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2023 U.S. TAX RETURN

Dear Client,

Another year has gone by and we are getting ready to give you the American Type Income Tax Service that we have been giving clients since 1979.

New Tax Alerts 2023

Standard Deductions

Filing Status	Standard Deductions
A Married Filing joint return And Qualifying widow(er).	\$27,700
B Head of household	\$20,800
C Single	\$13,850
D Married filing separately	\$13,850
E If you are age 65 or over or blind your standard deduction is substantially larger.	

Tax Rates

MARRIED FILING JOINTLY				SINGLE			
Taxable Income				Taxable Income			
10%	***	-	\$22,000	10%	***	-	\$11,000
12%	\$22,001	-	\$89,450	12%	\$11,001	-	\$44,725
22%	\$89,451	-	\$190,750	22%	\$44,726	-	\$95,375
24%	\$190,751	-	\$364,200	24%	\$95,376	-	\$182,100
32%	\$364,201	-	\$462,500	32%	\$182,101	-	\$231,250
35%	\$462,501	-	\$693,750	35%	\$231,251	-	\$578,125
37%	\$693,751	-	***	37%	\$578,126	-	***

- 1. Capital gains on stocks are Taxable For 2023.** Long term gains may qualify for 0%, 15% and 20%, depending on your tax bracket. Dividends (qualified) are subject to favorable rates as net capital gains 15% 20% or zero.
- 2. Tax treaty Alert!** As of Jan. 1, 1995 a tax treaty went into effect between the U.S. and Israel. The treaty will enable the two countries to exchange information on a limited basis. GOOD NEWS! Social security benefits received by a taxpayer whose permanent place of residence is Israel are exempt from U.S. taxes – according to the Tax Treaty.

Congress repealed the earnings test for working people who receive Social security if you are 66 years and 6 months or over.

3. **The Tax Reform Act of 1986** requires that you show on your tax return the social security number of each child born .If this is not included the IRS will not allow the exemption.
4. **If you have foreign currency accounts** in Israel that are approaching 20 years from your date of Aliya you should be aware that the interest income on these deposits will be taxed in Israel. Usually 20% is withheld by the banks. For tax planning we suggest that you contact us.
5. **Sale of house** – if you sell a house and occupy it as a principal residence for at least two years out of 5 years before the sale you may exclude from income gains up to \$250,000 if single and up to\$500,000 if married and filing jointly. You do not have to buy replacement property. The exclusion may be claimed again providing there is a two year spread between the first exclusion. If you used the residence for less than two years, you may avoid tax if you sold because of a change of a job location, poor health or unforeseen circumstances.
6. **MOVING EXPENSES BEGINNING IN 2018** HAVE BEEN DISALLOWED.
7. **Foreign earned income is not taxable** (up to \$120,000) if you meet the Physical Presence Test or Bona Fide Residence Test. However taxpayers wishing to take advantage of these benefits have to file a timely tax return.
8. **If you are self employed** in a profession or business your earned income is tax free if you meet one of the above tests in #10. However, if you earned more than \$400 you are liable for social security payments which qualifies you for all Social Security Benefits, such as Survivors, Disability & Retirement. One half of self-employment tax is deductible from your total income.
9. **Estimated Tax Payments** – To avoid a penalty your 2023 withholdings plus quarterly estimated tax payments must be equal to the lower of 90% of your 2023 tax liability or be equal to your 2022 payment.
10. **Employee Business Expenses** may no longer be taken as an adjustment to income. In order to take advantage of these expenses you will have to itemize.

Business meals- – Deduction of business meals entertainment will be only 50 % of such costs. Entertainment expenses are no longer deductible beginning 1/1/18.

11. **Home office deductions** restricted by setting tough conditions as a result of the Supreme Court Decision "Solimar". To deduct office expenses the office must be exclusively used on a regular basis as your principal place of business. You will have to fill out form 8829 in order to deduct expenses for your home office.
12. **Social security Rate Increase** In 2023 higher income taxpayers may be subject to one or both of the new additional Medicare taxes that are intended to pay for health care reform. If your self employment earnings are above \$160,200, you will be charged an additional 2.9% Medicare Tax.
13. **Social Security Earnings Summary** We can help you to fill out a form and mail in to social security in order to get a report of your past earnings and an estimate of your future benefits. This will see if you have met your 40 quarters of social security and check if you qualify for social security benefits upon retirement. Many of our clients used our service. They were happy to

find out that they were fully covered and to know the estimated amount they will be getting at retirement age.

