Supplement to J. K. Lasser's 1,001 Deductions and Tax Breaks 2023

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This year's book, *J.K. Lasser's 1,001 Deductions and Tax Breaks,* reflects the tax rules as they stood on December 1, 2022. But tax law is not static and new legislation, IRS pronouncements, and court decisions continue to tweak tax rules. They impact reporting on 2022 returns as well as tax planning for 2023 and beyond. This Supplement updates this year's book for these late-breaking developments.

The Consolidated Appropriations Act, 2023, which included SECURE Act 2.0, was signed into law on December 29, 2022. It sealed the rules for 2022 returns and created some rules to be taken into account for estimated taxes in 2023.

The changes covered in this Supplement are listed according to the chapters in which the subject matters appear. I've attempted to include an answer to every notation in the book that said "see the Supplement." Be sure to note which changes listed in this Supplement apply to 2022 returns and which apply after 2022 for purposes of figuring 2023 estimated taxes. For changes in 2023, only an overview is provided, with more details to come in the next edition to this book.

Introduction

Above-the-line deductions. The above-the-line deduction for charitable contributions by non-itemizers and net disaster losses expired at the end of 2021 and was not extended for 2022.

Standard deduction amounts. The basic standard deduction amounts are increased in 2023 due to cost-of-living adjustments as follows:

- Married filing jointly and surviving spouses: $27,700 (up from $25,900).
- Heads of households: $20,800 (up from $19,400).
- Singles and married filing separately: $13,350 (up from $12,950).

Additional standard deduction amounts. For 2023, the additional standard deduction amount for age and/or blindness rises to $1,850 for single filers and heads of households and $1,500 for married filers (filing jointly or separately) and surviving spouses.

Chapter 1—Your Family

Dependents. While the personal and dependency exemptions are not deductible in 2018 through 2025, the definition of dependent continues to apply for various tax breaks (e.g., child tax credit; head of household status). In determining dependent status for 2023, a person can be your qualifying relative only if he or she has gross income below $4,700 (up from $4,400 in 2022).

Child tax credit. The enhanced child tax credit that applied in 2021 was not extended to 2022. As a result, tax rules in place in 2020 apply for 2022 returns. The refundable child tax credit for 2023 is $1,600 (up from $1,500 in 2022).

Earned income credit. Many of the favorable rules for individuals with no qualifying child that applied in 2021 were not extended to 2022. As a result, the rules that applied prior to 2021 control the earned income credit for 2022 (modified by any permanent changes that were made in 2021).

The earned income credit amounts, including adjusted gross income limits, have been increased due to a cost-of-living adjustment. As a result, the maximum earned income credit in 2023 is $3,995for one qualifying child, $6,604 for two qualifying children, $7,430 for three or more qualifying children, and $600 for a taxpayer with no qualifying child.

The earned income credit cannot be claimed if investment income exceeds a set amount. For 2022, the limit is $11,000 (up from $10,300 in 2022).

Dependent care credit. The refundable dependent care credit expired at the end of 2021; it has not been extended for 2022. This means that the rules in effect in 2020 apply for 2022, and continue for 2023.

Adoption credit. The adoption credit limit increases to $15,090 for 2023 (up from $14,890 in 2022). The modified adjusted gross income limits on eligibility for the credit have also been slightly raised for 2023.

Chapter 2—Medical Expenses

Premium tax credit. This refundable tax credit, which continues to apply despite repeal of the individual mandate, is designed to help individuals pay for the cost of health coverage for themselves and their dependents. To be eligible for the premium tax credit, your household income must be at least 100%, but usually no more than 400% of the federal poverty line for your family size, although those above 400% may still claim the credit in 2023. Eligibility for the credit in 2023 is based on 2022 federal poverty guidelines for the 48 contiguous states and District of Columbia as shown in the following table.

Persons in the family/household	Poverty guideline (100%)
1	$13,590

2	$18,310
3	$23,030
4	$27,750
5	$32,470
6	$37,190
7	$41,910
8	$46,630
More than 8	Add $4,720 for each additional person

*The guidelines are higher in Alaska and Hawaii; see https://aspe.hhs.gov/poverty-guidelines.

