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TAX TIPS FOR MUSICIANS

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Each year, as the tax season approaches, Allegro publishes these updated tax tips for musicians provided by Local 802's accounting firm, Gould, Kobrick & Schlapp P.C.

Before we go into the details of tax law and filing information, we would like to advise you of IRS tax help that is available.

- You can use the Online Account portal on the IRS website to securely access the latest information about your federal tax account, including the Economic Impact Payments you received, advance Child Tax Credit payments, and key data from your most recent tax return. The link is <https://www.irs.gov/payments/your-online-account> *(If you don't have an existing IRS username or ID.me account, you will need to have your photo identification ready. More information about identity verification is available on the sign-in page)*
- Taxpayers whose adjusted gross income was \$79,000 or less in 2023 can prepare and file their federal tax return for free online by using the IRS Free File program, also available with the IRS2Go app. Eligible taxpayers will use brand-name tax preparation software that helps them find deductions, credits, and exemptions. Free File opened January 12, 2024. You can look up Free File service providers on the IRS website. The link is <https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free> *(IRS Free File lets you prepare and file your federal income tax online using guided tax preparation, at an IRS partner site or Free File Fillable Forms. It is safe, easy and no cost to you for a federal return. To receive a free federal tax return, you must select an IRS Free File provider from the "Browse All Offers" page or your Online Lookup Tool results. Once you click your desired IRS Free File provider, you will leave the IRS.gov website and land on the IRS Free File provider's website. Then, you must create an account at the IRS Free File provider's website accessed via IRS.gov to prepare and file your return. Please note that an account created at the same provider's commercial tax preparation website does NOT work with IRS Free File: you MUST access the provider's Free File site as instructed above.)*
- At [IRS.gov](https://www.irs.gov) you can find a variety of online tools. Its Interactive Tax Assistant (ITA) provides answers to common questions. The IRS says ITA can help you determine if a type of income is taxable, if you are eligible to claim certain credits or if you can deduct expenses on your tax return. It also provides answers for general questions, such as

determining your filing status, whether you can claim dependents or if you are required to file a tax return.

For 2023 there were few changes to tax laws. The following were enacted, modified, or changed:

- The exception to the 50% limit on deductions for food or beverages, was terminated.
- The additional first-year depreciation allowance (bonus depreciation) is 80% for 2023. It was previously 100%.
- There are new rules for the credit for certain home energy improvements. The credit for installing solar energy in your residence is 30% for 2023.
- The “SECURE 2.0 Act” raised the age again for required minimum distributions (RMDs). Anyone attaining age 72 after 2022 does not have to begin receiving RMDs until the year they reach age 73.
- The alternative motor vehicle credit expired.
- The credit for new qualified plug-in electric drive motor vehicles has changed. This credit is now known as the clean vehicle credit. The maximum amount of the credit, and some of the requirements to claim the credit have changed.
- There is a new previously owned clean vehicle credit. This credit is available for previously owned clean vehicles acquired and placed in service after 2022.
- Qualified charitable distribution one-time election. Beginning in 2023, you can elect to make a one-time distribution up to \$50,000 from an individual retirement account directly to charities through a charitable remainder annuity trust, a charitable remainder unitrust, or a charitable gift annuity each of which is funded only by qualified charitable distributions.
- Insurance premiums for retired public safety officers. Eligible retired public safety officers can exclude from income up to \$3,000 of distributions from their eligible retirement plan that are used to pay for health insurance premiums is paid directly to the insurer.

For 2023, there were no notable changes to Form 1040.

The following are 2024 pertinent filing deadlines:

January 16, 2024: fourth quarter 2023 estimated tax payment due.

April 15, 2024: Due date of the 2023 individual tax return (or filing of request for extension). Taxpayers living in Maine or Massachusetts have until April 17, 2024, due to the Patriot's Day and Emancipation Day holidays. If a taxpayer resides in a federally declared disaster area, they also may have additional time to file.

April 15, 2024: first quarter 2024 estimated tax payment due.

April 15, 2024: Last day for individuals to make a 2023 IRA contribution.

June 17, 2024: second quarter 2024 estimated tax payment due.

September 16, 2024: third quarter 2024 estimated tax payment due.

October 15, 2024: Extended individual tax returns are due.

January 15, 2025: fourth quarter 2024 estimated tax payment due.

For 2023 tax filings most rules remain the same with some inflationary dollar amount changes.

DO YOU HAVE TO FILE A TAX RETURN?

You must file a tax return if:

- You are single and:
 - ✓ Are under age 65 (on January 1, 2024) and your gross income is at least \$13,850.
 - ✓ Age 65 or older (on or before January 1, 2024) and your gross income is at least \$15,700.
- You are married and living together at the end of 2023 and:
 - ✓ Filing a joint return - both spouses are under age 65 (on January 1, 2024) and your gross income is at least \$27,700.
 - ✓ Filing a joint return - one spouse is age 65 or older (on or before January 1, 2024) and your gross income is at least \$29,200.
 - ✓ Filing a joint return - both spouses are age 65 or older (on or before January 1, 2024) and your gross income is at least \$30,700.
 - ✓ Filing a separate return for 2023 (regardless of age) and your gross income is at least \$5.
- You are Married and living apart at the end of 2023 and:
 - ✓ Filing a joint or separate return for 2023 (regardless of age) and your gross income is at least \$5.
- Head of a household maintained for a child or other relative and:
 - ✓ Are under age 65 (on January 1, 2024) and your gross income is at least \$20,800.

- ✓ Age 65 or older (on or before January 1, 2024) and your gross income is at least \$22,650.
- Widowed in 2021 or 2022 and have a qualifying dependent child and:
 - ✓ Are under age 65 (on January 1, 2024) and your gross income is at least \$27,700.
 - ✓ Age 65 or older (on or before January 1, 2024) and your gross income is at least \$29,300.
- You are self-employed and you owe self-employment tax because your net self-employment earnings for 2023 are \$600 or more.
- You (or your spouse if filing jointly) received HSA or Archer MSA distributions.
- You are entitled to a refund of taxes withheld from your wages or a refund based on any of the following credits: additional child tax credit, premium tax credit, earned income credit for working families, or the American opportunity credit.
- You received advance payments of the premium tax credit.
- You owe any special tax such as the alternative minimum tax, the Additional Medicare Tax or the Net Investment Income Tax, IRA penalties, household employment taxes, and FICA on tips.

This year's article will highlight important sections applicable to most individuals and provide you with the updated brackets, amounts and inflationary changes.