14. **2023 Kiddie Tax Rules And Rates** – Tax rules for figuring tax on unearned income of children subject to the kiddie tax in 2023 are those in effect prior to 2018. This means the rate of investment income over \$2,500 depends on the parent's top marginal rate.
15. **IRA Accounts** – The age cap on contributing to a traditional IRA has been repealed as long as a person has earned income. Distributions before 59 1/2 are subject to a 10% tax penalty, unless you are totally disabled, meet exceptions for paying medical costs, receiving annual payments under an annuity type schedule (or you qualify for another exception). The SECURE Act raised the age at which Required Minimum Distributions (RMDs) must begin to 72 for individuals who reached 70 1/2 after 2019 (previously the required age was 70 1/2). For 2023, RMDs must be received.
16. **IRA Withdrawals – Penalty Exceptions**– In 2023 you may withdraw without penalty before age 59 1/2 amounts from an IRA if used to pay medical costs for yourself, spouse or dependents that exceed 7.5% of your adjusted gross income. The withdrawal is subject to regular taxes. If you are unemployed for a period of at least 12 weeks you may withdraw funds without penalty to pay for medical insurance for yourself, spouse or dependents.

As of Jan. 1, 1998 the 10% tax penalty for distributions before age 59 1/2 does not apply to withdrawals from an IRA for up to \$10,000 of first time home buyers expense and for higher education costs.

17. **If you are married filing jointly** you may each contribute up to \$6,500 (or \$7,500. if age 50 or older) to an IRA for 2023, as long as your combined compensation covers the contributions. The deductions for the contributions are restricted if you are covered by a company retirement plan.
18. **As of 1996 a 20% withholding rule** applies to non periodic distributions from an employment retirement plan. You may avoid the withholding by instructing your employer to directly transfer the funds to an IRA or the plan of your new employer. Distributions before age 59 ½ are generally subject to penalties – but there are exceptions to the rule.
19. **Rules for taxing Social Security Benefits for U.S. Residents** for US Residents a single taxpayer with income exceeding \$25,000 or Married filing jointly with income exceeding \$32,000 who are collecting social security might have to pay tax on no more than 50% of their social security. However your benefits will be tax exempt if you are a permanent resident of Israel according to the U.S. Israeli Tax Treaty which went into effect Jan. 1, 1995. See #4.
20. **Charitable Contributions** –A cancelled check will no longer be sufficient substantiation for a charitable contribution of more than \$300. A written receipt will be needed if you claim deductions for property valued at more than \$500. You must attach form 8283, and if valued at more than \$5,000, you must have a written appraisal. There are deduction ceilings depending on the type of donation and the nature of the charity, and an annual ceiling based on adjusted gross income
21. **Expensing Deductions** for tax year 2023– Small businesses are now able to expense (rather than depreciate) up to \$1,160,000 of the cost of tangible personal property (equipment). You may deduct the entire amount if equipment is placed in service on the last date of the taxable year.
22. **Child Tax Credit** – You may be entitled to a \$2,000 child tax credit for each qualifying dependent under age 17. If the credit exceeds your tax liability for

may be entitled to a refundable credit. The maximum refundable credit per qualifying child is \$1,600 per child. The threshold of earned income for each child tax credit is \$2,500, which is favorable to low-income parents.

23. **Alternative Minimum Tax** – For married persons filing jointly, the AMT exemption on 2023 returns is \$126,500. The exemption for singles is \$81,300.
24. **The business Auto Mileage** rate for 2023 is 65.5 cents per mile.
25. **Gift tax** – Annual exclusion is \$17,000 in 2023. If your spouse consents on form 709 to split your gift, then the exclusion is \$34,000.
26. **Foreign bank reporting FBAR** – U.S. Citizens having foreign bank accounts or investment accounts with aggregate value of \$10,000 during any time of the year must file form TDF 90-22.1. Penalties for failure to file can be severe. The foreign bank account report must be reported by the due date of the tax return.
27. **Starting in 2017** Foreign Financial Institutions will be required by the U.S. government under **FATCA (FOREIGN ACCOUNTS TAX COMPLIANCE ACT)** to report information regarding accounts of U.S. citizens to the Internal Revenue Service.
28. **Educational Tax Credits** for people attending approved higher institutes of learning. There are two tax credits –the American opportunity credit (up to \$2,500 per student) and the Lifetime learning credit (up to \$2,000 per taxpayer). These are for tuition and qualified fees.

Any Congressional actions may result in additional changes. Please contact us for up to date information.

We recommend you to get all of your records in order as soon as possible and to contact us if you have specific questions regarding your individual tax planning. Thank you for letting us serve you. We sincerely appreciate your business. With Congress trying to “simplify” taxes, your situation may become more confusing and complex. Your financial success is important to us.

Sincerely Yours,

Moshe Sadeh