Health coverage tax credit. This credit expired at the end of 2021 and was not extended for 2022.

Itemized medical expenses. For 2023, the IRS medical expense mileage rate is 22¢ per mile (the same rate that applied for the second half of 2022).

Nonqualified medical expenses. No change has been made to the treatment of marijuana for medical purposes under federal law. This is so even though medical marijuana is legal in about half the states.

Long-term care coverage. The portion of long-term care insurance premiums that are treated as a deductible medical expense in 2023 is the same for most groups as in 2022.

Flexible spending arrangements (FSAs). In 2023, the maximum salary contribution to an FSA is capped at $3,050 (up from $2,850 in 2022).

Excepted benefit health reimbursement arrangements (EBHRAs). In 2023, the maximum reimbursement is limited to $1,950 (up from $1,800 in 2022).

QSEHRAs. The maximum employer reimbursement under a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) for individually-obtained health insurance in 2023 is $5,850 for self-only coverage and $11,800 for family coverage (up from $5,450 and $11,050 respectively for 2022).

Health savings accounts (HSAs). The 2023 minimum and maximum amounts for high-deductible health plans (a prerequisite for HSAs) as well as contribution limits to HSAs have increased slightly:

High-deductible health plans and HSAs for 2023

Type of plan	Minimum deductible under the plan	Maximum out-of-pocket costs	Maximum contribution*
Self-only coverage	$1,500	$7,500	$3,850
Family coverage	$3,000	$15,000	$7,750

*Those age 55 or older by the end of 2023 can add another $1,000, but no contributions are allowed if enrolled in Medicare.

Having a health savings account is predicated on medical coverage under a high-deductible health plan (HDHP). The Consolidated Appropriations Act, 2023, extended the exemption for telehealth services to require a deductible in 2023 and 2024.

Archer medical savings accounts (MSAs). There are still some individuals covered by these health plans. Again, contributions to MSAs can only be made for those covered by a high-deductible health plan. The limits for 2023 have increased slightly:

High-deductible health plans for MSAs in 2023

Type of plan	Minimum deductible under the plan	Maximum deductible under the plan	Cap on out-of-pocket expenses
Self-only coverage	$2,650	$3,950	$5,300
Family coverage	$5,300	$7,900	$9,650

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2023 is $420 (up from $390 in 2022). Excess amounts are taxable to the extent they exceed actual long-term care costs.

Medicare. The “standard” premium for Part B coverage in 2023, the premium paid by most beneficiaries, is $164.90 per month (compared with $170.10 per month for 2022). The following tables (one for Part B and one for Part D) show the 2023 surcharges and total premiums for higher-income taxpayers, which are based on modified adjusted gross income (MAGI) in 2021.

Part B Premiums for 2023:

2021 MAGI for joint filers	***2021 for other filers****	***Total monthly Part B premium for 2023***	***Total monthly Part D premium for 2023***

Up to $194,000	Up to $97,000	$164.90	Your premium
$194,001 but not over $246,000	$97,001 but not over $123,000	$230.80	$12.20 + your premium
$246,001 but not over $306,000	$123,001 but not over $153,000	$329.70	$31.50 + your premium
$306,001 but not over $366,000	$153,001 but not over $183,000	$428.60	$50.70 + your premium
$366,001 but less than $750,000	$183,001 but less than over $500,000	$527.50	$70.00 + your premium
$750,000 or greater	$500,000 or greater	$560.50	$76.40 + your premium

* Married persons who live with their spouses at any time during the year but filed separately for 2021 are subject to a monthly premium for 2023 of $527.50 for Part B and $70.00 for Part D if 2021 MAGI was over $97,000 and under $403,000, or $560.50 for Part B and $76.40 for Part D if 2021 MAGI was $409,000 or more.

Medical insurance rebates. Private insurers paid out in 2022 about $1 billion in Medical Loss Ratio rebates for coverage in 2022 (down from $2 billion in 2021). These rebates to eligible individuals were to be paid to about 8.2 million people by insurers by September 30, 2022. The average rebate was $155 per person.

