What's New in Tax Deductions and Credits for Tax Year 2023?

Tax Year 2023 sees the continuation of the Tax Cuts and Jobs Act of 2017 (TCJA) and the end of COVID-related Tax Relief introduced in the Tax Relief Act of 2020 and the Consolidated Appropriations Act of 2021.

Among other things, this means no deductions are available for unreimbursed employee expenses or for non-business casualty loss outside of federally declared disasters. Moving expenses are only deductible for qualified active-duty members of the Armed Forces. Itemized deduction of state and local tax is still limited to $10,000. There is no deduction for charitable giving outside of itemized deductions.

The much publicized rule requiring payers of amounts greater than $600 to file a Form 1099-K is in effect for 2023.

The Standard Deduction

Most taxpayers who itemized before 2017 will likely continue to not itemize as long as the TCJA is in force but instead will take the standard deduction, which has been increased for inflation:

Standard Deduction for Tax Year 2023	
Married Filing Jointly	$27,700
Head of Household	$20,800
Single and Married Filing Separately	$13,850

The standard deduction is increased by $1,850 for any single filer who is age 65 or more at the end of 2023 and by the same amount for a single filer who is blind (for a total increase of $3,700 for a single filer who is both 65 years old or more and blind). For married couples filing jointly, the standard deduction is increased by $1,500 for each spouse who is 65 years old or more at the end of 2023 and for each spouse who is blind.

Tax brackets for individuals begin at 10% of taxable income for everyone and top out at 37% for single filers making more than $578,126 and married couples making more than $693,751.

Credit for Children and Other Dependents

The child tax credit remains $2,000 for each qualifying child who was under the age of 17 at the end of 2023. The Credit for Other Dependents remains $500 for each qualifying child who was 17 or 18 years old the end of 2023, or was a student not yet of age 24 at the end of that year, or was of any age but permanently and totally disabled. The $500 credit is also available for qualifying relatives whose gross income was less than $4,700.

The Child Tax Credit is first of all a non-refundable credit. This means it is first limited to your tax liability. Any Child Tax Credit beyond your liability will be subject to three additional limitations: credit claimed for qualifying children under age 17 at the end of 2023, no more than 15% of your earned income above $2,500, and not more than $1,600 of credit per child.

Finally, the Child Tax Credit begins to phase out for single filers earning more than $200,000 and for married couples earning more than $400,000. The phase out rate is a reduction of 5$ of credit for every $100 earned above the threshold.

Investment Income

Special rates on dividends and long-term capital gains remain 0%, 15%, and 20%. The 15% rate begins for single filers making more than $44,626 and married couples making more than $89,251. The 20% rate begins for single filers making more than $492,301 and married couples making more than $553,851.

The Net Investment Income Tax (NIIT) rate continues to be 3.8% for single filers earning more than $200,000 and married couples earning more than $250,000. The NIIT applies to the lesser of net investment income or the amount of Adjusted Gross Income above the threshold.

Retirement Accounts

The Contribution limit for Traditional and Roth IRAs in 2023 is $6,500 for taxpayers under the age of 50 at the end of 2023, and $7,500 for individuals age 50 and up. The limit is for the combined total of Traditional and Roth IRA contributions during the year.

Contributions allowed to Roth IRAs are reduced for single filers earning more than $138,000 and for married couples earning more than $218,000. The possibility of contributing to a Roth IRA is phased out completely for single filers earning more than $153,000 and for married couples earning more than $228,000.

A married couple filing jointly may each contribute to their IRA accounts up to applicable limits based on their combined income, even if one of them has little or even no income.

While contributions to Roth IRAs are not deductible, contributions to Traditional IRA are usually fully deductible for taxpayers who are not enrolled in a job-related qualified retirement plan such as a 401(k).

For a taxpayer who is enrolled in a qualified plan, deductions for contributions to a traditional IRA will begin to phase out for a single filer who earns more than $73,000, and for a married filer who earns more than $116,000. The ability to deduct any part of a contribution to a Traditional

IRA phases out completely for a taxpayer enrolled in a qualified plan filing single who earns more than $83,000, and married filing jointly who earns more than $136,000.

A married taxpayer filing jointly who is not enrolled in a qualified plan but whose spouse is, will have a limited ability to deduct contributions to a traditional IRA if the couple's combined income is greater than $218,000. The non-participating spouse's ability to deduct for Traditional IRA contributions phases out completely if the couple's combined income is greater than $228,000

Required Minimum Distributions from Traditional IRAs now begin at age 73. Taxpayers born in 1950 or earlier who have money in a Traditional IRA will need to make the Required Minimum Distribution for tax year 2023. The penalty for not doing so is now 25% of the amount not distributed. This penalty can be reduced to 10% if the taxpayer withdraws all of the required amount within two years.

Child and Dependent Care Credit

Credit for care of dependents for 2023 remains figured at a maximum of $3,000 of eligible care expenses per dependent for a maximum of two dependents. Normally, this credit is claimed for children under the age of 13. Depending on your income, the maximum percent of the credit amount is 35%. Thus, the maximum dollar amount of the credit that can be claimed for two or more dependents in 2023 is $2,100.

