Wegner CPAs

2023 Year-End Tax Update

December 19, 2023

Welcome and Introduction

About Wegner CPAs

Headquartered in Madison, WI, Wegner CPAs brings a unique perspective to the practice of accounting and business consulting. The firm specializes in family-owned businesses, and provides a complete range of accounting, audit, tax, and consulting services across the lifecycle of the organization.

Presenters

John Folsom

PARTNER

Sara Brown

Supervisor

Swati Jain

MANAGER

Agenda

I. General Tax Updates for Individuals & Businesses
II. Corporate Transparency Act
III. Solar & Electric Vehicle Credits
IV. Employee Retention Credit (ERC) Updates
V. 2017 Tax Law (TCJA) Sunsetting Provisions for 2026

General Tax Updates

General Tax Updates

New 1099 Electronic Filing Rules

- The minimum threshold for filing a 1099 is still $600 for 1099 MISC and 1099 NECs. The due date for sending out 1099s is 01/31/2024.
- Change for 2023 - Taxpayers must e-file 1099s if the total number of 1099s is 10 or more, including W-2s.
- The IRS launched a new free online portal, IRIS, for businesses to file 1099 returns for tax years 2022 and later. Enrollment is required for the IRIS platform.
- Beginning January 2024, you will no longer be able to electronically file using your legacy transmitter code using the old FIRE system.
- Wegner can prepare 1099s for clients. Please let us know and we can help.

General Tax Updates

1099-K info for 2023

- 1099-K is an information return used to report payment card transactions e.g. debit, credit, etc.
- In late November 2023, the IRS announced a delay of the new threshold. Thus, there will be no change in reporting from prior years; reporting will continue to be required when the total number of transactions exceeds 200 and the gross amount of reportable payments exceeds $20,000 in a calendar year. The IRS is now planning a phase-in threshold of $5,000 for tax year 2024.

General Tax Updates

Contribution Type	2023 Limit	2024 Limit
Traditional IRA Contribution	$ 6,500	$ 7,000
Traditional IRA Contribution Catch-Up (Over 50)	1,000	1,000
Roth IRA Contribution	6,500	7,000
Roth IRA Contribution Catch-Up (Over 50)	1,000	1,000
401(k)/ 403(b) Employee Contribution	22,500	23,000
401(k)/ 403(b) Employee Contribution Catch-Up (Over 50)	7,500	7,500
SEP IRA Contribution	66,000	69,000
SIMPLE IRA Contribution	15,500	16,000

Retirement Plan Contribution Limits

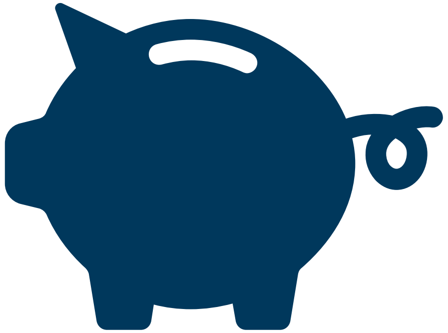
General Tax Updates

Credit for Pension Plan Startup Costs Expanded

Secure 2.0 Act expanded the existing Credit for Small Employer Pension Plan Startup Costs.

Beginning in 2023, the credit is as follows:

- Employers with 50 or fewer employees: 100% of eligible start-up costs count toward the credit (*This was 50%).*
- Employers with 51 to 100 employees: 50% of eligible start-up costs count toward the credit.



General Tax Updates

Credit for Pension Plan Startup Costs Expanded, cont.

- Eligible employers can claim a credit of up to $5,000, for three years, for the ordinary and necessary costs of starting a SEP, SIMPLE IRA or qualified plan (i.e., 401(k)).
- Eligible employers include:
  - Employers who had 100 or fewer employees who received at least $5,000 in compensation for the preceding year,
  - Employers who had at least one plan participant who was a non-highly compensated employee (NHCE), and
  - In the preceding three tax years of the employer being eligible for credit, their employees were not substantially the same employees who received contributions or accrued benefits in another plan sponsored by employer.

General Tax Updates

Credit for Pension Plan Startup Costs Expanded, cont.

Eligible start-up costs are ordinary and necessary costs to:

- Set up and administer the plan, and
- Educate your employees about the plan.

An eligible employer that adds auto-enrollment to their plan can claim a $500 credit per year for three years.

Credit is a dollar-for-dollar reduction of tax.