Tax rates and other key amounts for 2023:

- **Tax rate brackets:** For 2023 ordinary income remains at 10%, 12%, 22%, 24%, 32%, 35% and 37%, but the taxable income amounts in each bracket have changed. The top bracket of 37% for 2023 applies if taxable income exceeds \$578,125 for single taxpayers and \$578,100 for heads of households, \$693,750 for married persons filing jointly and qualifying surviving spouses, and \$346,875 for married taxpayers filing separate returns.
- **Qualified Dividend and capital gain tax rates:** Qualified dividends and long-term capital gains may escape tax entirely under the 0% rate or be subject to capital gain rates of 15% or 20% depending on filing status, taxable income, and how much of the taxable income consists of qualified dividends and eligible long-term gains. The 20% capital gain rate applies in 2023 when taxable income exceeds \$492,300 for singles, \$523,501 for heads of households, \$553,851 for married persons filing jointly and

qualifying surviving spouses, and \$276,900 for married persons filing separately. The 0%, 15%, and 20% rates do not apply to long-term gains subject to the 28% rate (collectibles and taxed portion of small business stock) or the 25% rate for unrecaptured real estate depreciation.

- **Social Security and Medicare taxes for 2023:** The tax rate on the employee portion of Social Security is 6.2% on wages up to \$160,200, **so total Social Security tax withholdings should not exceed \$9,932**. Medicare tax of 1.45% is withheld from all wages regardless of amount.
- **Self-employment tax:** This applies to earnings of up to \$160,200; only 92.35% of earnings are taken into account. The 15.3% rate equals 12.4% for Social Security (6.2% employee share and 6.2% employer share) plus 2.9% for Medicare. If net earnings exceed \$147,000 (after the reduction), the 2.9% Medicare rate applies to the entire amount. One-half of the self-employment tax may be claimed as an above-the-line deduction.
- **Additional 0.9% Medicare Tax on Earnings:** Wages, other employee compensation (tips, taxable fringe benefits), and net earnings from self-employment are combined to determine if you exceed the threshold for the 0.9% Additional Medicare Tax. The 0.9% tax, if applicable, is on top of the basic Medicare tax otherwise due (1.45% on all wages and salary; 2.90% on net self-employment earnings). Liability for the 0.9% tax does not depend on your adjusted gross income but only on your earnings. The 0.9% tax applies only to earnings above \$250,000 for married persons filing jointly, \$200,000 for single persons, heads of households and qualifying surviving spouses and \$125,000 for married persons filing separately.
- **Traditional IRA and ROTH IRA contribution limits:** \$6,500 (with an additional contribution if age 50 or older of \$1,000 (these amounts get phased out depending on marital status and income levels and whether your employer contributes to a pension plan on your behalf). You must make the payment to your IRA on or before April 15, 2024, even if you file for an extension.
- **Elective deferral limits for 401(k), 403(b), 457 plans and SIMPLE IRAs:** \$22,500, with additional “catch-up” contributions of \$7,500 for 401(k), 403(b), 457 plans if your age is fifty or older, and \$15,500 for SIMPLE IRAs with additional “catch-up” contributions of \$3,500 if your age is fifty or older.
- **Estate and gift tax exemptions:** For decedents dying, and gifts made, in 2023, the estate and gift tax exemption has been adjusted for inflation and is now \$12,920,000.

The annual gift tax exclusion is \$17,000 per donee for gifts of cash or present interests. The top tax rate remains at 40%.

- **IRS standard business mileage rates:** For 2023 the rate is 65.5 cents a mile. The rate for medical expenses and moving expenses for certain military personnel deductions is 22 cents a mile. For charitable volunteers, the mileage rate is unchanged at 14 cents a mile.

Income earned by your children:

- The income of your minor child is not included on your return unless you make a special election to report a child's investment income (see kiddie tax below). A minor is considered a taxpayer in his or her own right. If the child is required to file a return but is unable to do so because of age or for any other reason, the parent or guardian is responsible for filing the return. A tax return must be filed for a minor child who had more than \$1,250 of investment income and no earned income (for personal services) for 2023. If your child had only earned income (for personal services) and no investment income, a tax return must be filed if the earned income exceeded \$13,850. A child who is not required to file a return should still do so to obtain a refund of taxes withheld.
- “Kiddie Tax” rules. If your child has 2023 investment income exceeding \$2,500, the excess is subject to the “kiddie tax” rules if (1) the child is under age 18, or (2) at the end of the year is either age 18 or a full-time student under age 24, and did not have earned income exceeding 50% of his or her total support for the year. If your child also has *earned income*, say from a summer job, the rules become more complicated.

Exemptions:

- You cannot claim exemptions for yourself, your spouse (on a joint return), or your dependents. The Tax Cuts and Jobs Act suspended the deduction for exemptions for 2018 through 2025.

Standard deduction:

- For most taxpayers, the standard deduction provides a larger deduction than itemizing deductions does, given the large increase in the standard deduction amount and the reductions to, or elimination of certain itemized deductions for years after 2017.

- The standard deduction has been adjusted for inflation and is \$27,700 for married persons filing jointly and qualifying surviving spouses, \$20,800 for heads of households, or \$13,850 for single taxpayers or married persons filing separately.
- The additional standard deduction for being sixty-five or older or blind increases to \$1,850 if single or head of household (\$3,700 if sixty-five and blind). If married filing jointly, the additional standard deduction increases to \$1,500 if one spouse is sixty-five or older or blind, \$3,000 if both spouses are at least 65 (or one is sixty-five and blind, or both are blind and under age 65).

Itemized deductions:

- **Taxes:** The itemized deduction for state and local income tax (referred to as SALT) and real and personal property taxes is limited to a combined total of \$10,000 (\$5,000 if you are married filing separately). The following taxes are not deductible (and should not be included in the above-mentioned \$10,000), transfer taxes, gasoline taxes and Federal taxes.
- **Mortgage interest:** Interest on home acquisition debt that is secured by a first or second home is deductible ([see two-residence limit, below](#)). This includes interest on home equity debt that also qualifies as home acquisition debt. However, there are limits on the amount of acquisition debt that can support an interest deduction. Home acquisition debt is debt used to buy, construct, or substantially improve the residence that secures the loan. The maximum amount of home acquisition debt on which mortgage interest may be deducted for 2018 through 2025 is \$750,000 (\$375,000 if married filing separately). This limit applies only to loans obtained after December 15, 2017. For loans obtained on or before December 15, 2017, the prior-law limit of \$1,000,000 (\$500,000 if married filing separately) continues to apply. There is a two-residence limit for qualifying mortgage debt. The rules for deducting interest on qualifying home acquisition debt or home equity debt apply to loans secured by your principal residence and one other residence. The residence may be a condominium or cooperative unit, houseboat, mobile home, or house trailer that has sleeping, cooking, and toilet facilities. If you own more than two houses, you must decide which residence will be considered your second residence. You do not have to live in the second residence to designate it as a qualifying home. However, a home that you rent out during the year may be designated as a second residence only if your personal use

exceeds the greater of 14 days or 10% of the rental days. In counting rental days, include days that the home is held out for rental or listed for resale. In counting days of personal use, use by close relatives generally qualifies as your personal use.