The credit is also limited by your own earned income. If you are married filed jointly, it is limited by the lesser of your or your spouse's earned income.

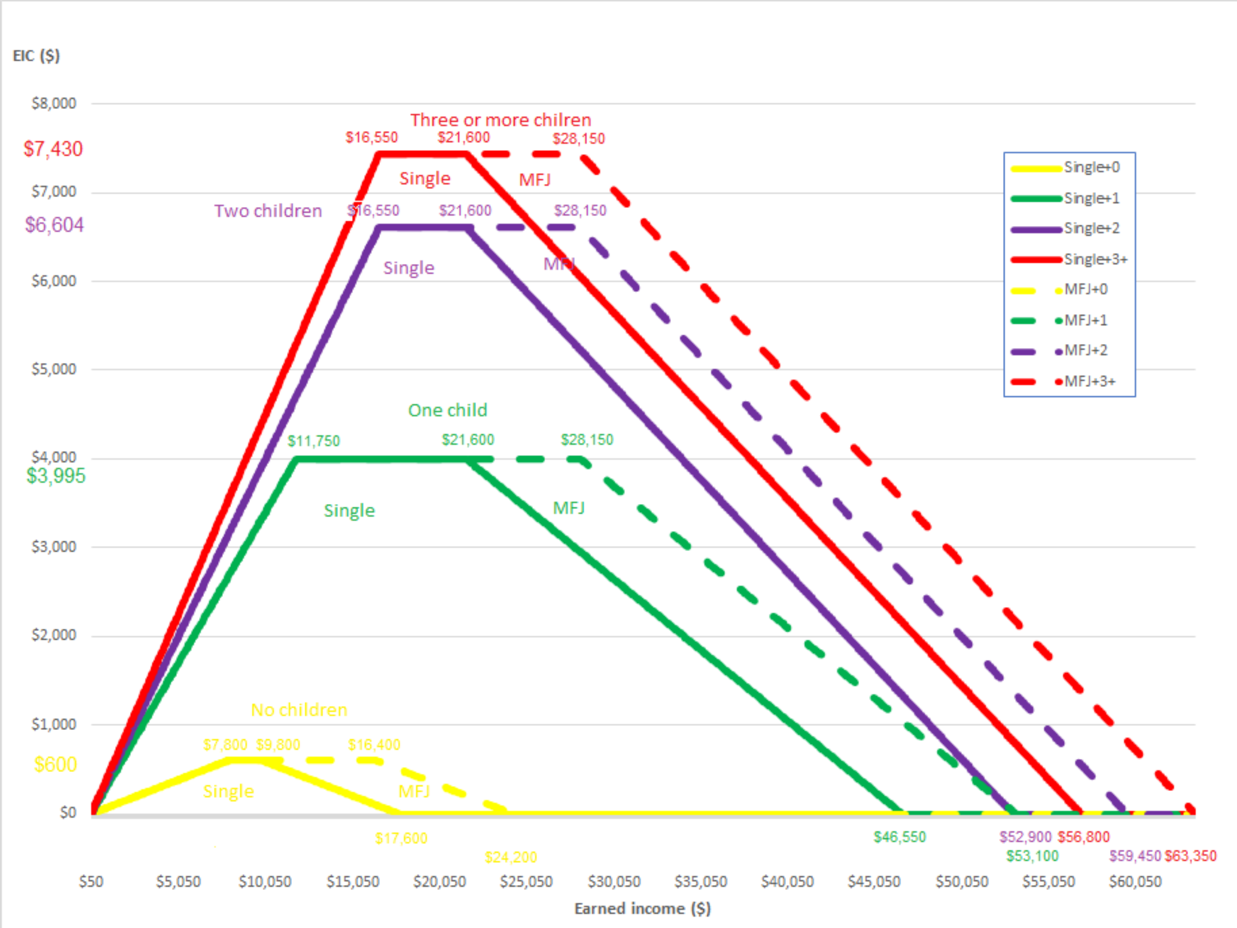
Starting in 2022, Pennsylvania offered a state child care credit that followed the guidelines of the federal dependent care credit. In 2022, Pennsylvania filers were able to claim 30% of the federal credit amount as a state income tax credit. It is expected such a credit will continue to be available in Pennsylvania in 2023.

Earned Income Credit

Earned income credit (EIC) is a fully refundable credit available to taxpayers who have earned income below certain threshold amounts. The thresholds, as well as the amount of the credit, depend on whether you are filing single of married filing jointly (MFJ) and how many qualifying children you are claiming. EIC is claimed separately from the Child Tax Credit and Dependent Care Credit.

If you were not yet age 25 at the end of 2023 or were 65 or older, you can only claim EIC if you are claiming at least one qualifying child. If you were between the ages of 25-65, you can claim EIC without a qualifying child. For a married couple filing jointly, only one spouse needs to be of ages 25-65 for the couple to be able to claim EIC without a qualifying child.

EIC amounts in 2023 have been updated for inflation as shown in the chart below:



The maximum amount of EIC for taxpayers not claiming a child is $600, claiming one child is $3,995, claiming two children is $6,604, and claiming three or more children is $7,430. The maximum amount is the same whether you are single or married, but the phaseout begins earlier if you are single.