General Tax Updates

§174 Research & Experimental Expenditures

- Starting in tax year 2022, business were no longer allowed to expense specified research and experimental (SRE) expenditures in the year incurred.
  - These expenses now need to be amortized over 5 years, or
  - 15 years if for foreign research.
- Mid-year convention:
  - 10% of amortization in year 1.
  - 20% of amortization in years 2 through 5.
  - 10% of amortization in year 6.
- We didn’t have much guidance, except for the above, for 2022. It was also thought that Congress may reverse these new rules…

General Tax Updates

§174 Research & Experimental Expenditures, cont.

- But then the IRS issued Notice 2023-63 on September 8th, 2023
  - The notice gives the intent of the IRS' plan to issue proposed regulations
- The Notice went into further detail of what costs all need to be capitalized and amortized under the new §174 rules. This includes:
  - Overhead costs (i.e., rent, utilities, repairs, depreciation, etc.)
  - Additional compensation costs (not just W2 Box 1)
  - Travel costs
  - Patent costs
- The time for submitting comments just ended on November 24th.
- Now is the waiting game for final guidance…

General Tax Updates

Other Business Tax Updates:

- Sec 179 expensing limit for 2023 = $1,160,000
  - Maximum property purchased = $2,890,000
- Bonus depreciation for 2023 is 80%
- Wisconsin pass-through entity level election is still available. Other states have also implemented similar structures.

General Tax Updates

Other Business Tax Updates:

- WI Personal Property Tax
  - Eliminated beginning in 2024!

- W-2 reporting, don’t forget:
  - S-Corp health insurance addition to W-2 for > 2% shareholders
  - Personal use of company-owned auto
  - Resource for fringe benefits: IRS Publication 15-B
    https://www.irs.gov/pub/irs-pdf/p15b.pdf

Corporate Transparency Act

In 2021, Congress passed the Corporate Transparency Act. This law creates a new ***beneficial ownership information reporting requirement*** as part of the U.S. government's efforts to make it harder for bad actors to hide or benefit from their ill-gotten gains through shell companies or other opaque ownership structures.

Corporate Transparency Act

Beginning on January 1, 2024, many companies in the United States will have to report information about their beneficial owners, i.e., the individuals who ultimately own or control the company, as well as information about their company applicants.

They will have to report the information to the Financial Crimes Enforcement Network (FinCEN). FinCEN is a bureau of the U.S. Department of the Treasury.

Corporate Transparency Act

- Who must report?
  - Companies required to report are called "Reporting Companies"
  - Reporting Companies are typically corporations, LLC's, or any other entity created in the U.S. by filing a document with a secretary of state or similar office.
- Are there exemptions from reporting?
  - There are 23 types of entities that are exempt from reporting beneficial ownership information (BOI). These entities include publicly traded companies, certain nonprofits, and certain large operating companies.

Corporate Transparency Act

Who are "Beneficial Owners"?

- Any individual who directly or indirectly exercises substantial control over the reporting entity; or
- Any individual who directly or indirectly owns or controls at least 25% of the reporting company's ownership interests

Who are "Company Applicants"?

- A company applicant is the individual who directly files the document that creates or registers the reporting company.

Corporate Transparency Act

How is the reporting done?

- The report must be filed electronically through FinCEN's website
- www.fincen.gov/boi

Corporate Transparency Act

- Reports will be accepted starting on January 1, 2024.
  - If your company was created or registered **prior to January 1, 2024**
    - You will have until January 1, 2025, to report BOI.
  - If your company was created or registered **on or after January 1, 2024, and before January 1, 2025**
    - You must report BOI within 90 calendar days after receiving actual or public notice that your company's creation or registration is effective, whichever is earlier.
  - If your company was created or registered **on or after January 1, 2025**
    - You must file BOI within 30 calendar days after receiving actual or public notice that its creation or registration is effective.
- Any updates or corrections to beneficial ownership information that you previously filed with FinCEN must be submitted within 30 days.

Corporate Transparency Act

What are the penalties for noncompliance?

The fine for willfully failing to complete an initial or updated report or for willfully providing false or fraudulent information to a reporting company is **$500 per day**, **up to $10,000 and imprisonment for up to two years**.

Corporate Transparency Act

Wegner CPAs' tax professionals will **not** be able to file or assist with this filing for our clients.

This is because….

- Wegner CPAs is not authorized or allowed to do anything that could constitute the "unauthorized practice of law".
- Most CPA firms are taking the position that these BOI reports are legal filings. Accordingly, Wegner CPAs will not be able to advise or assist with the preparation of these filings.
- If you need help, we recommend reaching out to your legal representative to assist.