- **Miscellaneous itemized deductions:** There is no federal deduction for miscellaneous itemized deductions such as tax preparation, investment expenses, union dues, and unreimbursed employee expenses. *(Union members in the State of New York may have the opportunity to deduct union dues on their NY return if they itemize deductions on their NY return. This applies even if you are not able to utilize itemized deductions on your federal return).*
- **Medical expenses:** Unreimbursed medical expenses are deductible only to the extent they exceed 7.5% of adjusted gross income for all taxpayers. A different rule applies if you are self-employed and paid health insurance premiums.
- **Long-Term care premiums:** A qualified long-term care policy provides only for long-term-care services for the “chronically ill.” If you pay premiums for a qualified long-term care policy, you may treat a fixed amount that depends on your age as medical expenses (subject to the 7.5% AGI floor). For 2023, the maximum deductible premium for each person covered under a qualifying policy is: \$480 for covered persons age 40 or younger at the end of 2023; \$890 for those age 41 through 50; \$1,790 for those age 51 through 60; \$4,770 for those age 61 through 70; and \$5,964 for those over age 70.
- **Casualty and theft losses:** For tax years 2018–2025, you can deduct personal casualty and theft losses only if they are attributable to a federally declared disaster. But, if you also have personal casualty gains for a year, you can deduct personal casualty losses for that year to the extent of the gains, even if the losses are not attributable to a federally declared disaster. To the extent you are insured, you must reduce your loss by your reimbursement. The loss is claimed on Form 4684 and the allowable amount is entered on Schedule A (Form 1040 or 1040-SR).
- **Deduction for Losses in Ponzi Schemes:** Previously, the IRS announced special relief for victims of fraudulent investment arrangements. Because these schemes can continue for years, many investors are faced not only with the loss of their original investments, but also with having paid taxes on “phantom income,” based on fraudulent statements sent by the firms perpetrating these frauds to investors over a number of years. If the loss was considered a capital loss, which is often the case when a taxpayer loses money on an investment in stocks or securities, individual taxpayers would be limited to offsetting the loss against their capital gains, plus an additional \$3,000 allowed as a deduction against ordinary income. Although the excess loss can be carried

forward indefinitely, it would do little for losses of the magnitude incurred by many investors in fraudulent schemes. The IRS announced that investors can take an ordinary loss deduction and the deduction is not subject to the pre-2018/post-2025 2%-of-adjusted-gross-income (AGI) limit on miscellaneous itemized deductions, the income-based limitation on itemized deductions, or the 10% of AGI limitation on the deduction for casualty losses. The specific rules regarding the amount of the losses and the timing of reporting those losses are complicated and you should consult a tax professional.

- **Charitable contributions:** Only taxpayers who itemize deductions on Schedule A (Form 1040 or 1040-SR) can deduct charitable contributions. To be deductible, donations must be to religious, charitable, educational, and other philanthropic organizations approved by the IRS to receive deductible contributions. Keep a canceled check or receipt from the charity as proof of your donations. For donations of \$250 or more, you need to obtain a written acknowledgment that notes any benefits or goods that you received in exchange. For a donated car, other motor vehicle, boat, or airplane valued at over \$500, you must obtain an acknowledgment on Form 1098-C (or equivalent substitute) that you must attach to your return. You may not deduct the value of your time when you provide volunteer services for charity. But you can deduct unreimbursed expenses incurred during such work.

Tax credits (excluding educational benefits that are discussed later):

- **The Qualified Plug-in Electric and Fuel Cell (Clean) Vehicle credit** - For 2023, you can claim a credit for certain clean vehicles, which include electric vehicles (EVs), plug-in hybrids, and hydrogen fuel cell vehicles. **The credit now includes previously owned clean vehicles.** The credit is claimed on Form 8936. The credit applies to a qualifying vehicle purchased in 2023, that was manufactured by a qualified manufacturer, the final assembly of which was in North America, meets the definition of a motor vehicle under Title II of the Clean Air Act and which is powered by an electric motor with a battery capacity of 7 kilowatt hours or more. The vehicle must have a gross vehicle weight rating of less than 14,000 pounds. The credit depends on whether the vehicle was purchased before or after April 17, 2023, the battery capacity, if it meets the critical minerals requirement, if it meets the battery components requirement, the manufacturer's suggested retail price and your modified adjusted gross income. Check

the following website for details about vehicles and qualifications:

<https://www.fueleconomy.gov>

- **Energy efficient home property credit** – If you make qualified energy-efficient improvements in 2023, you may qualify for a credit up to \$3,200. To qualify, the home being updated must be an existing home (not new construction) in the United States and must be your primary residence in most cases. The credit may be up to 30% of qualified expenses including: qualified energy efficiency improvements installed during the year (exterior doors, windows and skylights); residential property expenses (air conditioners; natural gas, propane, oil water heaters; natural gas, propane, oil furnaces and hot water boilers), and home energy audits. Prior energy-efficient credits had lifetime dollar limits. However, beginning in 2023, the maximum credit each year is \$1,200 for energy property costs and energy-efficient home improvements and \$2,000 per year for qualified heat pumps, biomass stoves or biomass boilers. While prior energy-efficient credits had lifetime dollar limits, no lifetime dollar limit exists through 2032. That is, you may potentially claim the full \$3,200 credit, if qualified, each year from 2023 through 2032. Any costs incurred must be reduced by any subsidies, rebates, or other incentives received. State energy efficiency incentives generally do not have to be subtracted from costs unless they qualify as a rebate or purchase-price adjustment. This credit is nonrefundable, and any unused credits may not carry forward to future years.
- **Residential clean energy credit** - The Credit is 30% of the cost of new, qualified clean energy property for your home between 2022 and 2032. After January 1, 2033, the credit begins phasing down from 30%. You may claim the credit for improvements to your principal residence, even if you do not own it. Qualified expenses for the residential clean energy credit include solar panels, solar water heaters, fuel cell property expenditures, wind turbines, geothermal heat pumps, and battery storage technology. Qualified expenditures include not only the property, but the labor and assembly associated with installation and support. All property installed must be new. Unlike the energy-efficient home improvement credit, the residential clean energy credit has no annual limit. The only exception is for fuel cell property, which has a limit of \$500 for each half kilowatt of capacity up to \$1,667 for each half kilowatt of capacity of qualified fuel cell property in the case of residences occupied by two or more individuals. Like the energy-efficient home improvement credit, the clean energy credit is nonrefundable, but unused credits may carry forward to future years.