Chapter 3—Education Costs

Student loan interest deduction. The modified adjusted gross income (MAGI) phaseout range for the 2023 deduction has not changed for singles: the 2022 phase-out starts at $70,000 and is completed at $85,000 (unchanged from 2021). The 2022 MAGI phase-out for joint filers starts at $145,000 and is completed at $175,000 (each up $5,000 from 2021).

Interest on U.S. savings bonds. The modified adjusted gross income limits on eligibility to claim the exclusion for interest on bonds redeemed to pay qualified higher education costs have been increased for 2023. The phase-out ranges for 2023 are $137,800-$167,800 for joint returns and $91,850-106,850 for all other returns.

Cancellation of a student loan. The proposed student loan forgiveness program was declared by a federal appeals court to be unlawful. The U.S. Supreme Court agreed to hear the case, with arguments scheduled for February 2023. A decision may not be released before the end of the Court’s 2022-2023 term in June 2023.

Note: The freeze on repayment of certain student loans, including zero interest during the freeze, which began in March 2020, has been extended to June 30, 2023.

ABLE accounts. The annual contribution limit for 2023 is $17,000 (up from $16,000 in 2022).

Chapter 4—Your Home

Mortgage insurance premiums. The ability to treat mortgage insurance premiums as deductible mortgage interest expired at the end of 2021; it has not been extended for 2022.

Real estate taxes. No change has been made to the SALT cap for 2022 or later.

COVID-19 related payments. State and local government programs to help homeowners may or may not be tax free. The IRS says:

- Funds used to pay some or all of a down payment and closing costs for the purchase of a home under a program to support those negatively impacted by COVID-19 are tax free
- Funds used to pay private mortgage insurance are taxable income

Moving expenses. No deduction can be claimed for work-related moving expenses except for certain military personnel. Those who qualify can figure their move-related driving at 22¢ per mile in 2023 (the same rate that applied in the second half of 2022).

Energy improvements. The energy efficient home improvements credit for making certain energy improvements to a home in the U.S. used as your residence (it doesn't have to be your principal residence), such as adding insulation or installing energy-efficient windows and exterior doors, is different (and generally more generous) in 2023 from the rules that apply on 2022 returns. The title of the credit is the energy efficient home improvement credit, For improvements placed in service in 2023:

- The credit is 30% of cost (up from 10% of cost in 2022), for a maximum credit of $1,200.
    -
- New limits apply before the $1,200 limit:
    - $600 for any single energy property item
    - $600 on windows
    - $150 for home energy audits
    - $500 for exterior doors in the aggregate
    - $250 per exterior door
- Notwithstanding the annual and per item limits, the credit for qualifying expenditures on biomass stoves or water heaters and/or heat pumps powered by electricity or natural gas is capped at $2,000.
- The credit may be claimed annually; the credit is 2022 is a lifetime limit.

- The credit covers the cost of a home energy audit (subject to the dollar limit above).
- A roof no longer qualifies.

Residential energy credit. The residential energy credit for adding solar panels or certain other alternative energy improvements remains at 30% of cost, with no dollar limit. However, biomass stoves does not qualify after 2022 (beginning in 2023 it qualify for the energy efficient home improvement credit). Battery storage property placed in service in 2023 or later is eligible.

The U.S. Department of Energy has a list of improvements that may qualify for these credits.

Disaster rules for casualties to your home. See Chapter 13.

Chapter 5—Retirement Savings

Traditional IRAs and Roth IRAs. The basic contribution limit for 2023 is $6,500 ($500 more than in 2022); the additional "catch-up" contribution limit is $1,000 (unchanged from 2022) for those who are at least 50 years old by the end of the year. Note that the $1,000 catch-up contribution limit will be indexed for inflation starting after 2023, so there is no change for purposes of figuring 2023 estimated taxes.

The modified adjusted gross income (MAGI) limits on eligibility to make deductible contributions to a traditional IRA are increased for 2023, as are the MAGI limits for Roth IRAs.

401(k) and similar plans. The elective deferral contribution limit in 2023 is $22,500 (up from $20,500 in 2022). The additional contribution limit is $7,500 for those who are age 50 or older by the end of the year for 2023 (up from $6,500 in 2022).