Corporate Transparency Act

Resources to learn more about the Corporate Transparency Act:

https://www.fincen.gov/sites/default/files/shared/BOI_Small_Compliance_Guide.v1.1-FINAL.pdf

Solar & Electric Vehicle Credits

Energy Efficient Home Improvement Credit

- Effective from 2023 to 2032
- Increase from 10% to 30% of the cost of certain improvements
- Homes used as a residence qualify (not just *primary* residence)
- Annual dollar limits apply, generally $1,200 per year
- Heat pumps, biomass stoves and boilers have a separate annual credit limit of $2,000 per year.

Residential Clean Energy Credit

- Extended through 2032 at 30%, then is reduced to 26% for 2033 and 22% for 2034
- Solar electric systems
- Solar water heating systems
- Wind/ geothermal can qualify
- Battery storage systems with capacity of at least three kW hours

Clean Vehicle Credit for 2023

- Up to $7,500 for new vehicles; no sales caps by manufacturer anymore
- Final assembly must be in North America; other sourcing requirements for critical minerals and battery components
- MSRP caps:
  - $80,000 for pickup trucks/ vans/ SUVs
  - $55,000 for all other vehicles
- Income caps:
  - $300,000 for married filing joint filers
  - $225,000 for head of household filers
  - $150,000 for single filers

Clean Vehicle Credit for 2023, cont.

- Used vehicles may now qualify
  - Lesser of $4,000 or 30% of the price of the vehicle
  - Price must be under $25,000
  - Must be at least 2 years old
  - Must be sold by dealer (private sales not allowed)
  - No sourcing requirements
  - Income caps:
    - $150,000 for married filing joint filers
    - $112,500 for head of household filers
    - $75,000 for single filers

Inflation Reduction Act

Residential Electric Vehicle Charger Credit

30% Credit

Up to $1000 max

Beginning January 1, 2024

- Consumers can choose to transfer their new clean vehicle credit of up to $7,500 and their previously owned clean vehicle credit of up to $4,000 to a car dealer starting January 1, 2024.
  - This will effectively lower the vehicle's purchase price by providing consumers with an upfront down payment on their clean vehicle at the point of sale, rather than having to wait to claim their credit on their tax return the next year. Only vehicles purchased under the consumer clean vehicle credits are eligible for this benefit.
- Eligible EV Dealers need to enroll with the IRS energy credit online tool to extend this credit at point of sale.

Employee Retention Credit (ERC) Update

ERC Update

2023 Dirty Dozen summary:

Employee Retention Credit claims

Taxpayers should be aware of aggressive pitches from scammers who promote large refunds related to the Employee Retention Credit (ERC). The warning follows blatant attempts by promoters to con ineligible people to claim the credit. The IRS highlighted these schemes from promoters who have been blasting ads on radio and the internet touting refunds involving Employee Retention Credits. These promotions can be based on inaccurate information related to eligibility for and computation of the credit. Additionally, some of these advertisements exist solely to collect the taxpayer's personally identifiable information in exchange for false promises. The scammers then use the information to conduct identity theft.

ERC Update

Aggressive marketing to ineligible applicants highlights unacceptable risk to businesses and the tax system

IR-2023-169, Sept. 14, 2023

Moratorium on processing of new claims through year's end will allow IRS to add more safeguards to prevent future abuse, protect businesses from predatory tactics; IRS working with Justice Department to pursue fraud fueled by aggressive marketing

WASHINGTON — Amid rising concerns about a flood of improper Employee Retention Credit claims, the Internal Revenue Service today announced an immediate moratorium through at least the end of the year on processing new claims for the pandemic-era relief program to protect honest small business owners from scams.

IRS Commissioner Danny Werfel ordered the immediate moratorium, beginning today, to run through at least Dec. 31 following growing concerns inside the tax agency, from tax professionals as well as media reports that a substantial share of new claims from the aging program are ineligible and increasingly putting businesses at financial risk by being pressured and scammed by aggressive promoters and marketing.

ERC Update

IRS expands work on aggressive Employee Retention Credit claims; 20,000 disallowance letters being mailed, more action and voluntary disclosure program coming

English | Español | 中文 (简体)

Topics in the News

News Releases

News Releases for Frequently Asked Questions

Multimedia Center

Tax Relief in Disaster Situations

IR-2023-230, Dec. 6, 2023

WASHINGTON — As part of continuing efforts to combat dubious Employee Retention Credit (ERC) claims, the Internal Revenue Service is sending an initial round of more than 20,000 letters to taxpayers notifying them of disallowed ERC claims. IRS is disallowing claims to entities that did not exist or did not have paid employees during the period of eligibility to prevent improper ERC payments from being made to ineligible entities.