- **Adoption credit** - A tax credit of up to \$15,950 may be available on your 2023 return for the qualifying costs of adopting an eligible child. An eligible child is a child under the age of eighteen, or any person who is physically and mentally incapable of self-care. The credit is phased out ratably for those with modified adjusted gross income between \$239,230 and \$279,230. The credit is claimed on Form 8839. Special credit timing rules apply. If you paid qualifying adoption costs in 2023 but the adoption was not final at the end of the year, the credit may not be claimed on your 2023 return. If you are married, you generally must file a joint return to take the adoption credit or exclusion, even if only one spouse is adopting the child. You may take the credit or exclusion on a separate return if you are legally separated under a decree of divorce or separate maintenance, or if you lived apart from your spouse for the last six months of the tax year and (1) your home is the eligible child's home for more than half the year and (2) you pay more than half the cost of keeping up your home for the year. Qualifying adoption expenses are reasonable and necessary adoption fees, court costs, attorney fees, travel expenses away from home, and other expenses directly related to, and whose principal purpose is for, the legal adoption of an eligible child. Do not include expenses paid or reimbursed by your employer or any other person or organization. You may not claim a credit for the costs of a surrogate parenting arrangement or for adopting your spouse's child. An exclusion from income is also available to employees if adoption expenses are paid through a qualifying employer program, subject to rules similar to those of the credit. If you receive employer adoption benefits that are less than your qualifying adoption expenses, you may be able to claim the credit on Form 8839.
- **Saver's credit** - This credit can save you up to \$1,000 in taxes just for putting money aside for your retirement. The credit is a "reward" you receive for putting up to \$2,000 a year in an individual retirement account (IRA), Roth IRA, 401(k) plan, or other plan. This is an additional tax benefit on top of any other benefits available for the contribution. And unlike deductions, which only reduce taxable income, the credit reduces your tax bill dollar for dollar (but not below zero). To qualify for the credit, you must be 18 years old (as of the end of the year of the contribution), not a full-time student, and not claimed as a dependent on another person's return. The credit is determined as a percentage of your "qualifying contribution" (defined below). The percentage varies depending on your adjusted gross income (AGI). A taxpayer's qualifying contribution is limited to \$2,000 per year. No credit is allowed when AGI exceeds \$36,500 for single taxpayers, \$54,750 for heads of households, and \$73,000 for married persons filing

jointly. Your qualifying contribution is reduced by any taxable distribution received by you (or your spouse, if you file jointly) from a plan described above during a “testing period.” This is a period consisting of (i) the two years preceding the year for which you're claiming the saver's credit, (ii) the year for which you're claiming the credit, and (iii) the period after that year up to the due date (including extensions) for the tax return for that year.

- **Child Tax Credit and Additional Child Tax Credit** - For 2023, the maximum child tax credit for a child under age 17 is \$2,000. The credit begins to phase out when modified adjusted gross income exceeds \$400,000 on a joint return or \$200,000 for all other filers. There is an additional child tax credit that can be claimed if the child tax credit otherwise allowed is limited by tax liability; the refundable amount may not exceed \$1,600 per qualifying child. The credit for other dependents is unchanged (i.e., not refundable and limited to \$500 per dependent). To figure the exact amount of your child tax credit on your 2023 return, you must complete Schedule 8812 (Form 1040 or 1040-SR). On Schedule 8812, you determine if the potential credit ($\$2,000 \times$ number of qualifying children). This may be limited by the phaseout rule (see below). Whether or not the phaseout applies, the tentative credit (either full credit or reduced amount after phaseout) is compared with your tax liability (regular tax plus AMT minus specified credits), and the smaller amount is the allowable child tax credit. However, if your child tax credit is limited to your tax liability, part or all of the excess credit may be refundable as an additional credit (ACTC) if your earned income exceeds \$2,500 or you have three or more children. The credit for 2023 is phased out if your modified adjusted gross income (MAGI) exceeds the phaseout threshold, which is: \$200,000 if your filing status is single, head of household, qualifying surviving spouses, or married filing separately, or \$400,000 if you are married filing jointly. If the full amount of the child tax credit cannot be claimed on Part I of Schedule 8812, you may be able to obtain a refund for the balance in the form of the additional child tax credit (ACTC). For 2023, the child tax credit is refundable to the extent of 15% of your taxable earned income plus tax-free combat pay (35.4) in excess of \$2,500, but the refundable amount cannot exceed \$1,600 per qualifying child. There is an alternative formula for figuring the ACTC if you have three or more qualifying children and you paid Social Security and Medicare taxes that exceed your Earned Income Credit, if any.
- **Premium Tax Credit** - Although the penalty for failing to carry minimum essential health coverage no longer applies, eligible individuals can still receive government help in

paying health care premiums via the premium tax credit. If you bought health care coverage in 2023 through a government exchange (also called “The Health Insurance Marketplace”) and your household income is at least 100% of the federal poverty line (FPL), you may be able to claim a tax credit on Form 8962 when you file your 2023 return. Those with household income above 400% of the FPL could not claim the credit before 2021, but for 2021 through 2025 the 400% limit does not apply. If, like most Marketplace applicants, you received an advance of the credit that went right to your insurance company and was applied to your monthly premiums, you will have to reconcile the advance payments you received with the actual credit that you are entitled to on Form 8962. The advance payments may have been too much or too little, depending on changes to your income or family composition between the time you received the advance payments and when you file your 2023 return. If your allowable credit on Form 8962 exceeds the advance payments, the excess, called the “Net Premium Tax Credit,” can be claimed as a refundable credit on Line 9 of Schedule 3 (Form 1040 or 1040-SR). As a refundable credit, it will be paid to you even if it exceeds your tax liability. However, if your advance payments exceed the allowable credit, you must pay back the excess, but there is a limit on the required repayment (shown below). The repayment is an additional tax that must be reported on Line 2 of Schedule 2 (Form 1040 or 1040-SR). To complete Form 8962, you will need to enter amounts shown on Form 1095-A, which you will receive from the Marketplace through which you obtained coverage. Form 1095-A will provide a month-by-month breakdown of the coverage premiums for you and your family and show the advance payments you received. The following additional eligibility requirements must be met: you are not eligible for coverage from an employer plan or from a government plan (including Medicaid or Medicare); if married, you must file jointly; you cannot be claimed as a dependent by another taxpayer.

- **Mortgage Interest Credit** - Under special state and local programs, you may obtain a “mortgage credit certificate” to finance the purchase of a principal residence or to borrow funds for certain home improvements. Generally, a qualifying principal residence may not cost more than 90% of the average area purchase price, 110% in certain targeted areas. If you received a mortgage credit certificate, a tax credit for interest paid on the mortgage may be claimed. The credit is computed on Form 8396. The credit equals the interest paid multiplied by the certificate rate set by the governmental authority, but if the credit rate is over 20%, the credit is limited to \$2,000. *(If you itemize*

deductions, you must reduce your home mortgage interest deduction by the tentative mortgage interest credit. The reduction to the mortgage interest deduction applies even if part of the Line 3 credit is carried forward to the next tax year).