Self-employed retirement plans. The contribution, benefit, and other limits for these plans are increased for 2023. For example, the contribution limit for profit-sharing plans in 2023 is $66,000 (up from $61,000 in 2022).

Simplified Employee Pension plans (SEPs). The contribution limit for these plans for 2023 is $66,000 (up from $61,000 in 2022). The earnings threshold for including an employee in a SEP is $750 (up from $650 in 2022).

Savings Incentive Match Plans for Employees (SIMPLEs). The 2023 contribution limit for SIMPLEs and the additional contribution limit for those age 50 or older by the end of the year are $15,500 (up from $14,000 in 2022) and $3,500 respectively (up from $3,000 in 2022).

Retirement saver's credit. The MAGI limits on eligibility to claim the retirement saver's credit for contributions to IRAs, 401(k)s, and similar plans, as well as to ABLE accounts, have been increased for 2023.

Changes in penalties. SECURE Act 2.0 made a number of changes to penalties related to qualified retirement plans and IRAs. Note that some changes do not take effect until *after* 2023.

- ***Early distribution penalty.*** The 10% penalty on distributions before age 59½ does not apply to:
    - Withdrawals for terminal illness beginning in 2023. A physician must certify the individual's health status.
    - Disaster distributions up to $22,000 within 180 days of a federally-declared disaster occurring on or after January 26, 2021.
    - Emergency savings withdrawals up to $1,000 per year, beginning after 2023.
    - Withdrawals by domestic abuse survivors up to the lesser of $10,000 or 50% of the account balance, beginning after 2023.
- ***Excess contributions penalty.*** This 6% penalty will not apply to rollovers from long-term 529 plans (in existence more than 15 years) to Roth IRAs up to $35,000 in a lifetime, beginning after 2023.
- ***Penalty for insufficient withdrawals.*** The 50% on the failure to take required minimum distributions (RMDs) from qualified retirement plans and IRAs is lowered to 25% in 2023. If the failure is corrected within a set time period, the penalty drops to 10%. It is unclear whether having reasonable cause for not taking the RMD will excuse the penalty entirely as has been the case until this law change.

IRAs inherited after 2019. A 10-year rule went into effect for beneficiaries of these accounts, but how the rule operates has not been clear. Proposed regulations had said that a beneficiary who inherited an account after the owner's beginning date would have to continue RMDs, with the remaining balance distributions by the 10th calendar year after the year of the owner's death. Comments from tax professionals did not think this IRS interpretation reflected the law. The IRS has agreed to waive penalties in 2020 and 2021 related to RMDs from these inherited accounts. Due to this confusion over the rules for RMDs, any final rules will apply no earlier than 2023.

Coronavirus distributions. This is a reminder that qualified coronavirus distributions can be repaid within 3 years of receipt. Time is running out for recontributing distributions where desirable.

Disaster distributions. See Chapter 12.

Chapter 6—Charitable Giving

Extension of charitable contribution breaks. The above-the-line deduction for cash donations by nonitemizers up to $300 ($600 for joint filers) expired at the end of 2021. It was not extended for 2022.

Cash donations limited to 60% of adjusted gross income (AGI). The 100%-of-AGI limit that applied in 2021 was not extended to 2022 or beyond.

Conservation easements. Under SECURE Act 2.0, no charitable contribution deduction is allowed for syndicated conservation easements made after December 29, 2022. A syndicated conservation easement is defined as one where the claimed deduction exceeds 2.5 times the sum of each partner's relevant basis in the partnership making the contribution. However, there are some exceptions to this deduction disallowance rule.

The new law also contains a safe harbor to permit donors to correct conservation easement deeds with respect to extinguishment clauses and boundary line adjustments. The IRS is required to post sample deed language by April 28, 2023.

Substantiation. Donations of cryptocurrency valued over $5,000 require a qualified appraisal. This digital asset is not treated as a security (e.g., stocks and bonds listed on a public exchange) which is exempt from appraisal requirements, even if the cryptocurrency is traded on cryptocurrency exchange.