The letters are being sent as the IRS continues increased scrutiny of ERC claims in response to misleading marketing campaigns that have targeted small businesses and other organizations. The IRS mailing is the latest in an expanded compliance effort that includes a special withdrawal program for those with pending claims who realize they may have filed an inaccurate tax return. Later this month, a separate voluntary disclosure program will be unveiled allowing those who received questionable payments to come in and avoid future IRS action.

ERC Update

Potential penalties for incorrect or fraudulent ERC claims:

- IRC Sec. 6621 – interest charged on underpayments
- IRC Sec. 6651 – Failure to pay timely (up to 25%)
- IRC Sec. 6662 – Accuracy-related penalty (20%)
- IRC Sec. 6663 – Fraud-related penalty (75%)
- IRC Sec. 6672 – Trust Fund Recovery Penalty (100%)
  - Assessed to persons like owners/officers, not the company
  - Not dischargeable in bankruptcy

ERC Update

Can an ERC claim be withdrawn? Yes, but only if **ALL** of the following apply:

- You made the claim on an adjusted employment tax return
  - e.g. Form 941X
- You filed the adjusted return ONLY to claim the ERC
- You want to withdraw the ENTIRE AMOUNT of your ERC claim
- The IRS has not paid your claim, or the IRS has paid your claim but you haven't cashed or deposited the refund check.

https://www.irs.gov/newsroom/withdraw-an-employee-retention-credit-erc-claim

ERC Update

What if we already received and deposited an erroneous ERC refund?

The IRS has indicated that it is working on guidance to help employers that were misled into claiming the ERC (e.g. by a promoter) and have already received payment of the ERC claim.

Waiting on guidance at this point in time…

2017 Tax Law (TCJA) Sunsetting Provisions

TCJA Sunsetting Provisions

- The Tax Cuts and Jobs Act (TCJA) was enacted in 2017.
- Certain provisions in TCJA are set to expire 12/31/2025.

NOTE: It is possible that these certain provisions can be extended or even made permanent before they expire on 12/31/2025. Everything we discuss today is how the law is currently set.

TCJA Sunsetting Provisions

Bonus depreciation reduced to 80% for 2023

- 2024 = 60 %
- 2025 = 40%
- 2026 = 20%
- 2027 = NONE

TCJA Sunsetting Provisions

Deduction for meals provided by restaurant is **no longer 100% allowed.**

Back to 50% rules from TCJA prior to pandemic

Common meals expenses that are 50% allowed:

- Business meals with clients or customers
- Food for the office such as soda, coffee and snacks for employees
- Meals provided in office for meetings of employees
- Meals while traveling for work
- Meals at a conference

TCJA Sunsetting Provisions

Entertainment expenses are still **100% nondeductible.**

- Common entertainment expenses that are 100% not allowed:
  - Sporting event tickets
    - Food and drinks are 50% allowed if separately stated
  - Taking a customer golfing
    - Food and drinks are 50% allowed if separately stated
  - Concert tickets

TCJA Sunsetting Provisions

§199A "Qualified Business Income" deduction will go away

- This is the 20% QBI deduction allowed for pass-through entities or self-employed entities

TCJA Sunsetting Provisions

Annual Federal Gift Tax Exclusion

- 2023 = $17,000 per recipient
- 2024 = $18,000 per recipient

Unified (Lifetime) Federal Exclusion

- 2023 = $12.92 million
- 2024 = $13.61 million

This lifetime exclusion is scheduled to revert back to $5 million (adjusted for inflation). Likely to be around $6.5 million…

TCJA Sunsetting Provisions

Other Items Impacting Individuals:

- Marginal tax rates will revert to old rates (adjusted for inflation)
- Standard deduction will be reduced to the lower pre-TCJA amounts (adjusted for inflation)
- Personal Exemptions are back
- SALT cap of $10,000 will be lifted
- Other deductions that are currently not allowed under TCJA may come back:
  - Unreimbursed employment expenses
  - Investment expenses
  - Tax preparation fees
  - Hobby expenses (limited to hobby income)
- PEASE Limitation comes back though…

Contact Us

888.204.7665

john.folsom@wegnercpas.com

2921 Landmark Pl, Ste 300, Madison, WI 53713

www.wegnercpas.com

THANK YOU

Wegner CPAs