- **Earned income tax credit** - For 2023, the maximum EIC is \$3,995 if you have one qualifying child, \$6,604 if you have two qualifying children, \$7,430 if you have three or more qualifying children, and \$600 if you do not have a qualifying child. However, the maximum credit is subject to a phaseout based on income. The allowable credit is “refundable,” meaning that you will receive a refund from the IRS if the credit exceeds your tax liability. The phaseout ranges for the credit have been adjusted for inflation. The excessive investment income limit is \$11,000. You may claim the EIC on a 2023 return if you:
 - ✓ Have a qualifying child defined as: your son, daughter, adopted child, stepchild, grandchild or other descendent of any of these (your great-grandchild) who at the end of the year is under age 19 or under age 24 and a full-time student (enrolled full time during any five months), or any age if permanently and totally disabled. The qualifying person must live with you for over half the year. Your brother, sister, step- or half-brother or step- or half-sister, or their descendants (your niece or nephew), who meets the age 19 or 24 test and lives with you more than half the year also qualifies if he/she is younger than you (or your spouse if you file jointly) or is permanently and totally disabled. A foster child who lives with you for more than half the year qualifies if the child was placed with you by a court order or by an authorized placement agency.
 - ✓ Are single, head of household, or a qualifying widow/widower with earned income, such as wages and self-employment earnings, and also adjusted gross income (AGI), under \$46,560 if you have one qualifying child, \$52,918 if you have two qualifying children, \$56,838 if you have three or more qualifying children, or \$17,640 if you have no qualifying children.
 - ✓ Are married filing jointly, with earned income and AGI under \$53,120 if you have one qualifying child, \$59,478 if you have two qualifying children, \$63,398 if you have three or more qualifying children, or \$24,210 if you have no qualifying children.
 - ✓ If both your earned income and AGI equals or exceeds the applicable amount shown above, the credit is completely phased out, so if your income is close to

the applicable amount your credit will be low. The credit begins to phase out at much lower income levels.

- ✓ Have a qualifying child who lived with you in your main home in the U.S. for more than six months in 2023.
 - ✓ File a joint return if married. Married persons filing separately **may not claim** the EIC. If you lived apart from your spouse for the last half of the year, you may be able to claim the credit as a head of household.
 - ✓ File Schedule EIC with your Form 1040 or 1040-SR. On Schedule EIC, you identify and provide information about a qualifying child. Your child's Social Security number must be entered on Schedule EIC.
 - ✓ Are not a qualifying child of another person.
 - ✓ Include on your return your Social Security number and, if married, that of your spouse.
- **Dependent care credit** - For 2023, the child and dependent care credit is nonrefundable. Qualifying expenses taken into account in figuring the credit are \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals. The credit ranges from 35% down to 20%, depending on adjusted gross income. The exclusion for dependent care under an employer's dependent care assistance plan is \$5,000 (\$2,500 if married filing separately).

Tax breaks for educational expenses:

- **American Opportunity credit:** You may claim this credit if you pay qualified tuition and fees for an eligible student (yourself, your spouse, or dependents you claim on your return) in the first four years of college or other post-secondary institution, provided the student is enrolled in one of the first four years of postsecondary education, is enrolled in a program that leads to a degree, certificate, or other recognized educational credential, is taking at least one-half of the normal full-time workload for his or her course of study for at least one academic period beginning during the calendar year, both the taxpayer claiming the credit and the student have a TIN and the student does not have any felony conviction (state or federal) for possessing or distributing a controlled substance as of the end of the tax year.. **The credit cannot be claimed for a student, if the American opportunity credit and/or the Hope Scholarship was claimed for that student for any four tax years before 2023.** The credit is limited to \$2,500 limit per student (phased out with

income* between \$80,000 if you are single, head of household, or a qualifying surviving spouse, or \$160,000 if married filing jointly). These thresholds are fixed by law and are not subject to inflation adjustments. Eligible expenses include tuition, student-activity fees that are required as a condition of enrollment or attendance, and books, supplies, and equipment needed for courses.

- **Lifetime Learning credit:** You may claim a lifetime learning credit of up to \$2,000 for the total qualified expenses paid for yourself, your spouse, or your dependents enrolled in eligible educational institutions during the year. Unlike the American opportunity credit, the lifetime learning credit does not have a degree or workload requirement. It may be claimed for one or more courses at an eligible educational institution that are either part of a post-secondary degree program or part of a nondegree program taken to acquire or improve job skills. The lifetime learning credit is not limited to students in the first four years of postsecondary education, as is the American opportunity credit. There is no limit on the number of years for which the lifetime learning credit can be claimed. Qualified expenses are student activity fees and course-related books, supplies, and equipment that must be paid to the educational institution as a condition of enrollment or attendance. The credit is phased out with income* between \$80,000 if you are single, head of household, or a qualifying surviving spouse, or \$160,000 if married filing jointly.
- **Student loan interest deduction:** Depending on your income, you may be able to claim an above-the-line (directly from gross income) deduction of up to \$2,500. You should receive a Form 1098-E (or substitute statement) from each lender that received interest payments of \$600 or more from you during the year. The student loan interest deduction is reduced or eliminated if your modified adjusted gross income (MAGI) exceeds phaseout limits. For 2023, the reduction applies if your MAGI is more than \$75,000, or more than \$155,000 on a joint return. If MAGI is \$90,000 or more, or \$185,000 or more on a joint return, you may not claim any deduction for 2023.
- **Coverdell Education Savings Account (ESA) contributions;** An ESA, is a trust or custodial account set up specifically for the purpose of paying the qualified education expenses of the designated beneficiary of the account. A contribution cannot be made for a beneficiary after he or she reaches age 18 unless the beneficiary is a special needs beneficiary. Contributions must be in cash. The deadline for making a contribution for any year is the due date of your return for that year (not including extensions). You can make a contribution to a Coverdell ESA up until April 15, 2024, and designate it as a contribution for 2023. The \$2,000 annual limit per beneficiary is

phased out with income* between \$95,000 and \$110,000 if you are single, or between \$190,000 and \$220,000 if you are married filing jointly.

**Modified adjusted gross income.*

Alternative minimum tax (AMT) exemption.

- The AMT exemptions, exemption phaseout thresholds, and the dividing line between the 26% and 28% AMT brackets are adjusted for inflation. The 2023 AMT exemptions (prior to any phaseout) are \$126,500 for married couples filing jointly and qualifying widows/widowers, \$81,300 for single persons and heads of households, and \$63,250 for married persons filing separately. All nonrefundable personal credits may be claimed against the AMT as well as the regular tax.

Alimony:

- For post-2018 divorce decrees and separation agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse.