Chapter 7—Your Car

Business use of your personal car. The IRS announced that the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 65.5¢ per mile in 2023 (up 3¢ per mile from the rate in effect for the second half of 2022). If you use the standard mileage rate, you must reduce the basis of your vehicle by 28¢ per mile in 2023 (up from 26¢ per mile in 2022). Watch for a mid-year change in the rates, either up or down, if inflation-sensitive costs vary significantly

New electric vehicles (EVs). The tax rules for the new clean vehicle credit for purchases of electric (EV) or fuel cell (FCV) vehicles by consumers are completely new for 2023, other than the maximum credit amount which remains $7,500. Changes include:

- *The way in which the credit is figured*. The maximum credit for an EV is $3,750 for meeting a critical minerals requirement and $3,750 for meeting a battery component requirement.
- *Reporting*. The seller must furnish a report to the buyer and the IRS containing the name and taxpayer identification number (e.g., Social Security number) of the buyer, the vehicle identification number (VIN), the battery capacity, and other verification so the buyer may claim the credit.
- *Purchase price limit*. Only a vehicle costing no more than an applicable limit can qualify for the credit. The applicable limit is $80,000 for vans, sports utility vehicles, and pickup trucks, and $55,000 for other vehicles (e.g., sedans).

- *Income limit*. A buyer is eligible for the credit only if modified adjusted gross income does not exceed $300,000 for joint filers and surviving spouses, $225,000 for heads of households, and $150,000 for singles and married persons filing separately. There is no phase-out.
- *Transferability*. When buying a new EV, you can elect to transfer the credit to the dealer in return for the full payment of the credit amount. Transferability applies after 2023; it does not apply for 2023.
- *Manufacturer limitation*. The 200,000 vehicle limit per manufacturer no longer applies. This means that EVs from Teslas, GMs, and Toyotas, all of which passed the 200,000 limit, may now qualify for the credit.

The final assembly requirement, which went into effect for an EV placed in service on or after August 16, 2022, continues to apply. You can check a vehicle's VIN number at vpic.nhtsa.dot.gov/decoder.

Pre-owned EVs. A new credit for consumers, called the previously owned clean vehicle credit, applies for the purchase of a used EV placed in service after 2022. A used EV is defined as an EV with a model year that is at least 2 years earlier than the calendar year in which you buy it, the original use started with someone other than you, is acquired for sale, and meets EV requirements. This credit has its own limitations:

- *Credit amount.* The maximum credit is 30% of the sales price, for a top credit of $4,000.
- *Purchase price.* The vehicle's sale price may not exceed $25,000.
- *Income limits.* A buyer is eligible for the credit only if modified adjusted gross income does not exceed $150,000 for joint filers and surviving spouses, $112,500 for heads of households, and $75,000 for singles and married persons filing separately. There is no phase-out.
- *Transferability.* You may elect to transfer the credit to the dealer—after 2023 (not during 2023).
- *Repeated credits.* The credit may be claimed only once every 3 years.

Charging stations. If you install a charging station at your home, you may be eligible for the alternative fuel refueling property credit. The maximum credit amount is the lesser of 30% of the cost of hardware and installation, up to a maximum credit of $1,000. The credit is nonrefundable. This credit is effective for installations after 2022. But the credit applies only if you are located in a low-income or rural area. The basis of your home must be reduced by the amount of the credit claimed. The credit is figured on Form 8911, *Alternative Fuel Vehicle Refueling Property Credit.*

Chapter 8—Investing

Taxable income breakpoints for capital gains rates. The following table shows the break points for capital gain rates for 2023 (this table does ***not*** apply to 2022 returns):

Rate	**Married filing jointly (and surviving spouse)**	**Head of household**	**Single**	**Married filing separately**
0%	Up to $89,250	Up to $59,750	Up to $44,625	Up to $44,625
15%	$89,251 - $553,859	$59,751 - $523,050	$44,626 - $492,300	$44,626 - $276,900
20%	Over $553,859	Over $523,050	Over $492,300	Over $276,900

Gain on Opportunity Zone assets. The IRS has made it clear that despite the 2020 census tracts, the designations of Opportunity Zones have not changed.

