end tax-planning season:

Additional Tax Filing Extension

Inexplicably, on the morning of the final tax due date - October 16, 2023 - the IRS granted a last-minute, one-month additional extension to most California taxpayers. The *final…final* due date is now November 16, 2023, and it applies to taxpayers that reside in 55 of California's 58 counties – all except Lassen, Modoc, and Shasta.

As before, the eligible returns/payments are as follows:

- Individual income tax returns, originally due on April 18, 2023;
- Various business returns (S-Corporations, C Corporations, Partnerships, Limited Liability Companies, Trusts) normally due on March 15, 2023 and April 18, 2023;
- Tax-exempt organizations, normally due on May 15, 2023;
- For California business owners, passthrough entity elective tax payments due on March 15, 2023 and June 15, 2023;
- Estimated tax payments for the 4th quarter of 2022, originally due on January 17, 2023;
- 2023 estimated tax payments, normally due on April 18, June 15 and September 15;

No interest or penalties will be charged by the IRS or California for those taking advantage of these extensions.

Also, you only need to show that you are a resident of the impacted California counties, not that you personally were affected by the storms.

California also conformed to this additional disaster-related postponement.

Pass-Through Entity Tax Payments

For those who missed the Pass-Through Entity deadline, underpaid, or didn't believe they qualified, this November 16 extension gives you a new lease on life.

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.

To take advantage of the PTE Credit for 2023, California is requiring a "down-payment" on this credit.

This amount is calculated one of two ways:

1. If you did not take advantage of the PTE credit for the 2022 tax year, then you are required to pay $1,000 to California, with the remaining balance of the 2023 credit payable by December 31, 2023;
2. If you did take advantage of the PTE credit for the 2022 tax year, then you are required to pay at least 50% of the 2022 credit, with the remaining balance of the 2023 credit payable by December 31, 2023.

Taxpayers must pay the greater of these two amounts. There are no exceptions to this requirement. Taxpayers who don't pay the correct amount will not be able to take advantage of the PTE credit for 2023.

IRS Notices Received

Many taxpayers who took advantage of the Disaster Relief extensions are now receiving tax due and penalty notices from the IRS.

The IRS is letting taxpayers know that these letters were automatically generated and were unintentional. They issued the following statement:

"The IRS reassures California taxpayers that they continue to have an automatic extension until later this year to file and pay their taxes for those covered by disaster declarations in the state.

The current mailings being received by some taxpayers, the IRS Notice CP-14, are for taxpayers who have a balance due, and they are sent out as a legal requirement. While the notice received by taxpayers says they need to pay in 21 days, most California taxpayers have until later this year to pay under the disaster declaration.

These letters include a special insert that notes the payment date listed in the letter does not apply to those covered by a disaster declaration, and the disaster dates remain in effect.

The IRS apologizes to taxpayers and tax professionals for any confusion as we continue to review the situation. Taxpayers receiving these letters do not need to call the IRS or their tax professional."

Taxpayers have been assured that once the returns have been filed and the payments received, the penalty notices will be eliminated in their system.

Additional 1099s Issued for 2023

In an attempt by the IRS to crack down on the underground economy, taxpayers should plan on possibly receiving more 1099s for the 2023 tax year.

Third-party payment processors (Venmo, PayPal, eBay, Crypto-related) are now required to provide 1099-Ks to individuals who have more than $600 worth of transactions with the processor for the year.

The processor will likely not know whether a transaction is personal or taxable, so the burden to clarify will fall on the taxpayer. If a 1099-K is received for personal items, the taxpayer is advised to report the incorrect amount on Form 1040 Schedule 1 Part I and the adjustment on Schedule 1 Part II.

Retirement Plans

There has been an increase in the beginning age for mandatory Required Minimum Distributions, from age 72 to age 73 starting in 2023, and then to age 75 starting in 2033.

There has also been a significant increase in 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) and the catch-up contribution limit for taxpayers above age 50 has been increased to $7,500 (up from $6,500).

SIMPLE IRA contribution limits have been increased to $15,500 (up from $14,000) and the catch-up contribution limit for taxpayers above age 50 has been increased to $3,500 (up from $3,000).

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

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.

Should you have any questions about the above information, or any other tax planning issues, please feel free to reach out by phone or email.

Sincerely,

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