Deduction for qualified business income “QBI”:

- If you are a sole proprietor (Schedule C) or have an interest in a partnership, limited liability company, or S corporation, you may be eligible for a deduction of qualified business income. This deduction is a personal deduction, not a business deduction, and can be claimed whether you itemize or take the standard deduction. If your taxable income in 2023 does not exceed \$ 364,200 for married filing joint returns and \$182,100 for all other returns, the deduction is 20% of QBI. The income must be from a trade or business within the U.S. Investment income does not qualify, nor do amounts received from an S corporation as reasonable compensation or from a partnership as a guaranteed payment for services provided to the trade or business. The deduction is not used in computing adjusted gross income, just taxable income. For taxpayers with taxable income over the above-mentioned limits complicated rules apply including when income is from a “specified service trade or business”, which includes doctors, lawyers, accountants, consultants, financial advisors, actuaries, athletes, **and performing artists**, as well as owners of other businesses where the reputation or skill of the employees is “the principal asset of the business.”

OVERVIEW AND HIGHLIGHTS (not discussed above)

The following outline focuses on important aspects of tax law and some that specifically affect musicians. For additional information on deductions, exemptions or filing status, see a tax advisor or visit www.irs.gov. Here is a quick overview of some other highlights.

Net Investment Income Tax (NIIT): If you have net investment income and you have modified adjusted gross income (MAGI) exceeding the applicable threshold for your filing status, some or all of the net investment income will be subject to a 3.8% tax. The thresholds for the tax are: \$250,000 for married persons filing jointly and qualifying surviving spouses, \$200,000 for single persons and heads of households and \$125,000 for married persons filing separately.

Same-sex marriages: Lawfully married same-sex couples are treated as married for all federal tax purposes. The IRS recognizes your marriage to a same-sex spouse if the marriage was legally entered into in one of the 50 States, the District of Columbia, Puerto Rico, U.S. territory or possession, or foreign country. Visit the following website or more information:

<https://www.irs.gov/uac/answers-to-frequently-asked-questions-for-same-sex-married-couples>

Required minimum distributions (RMDs): Required Minimum Distributions (RMDs) must be received by April 1 of the year following the year in which you reach age 72 from your traditional IRA account(s). If an RMD is not received within the required period, the IRS can impose a penalty of up to 50 % on the amount not received.

The filing deadline for 2023 individual returns: April 15, 2024. A six-month automatic extension to file your tax return may be obtained by filing Form 4868 by this date. *(If you get an extension, interest will still be charged for taxes not paid by the original April 18 deadline and late payment penalties will be imposed unless at least 90% of your tax liability is paid by the original deadline or you otherwise show reasonable cause. If you cannot pay the full amount of tax you owe when you file your return, you can file Form 9465 to request an installment payment arrangement.*

Form TD F90-22.1 (FBAR): Taxpayers with interests in foreign bank accounts or other foreign financial accounts or assets may have to file Form TD F90-22.1 (FBAR) or Form 8938, or possibly both. Substantial penalties may apply if a required form is not filed. *The deadline to file a Report of Foreign Bank and Financial Accounts form ("FBAR") with the U.S. Department of the Treasury, in accordance with 31 CFR 103.24, for each calendar year is on or before June 30th of the following year.*

Health Savings Account (HSA): The definition of a high-deductible health plan, which is a prerequisite to funding an HSA, means a policy with a minimum deductible for 2023 of \$1,500 for self-

only coverage and a maximum out-of-pocket cap on co-payments and other amounts of \$7,500. These limits are doubled for family coverage (\$3,000/\$15,000). The contribution limit for 2023 is \$3,850 for self-only coverage and \$7,750 for family coverage. Those age 55 or older and not yet on Medicare can add an additional \$1,000.

Bonus depreciation for vehicles: For a vehicle placed in service in 2023 and used over 50% for business, the first-year depreciation limit using bonus depreciation is \$20,200. However, if you elect not to have bonus depreciation apply, or you are not eligible for the bonus, the first-year depreciation limit is \$12,200. There are different rules for larger vehicles (SUV's, vans and trucks weighing 6,000 lbs. but not more than 14,000 lbs.) that are more complicated (consult your tax advisor). The limits are reduced for personal use.

TAXPAYER GUIDE TO IDENTITY THEFT

Identity theft continues to proliferate, and annually makes the IRS' list of Dirty Dozen Tax Scams. If you know your personal information has been compromised, or suspect that it has, tell the IRS. File Form 14039, "Identity Theft Affidavit," at <https://www.irs.gov/pub/irs-pdf/f14039.pdf>, to put the IRS on alert immediately. Follow the instructions for mailing or faxing the form to the IRS. By filing this form, the IRS marks your tax account as "suspect." Unfortunately, this will not necessarily speed up the issuance of your tax refund, but it may ease filings going forward.

Under the Taxpayer First Act, if you are a victim of tax identity theft, you will be assigned one person in the IRS to deal with (a point of contact). Also, the IRS is now required to notify you if there is any suspected unauthorized use of your tax information (e.g., someone obtained a tax refund using your Social Security number).

If someone else is using your Social Security number to file a bogus tax return, it interferes with your filings. You can obtain an Identity Protection Personal Identification Number (IP PIN), a six-digit number, to use in place of your Social Security number on future tax returns.

You must obtain an IP PIN if:

1. You lost an IRS notice (CP01A) sent to you with an IP PIN.
2. You had an IP PIN before but did not receive a new one.
3. Your e-filed return was rejected because your IP PIN was missing or incorrect.

You can also choose to obtain an IP PIN if you want one as a defensive protection against tax identity theft.

To obtain an IP PIN online, you must go through an authentication process called “Secure Access Steps.” These steps are explained at the IRS’ Secure Access page at: <https://www.taxpayeradvocate.irs.gov/news/get-an-identity-protection-pin-to-protect-yourself-from-tax-related-identity-theft/>.

Learning more about tax-related ID theft. Combating ID theft is a priority for the IRS, and toward this end has many resources to help you:

- <https://www.irs.gov/individuals/how-irs-id-theft-victim-assistance-works>
- Publication 4524, Security Awareness to Taxpayers.
- Taxes. Security. Together. This is a joint campaign by the IRS, state tax administrators, and the private-sector tax industry to encourage taxpayers to protect personal and financial data online and offline. See: <https://www.irs.gov/individuals/taxes-security-together>
- Taxpayer Guide to Identity Theft, which is a landing page at <https://www.irs.gov/uac/taxpayer-guide-to-identity-theft> that contains information and links.

If you are a victim of identity theft, the Federal Trade Commission recommends that you contact one of the following three major credit bureaus to place a ‘fraud alert’ on your credit records:

- Equifax, www.Equifax.com
- Experian, www.Experian.com
- TransUnion, www.TransUnion.com

Identity protection services received without cost, before or after a data security breach, are excludable from income; however, cash received in lieu of such services or proceeds received under an identity theft insurance policy are not excludable.

MUSICIANS INCOME & RELATED EXPENSES

Professional musicians may have income from which tax has been withheld (W-2) or income from self-employment where neither tax nor Social Security has been deducted (usually reported on Form 1099-NEC).

If the musician is self-employed, all allowable travel and other expenses should be deducted on Schedule C before the adjusted gross income is entered on page 1 of the tax return.