Cryptocurrency. There has been no legislation applying the wash sale rule to digital asset transactions.

The IRS ruled informally that cryptocurrency is not treated as a security like stocks and bonds that are publicly traded, and so no deduction for a worthless security can be claimed if the digital asset has no value. The fact that the cryptocurrency is traded on a cryptocurrency exchange does not change this fact. The IRS also said that a drastic decline in the value of cryptocurrency does not trigger a loss. There can be a loss if the asset is abandoned, as evidenced by some "express manifestation of abandonment."

Digital asset transactions in 2023 will be reported by brokers to individuals. Look for a new Form 1099-DA that will be used for this purpose. However, until final regulations are issued, brokers will not be required to report or furnish additional information on dispositions of digital assets. This means brokers will report gross proceeds and basis of these transactions. Further, the IRS Office of Chief Counsel has ruled that a charitable donation of a digit asset of over $5,000 must have a qualified appraisal to support it.

Reminder: If you engaged in any digital asset transaction in 2022, you must answer "yes" to the question on page 1 of Form 1040 or 1040-SR. Digital assets are any digital representations of value that are recorded on a cryptographically secured distributed ledger or any similar technology. For example, digital assets include non-fungible tokens (NFTs) and virtual currencies, such as cryptocurrencies and stablecoins. If a particular asset has the characteristics of a digital asset, it is treated as a digital asset. Instructions to the income tax return say you must answer the question; don't leave it blank.

FBAR reporting on foreign investments. The U.S. Supreme Court heard oral argument in November 2022 on the matter of whether non-willful penalties for the failure to file FBAR reports should be figured on a per account or per year basis. The Court did not indicate how it will rule, so watch for a final decision.

Chapter 9—Travel

Business travel per diem rates. The standard federal per diem rate set by the General Services Administration (GSA) for travel starting October 1, 2022, through September 30, 2023, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $157 per day ($98 for lodging and $59 for M&IE). There are 316 locations that have a per diem rate exceeding the standard rate for all or part of the year. These rates can be found here (https://www.gsa.gov/travel/plan-book/per-diem-rates/fy-2023-per-diem-highlights).

The high-low substantiation rates set by the IRS for areas within CONUS for the period October 1, 2022, through September 30, 2023, are $297 for travel to high-cost localities and $204 for travel to all other areas within CONUS. Of these rates, the meal portion is $74 for high-cost areas and $64 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2022-44 for details).

Meals. The deduction for business meals in 2023 is 50% of the cost. The 100% limit that applied for 2021 and 2022 expired. This applies to meals during business trips as well as business meals within your usual business location.

Driving your car for medical purposes or by military personnel under certain conditions. The IRS standard mileage rate for 2023 is 22¢ per mile (the same rate that applied in the second half of 2022).

Chapter 10—Real Estate

Deduction for energy-efficient commercial buildings. Beginning in 2023, the deduction is $2.50 to $5 per square foot, but no partial deduction is allowed. To maximize the deduction, you must meet prevailing wage and apprenticeship requirements. These requirements are laid out in Notice 2022-61.

To qualify for a deduction, property must be installed as part of a plan designed to reduce the total annual energy and power costs with respect to the interior lighting systems, heating, cooling, ventilation, and hot water systems of the building by 25% beginning or more, in comparison to a reference building that meets the minimum requirements of the applicable reference standard using certain methods of calculation. The IRS has listed the applicable reference standards in Announcement 2023-01.

Special breaks for certain disaster victims. See Chapter 4 on relief for losses on personal residences.

Chapter 11—Borrowing and Interest

Home mortgage interest. See Chapter 4.

Student loan interest. See Chapter 3.

Borrowing from retirement plans. See Chapter 5.

Investment-related interest. See Chapter 8.

Chapter 12—Insurance and Catastrophes

Disaster areas. Check with FEMA for the latest disaster area declarations.

Disaster losses. The net disaster loss deduction that could be claimed by non-itemizers expired at the end of 2021 and was not extended for 2022.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2022 is $420 (up from $390 from 2022); excess amounts are taxable to the extent they exceed actual long-term care costs.