If the musician has only W-2 wages, the tax act has eliminated the ability to deduct these costs. If possible, it may be advantageous to receive income from your trade as an independent contractor rather than as an employee. The employer may not be willing to do this, and independent contractor rules are complicated and looked at closely by the IRS, so discuss this with your tax professional.

Reimbursements for expenses (e.g., travel and entertainment) received under an accountable plan should not be reported on the musician's Form W-2 and are not reported as income. Generally, reimbursements are considered received under an accountable plan if:

- They are made for deductible business expenses.
- The employee accounts for the expenses to the employer; and
- The employee returns any excess reimbursement.

Reimbursements received under a non-accountable plan (any plan other than an accountable plan) are subject to withholding and employment taxes and are shown as wages on Form W-2 and must be reported as income on Form 1040

RECORDING

Self-employed and freelance musicians (those not getting a W-2 and filing a Schedule C) may deduct the costs of recording, including the cost of renting a studio, hiring other musicians, hiring graphic designers, printing, packaging, and the cost of any materials (including blank CDs, cases, inserts, etc.). NOTE: The recording must be made for sale (there must be a profit motive).

OTHER EXPENSES

Also deductible for self-employed musicians are expenses incurred in the practice of your profession. In addition to the travel expenses discussed later, they include:

- ✓ Union dues, assessments, and initiation fees;
- ✓ Commissions paid to agents and booking offices;
- ✓ Dues to other professional societies;
- ✓ Rehearsal hall, studio, or office rental;
- ✓ Sheet music, transcriptions, arrangements, records, manuscript paper, etc.;
- ✓ Stationery, printing, and postage used in business;
- ✓ Telephone used for business (a portion of your home phone may be deducted);
- ✓ Costs associated with your cell phone, as long as the calls are made for business

purposes;

- ✓ Books and subscriptions to professional journals;
- ✓ Advertising and photographs for promotion;
- ✓ Other promotional expenses;
- ✓ Gifts (not exceeding \$25 per recipient);
- ✓ Repairs and upkeep of instruments;
- ✓ Insurance on instruments;
- ✓ Substitutes' pay;
- ✓ Legal expenses for drawing up contracts of employment;
- ✓ Rental of instruments; and
- ✓ Depreciation of instruments or recording equipment.

The following are additional expenses that may be deductible:

- ❖ Costs of your internet service provider, web site designer, web site expenses, domain hosting bill or anything related to the internet that is related to your business. Also, you may be able to deduct the cost of buying a computer if it is used for business purposes, and you may also be able to deduct a portion of the depreciation on your computer each year.
- ❖ Contributions made to formal pension or profit-sharing plans for yourself and your employees. The procedures for this are quite complicated, and we advise that professional assistance be obtained.

The following items – home office, travel expenses and expenses for uniforms – were omitted from the above list. A word of caution is needed as to their deductibility.

HOME OFFICE EXPENSES

You may claim a deduction if you use your home office exclusively and regularly for the administration or management activities of your business and you have no other fixed location where you conduct such activities. "Exclusive use" means that the office space cannot be used for personal purposes. Home office expenses in excess of your net business income as a musician are not deductible. The IRS has now provided an optional safe-harbor method for calculating home office deductions on Schedule C. The rules for the home office expense deduction go beyond this general description and should be discussed with your tax preparer.

TRAVEL EXPENSES

The deductibility of long-distance travel involving railroad or plane fares is fairly clear. The fares, plus related costs – such as taxis to or from the depot, baggage-handling charges, and passports for business trips – are all deductible as travel expenses.

If you were away from home overnight, you may also deduct all of the following expenses: 50% of meals and entertainment (see additional notes and caution at end); 100% of travel and lodging; laundry and cleaning; reasonable tips to bellhops and other hotel employees; and transportation at your destination.

Musicians may also use their own cars for business travel. Deductible items include depreciation; of the cost of the auto; gas, oil, and tires; insurance, license, and registration fees; parking expenses (e.g., garage rental or parking meters); and parkway or bridge tolls. The point to remember in deducting auto expenses is that after you have totaled all of these costs, you must subtract that portion used for personal purposes.

The regulations call for an allocation based upon both time and mileage used, and this is often the most difficult part of the calculation.

An alternate method involves computing the amount of business mileage and then multiplying those miles by the standard mileage rates previously discussed. You may still deduct direct costs such as parking and tolls (but not insurance, depreciation, gas, or oil).

The real problem in travel expenses is determining what portion of local travel (that is, not away from home overnight) is deductible.

In no case are personal meals deductible if the musician does not sleep away from home.

The regulations say that commuting costs are not deductible. This means that if the musician travels only from home to work and back again, the costs of travel are not deductible – even if the instruments are so bulky and heavy that it is impossible to use public transportation.

The costs of transporting instruments to and from work (other than commuting costs) are deductible only if extra costs are incurred.

If you are playing more than one job during the day, you may use the business mileage formula described above for travel between jobs.

Again, except for any additional expenses, there is no auto deduction for travel to the first job or home from the last.

EXPENSES FOR UNIFORMS

The cost of uniforms and other apparel, including their cleaning, laundering, and repair, is deductible only if the garments are specially required in order for you to keep your job and are not adaptable to general or continued wear, to the extent that they could replace your regular clothing.

You may not deduct the cost of ordinary clothes used as work clothes on the grounds that they get harder use than customary garments, that they are soiled after a day's work and cannot be worn socially, or that they were purchased for your convenience to save wear and tear on your better clothes.

That your job requires you to wear expensive clothing is not, according to the IRS, a basis for deducting the cost of the clothes if the clothing is suitable for wear off the job.

Deductions have been allowed to musicians for formal wear and the costs of theatrical clothing and accessories if these items are not suitable for ordinary use.

JOB EXPENSES & EDUCATION

Bills are required as proof for all job expense items exceeding \$75.

There are many items of a lesser amount – such as tips and taxi fares – where no proof may be obtained.

Detailed and contemporaneous records must be kept of these expenses (and of business mileage if a car is involved) through a careful diary or log. Keeping such records takes time and effort. If your return is ever examined, however, you could lose your entire deduction in the absence of a good log or diary.

Numerous other items are deductible by the professional musician. Among these are education expenses, accounting fees, and fees for investment advice.

With regard to education, you may take a deduction for any training or coaching that sharpens your present job or professional skills or meets the expressed requirements of your employer for you to retain your job. You may also be able to deduct the cost of a course if you are entering a new specialty within the music field.

Note - Unfortunately, after the Tax Cuts and Jobs Act (“the TCJA”), starting January 1, 2018, entertainment, amusement, or recreation expenses for clients and business associates are no longer allowed as business deductions. Business meals provided to clients and business associates are discussed in current year tax changes.