Disaster distributions. Distributions from qualified retirement plans after December 29, 2022, are explained in Chapter 6.

Chapter 13—Your Job

Educator expenses. If you are an educator, the cap on the above-the-line deduction for classroom expenses in 2023 is $300 (unchanged from 2022).

Fringe benefits. Note changes for 2023 in dollar limits and other changes for certain employee benefits, including:

Transportation fringe benefits. The monthly exclusion for free parking, transit passes, and van pooling for 2023 is $300 (up from $280 in 2022).

Adoption assistance. The exclusion amount in 2023 for employer-provided adoption assistance is $15,050 (up from $14,890 in 2022).

Dependent care assistance. The cap on dependent care assistance remains at $5,000 in 2023.

Income earned abroad. The maximum foreign earned income exclusion for 2023 is $120,000 (up from $112,000 in 2022).

Eligibility requirements for 2022 may be waived for certain countries (there were waivers in 2021 for 5 countries). The IRS has yet to announce any waivers for 2022 (it did not post those 5 countries for 2021 until March 2022 so check for 2022 waivers that may appear in March 2023).

Wage withholding. If your circumstances have changed since 2022 (e.g., a spouse began to work or stopped working, you had or adopted a child), you may want to file a new withholding form (Form W-4) for 2023 to better estimate tax liability.

Chapter 14—Your Business

Qualified business income (QBI) deduction. The taxable income threshold is slightly higher for 2023, at $364,200 for joint filers and $182,100 for all other filers (up from $340,100 for joint filers and $170,050 for all other filers in 2022).

Equipment purchases. Some dollar limits and percentages have changed for 2022:

- *First-year expensing.* The deduction limit for 2023 is $1,160,000 (up from $1,080,000 in 2022). This amount begins to phase out when purchases in 2022 exceed $2,890,000 (up from $2,700,000.
- *Bonus depreciation.* Bonus depreciation, which is 100% for 2022, declines to 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026. (There is an additional year for property with long production periods.)

Employment-related tax credits. The Indian employment expired at the end of 2021 and was not extended for 2022.

Self-employment tax. The wage base for the Social Security portion of the self-employment tax in 2023 is $160,200 (up from $147,000 in 2022).

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 65.5¢ per mile for 2023 (up from 3¢ per mile from the rate that applied in the second half of 2022).

Those who own their vehicles and use the standard mileage rate for 2023 must reduce the vehicle's basis by 28¢ per mile (up from 26¢ per mile in 2022).

Business-related tax credits. The Indian employment tax credit listed in Table 14.2 expired at the end of 2021 and was not extended for 2022. There are new or expanded credits beginning in 2023:

- Expanded credit for small employer pension plan startup costs
- New credit for enrolling military spouses in company retirement plans
- Revised clean vehicle credit for consumers
- New credit for used clean vehicle credit for consumers
- New credit for commercial vehicles credit
- Revised alternative fuel refueling property credit

Chapter 15—Miscellaneous Items

IRS interest rate. The rate for underpayments and overpayments of federal income tax by individuals is 7% for the first quarter of 2023 (up from 6% for the fourth quarter of 2022). This rate may be adjusted quarterly and has risen each quarter since the end of 2021.

Gifts you make. The annual exclusion amount for 2023 is $17,000 per recipient (up from $16,000 in 2022). Of course, the recipient can receive any amount tax free (the exclusion impacts only the gift tax, if any, owed by the person making the gift).

Tax audits. The reasonable reimbursement rate for attorney's fees in 2023 when the IRS's position is not substantially justified and other requirements are met is $230 per hour (up from $220 per hour in 2022).

Exemption amounts. The AMT exemption amounts for 2023 are:

Filing status	2023 exemption
Married filing jointly/surviving spouse	$126,500
Single/head of household	$81,300
Married filing separately	$63,250

Exemption phase-out. The exemption amounts for 2023 start to phase out when alternative minimum taxable income (AMTI) exceeds $1,156,300 for married filing jointly and surviving spouses and $578,150 for other filers.

ABLE accounts. See Chapter 2.