BONUS TAX TIP:

If you earn less than \$16,000 for the year as a musician, you may be eligible to deduct business expenses as an “above the line” deduction, meaning that it can directly reduce your adjusted gross income. This could be an advantage for musicians. The following information is from IRS publication 463 (see www.irs.gov):

If you are a performing artist, you may qualify to deduct your employee business expenses as an adjustment to gross income. To qualify, you must meet all of the following requirements:

1. During the tax year, you perform services in the performing arts as an employee for at least two employers and you receive at least \$200 each from any two of these employers.
2. Your related performing-arts business expenses are more than 10 % of your gross income from the performance of those services.
3. Your adjusted gross income is not more than \$16,000 before deducting these business expenses.

If you are married, you must file a joint return unless you lived apart from your spouse at all times during the tax year. If you file a joint return, you must figure requirements (1) and (2) separately for both you and your spouse. However, requirement (3) applies to your and your spouse’s combined adjusted gross income.

If you meet all of the above requirements, you report the performing artist expenses on Form 2106 and enter the unreimbursed amount on Line 12 of Schedule 1 (Form 1040 or 1040-SR).

If you do not meet **all** of the above requirements, you do not qualify to deduct your expenses as an adjustment to gross income.

SOME INFORMATION TO HELP YOU PLAN FOR 2024

As year-end approaches, taxpayers generally are faced with a number of choices that can save taxes this year, next year or both years. For those that are employees consider taking

advantage of the following special tax saving opportunities:

- Health flexible spending accounts. Many employees take advantage of the annual opportunity to save taxes by placing funds in their employer's health flexible spending arrangement (health FSA). A pre-tax contribution of \$3,200 to a health FSA is permitted in 2024 (up from \$3,050 in 2023). You save taxes because you use pre-tax dollars in the health FSA to pay for medical expenses that might not be otherwise deductible. They would not be deductible, for example, if you do not itemize. Even if you do itemize, medical expenses must exceed 7.5% your of adjusted gross income (AGI) (10% of AGI in 2022) in order to be deductible. Additionally, the amounts that you contribute to a health FSA are not subject to FICA taxes. This would allow most employees to save \$245 in FICA taxes alone in 2024, on a health FSA contribution of \$3,200. You would save an additional \$640 for 2024 in income taxes assuming an effective income tax rate of 20%. Total annual tax savings would equal \$885 (\$245 + \$640).
- Adjustments to state withholding. If you expect to owe state and local income taxes when you file your return next year, ask your employer to increase withholding of state and local taxes, by amending your state withholding form (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into this year. If you become married or single this year, or have added or lost a dependent, you should be sure to provide your employer with an updated state tax withholding form that reflects the new filing status or changed exemptions.
- Adjustments to federal withholding. If you face a penalty for underpayment of federal estimated tax, you may be able to eliminate or reduce it by increasing your withholding by amending your Form W-4. You should especially review your withholding to ensure that enough tax is withheld if you hold multiple jobs, you, and your spouse both work, or you can be claimed as dependent by another person. If you become married or single this year, or have added or lost a dependent, or expect increased deductible itemized deductions, you should be sure to provide your employer with an updated Form W-4 that reflects the new filing status or changed exemptions.
- More penalty-free withdrawals permitted. The Act adds an exception after 2024 to the 10% pre-age 59 1/2 penalty tax for one distribution per year of up to \$1,000 used for emergency expenses to meet unforeseeable or immediate financial needs relating to personal or family emergencies. The taxpayer has the option to repay the distribution

within three years. No other emergency distributions are permissible during the three-year period unless repayment occurs.

- Increase 401(k) contributions. The pre-tax and Roth 401(k) contribution limits for 2024 and 2023 are \$23,000 and \$22,500, respectively. Employees age fifty or older by year-end are also permitted to make an additional contribution of \$7,500, for a total limit of \$30,500 for 2024 and \$30,000 for 2023. If your employer makes a matching contribution to your contribution, your total retirement savings will increase even faster. Review and make appropriate adjustments to the contributions you make to your employer's 401(k) retirement plan for the remainder of this year, and next year. It is also a good idea to review your investment elections, and their periodic performance. Keep in mind the amount you need to save for the age at which you plan to retire and consider seeing a financial planner to set, and keep to, your savings goals.
- Make Roth IRA contributions. The ability to make a Roth IRA contribution (which is a special after-tax contribution) continues even if you're participating in an employer savings plan (like a 401(k)), so it is not subject to the "active participant" rules that may prevent employees who participate in an employer plan from making a deductible contribution to a traditional IRA. The benefit of the Roth IRA is that earnings on the IRA will not be taxable to you on distribution (provided, generally, that distributions are made to you after you attain age 59 1/2). The 2024 Roth contribution limit is \$7,000, rising to \$8,000 if you are age 50 or older by the end of the year (the limits were \$6,500 and \$7,500, respectively for 2023). Your ability to make a Roth IRA contribution will be reduced if your adjusted gross income (AGI) exceeds certain thresholds.
- Consider converting your traditional IRA to a Roth IRA or making an "in-plan" Roth conversion. Amounts held in your traditional IRA may be converted to a Roth IRA. The "conversion" of a traditional IRA to a Roth IRA is treated as a distribution from the traditional IRA to the Roth IRA and will result in taxable income (except to the extent of after-tax contributions made to your traditional IRA). The same may be done for amounts that you may hold in a SEP IRA or a SIMPLE IRA. If your employer plan permits and has a "qualified Roth contribution program," you may direct an "in-plan" conversion of taxable amounts in your employer plan to a designated Roth account in the same plan. Like the conversion of the traditional IRA to a Roth IRA, this conversion will result in a taxable distribution to you for the taxable amounts that are converted.
- Consider taking out a 401(k)-plan loan instead of taking a distribution if you need funds. If you need money, you may be tempted to take a plan distribution, to the extent

permissible, to satisfy an imminent financial need. If you are under age 59-1/2, this distribution may not only constitute taxable income, but it also will be subject to the 10% premature distribution tax. Thus, if your effective Federal and state income tax rate totaled 25%, you would have a total tax rate of 35% and would only get use of 75 cents for every \$1 distributed from your 401(k) account. A better way to get financial assistance is to borrow from your 401(k) plan, if your 401(k) plan has a loan feature. The amount that you can borrow is subject to certain plan and IRS limits, but you will generally have five years to repay the loan (or longer, for a home loan), and the interest that you pay will go back into your account. This is a sound way to avoid immediate income taxation on the amount that you require to satisfy your financial need.

- If you are seventy-two or older this year you must take a required minimum distribution (RMD) from any IRA or 401(k) plan (or other employer-sponsored retirement plan) of which you are a beneficiary. Those who turn seventy-two this year have until April 1 of next year to take their first RMD but may want to take it by the end of this year to avoid having to double up on RMDs next year.

This article does not constitute tax advice or an accountant-client relationship. You should consult with your tax professional regarding your specific circumstances. As the tax rules and interpretations are complex and change frequently, the information contained in this article may not always be up to date.

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