Important tax season reminders (2022 tax year)

Your W2s, 1099s, and K-1s from various sources should be coming soon. Please look out for them in the mail/online. Sometimes, the 1099s are updated after the first version due to late-coming distribution updates from fund companies. K1s from business partnerships also generally arrive late and closer to the filing deadline.

Tax filing date: The IRS announced tax relief for Californians affected by these winter storms. Taxpayers affected by these storms qualify for an extension to Oct 16, 2023 to file individual and business tax returns and make certain tax payments. These include:

- Individuals whose tax returns and payments are due on April 18, 2023.
- Quarterly estimated tax payments due January 17, 2023 and April 18, 2023.
- Business entities whose tax returns and payments are due on March 15, 2023

Backdoor Roth IRA: Step one of the Backdoor Roth IRA is making a non-deductible contribution to your Traditional IRA. It's your responsibility to report the non-deductible contribution to your Traditional IRA at tax time on IRS form 8606, Nondeductible IRAs. Form 8606 helps track your basis and avoid paying additional tax on your non-deductible contribution as you convert the balance to a Roth IRA.

Step two; You will owe tax on any earnings in the Traditional IRA before converting, but from that point on, those dollars are now Roth IRA assets and aren't subject to future tax. Use Form 8606 for calculating the taxable amount from the conversion if you had any earnings in the Traditional IRA.

Around tax filing time, you'll receive a 1099-R from your custodian showing the distribution from your Traditional IRA that was converted to your Roth IRA the previous year. Later in the year you'll also receive an information reporting Form 5498 that shows the contribution you made to the Traditional IRA and the amount that was converted to Roth. We recommend keeping Form 5498 for your records, but you don't need to report Form 5498 in your tax filing.

529 accounts: When 529 plan funds are used to pay for qualified education expenses there is usually nothing to report on your federal income tax return. Form 1099-Q and Form 1098-T will list the amount of the 529 plan distribution and how much was used to pay for college tuition and fees, but it is up to the 529 plan account owner to calculate the taxable portion.

Still time to invest: You still have time to contribute towards your IRA, Roth IRA, SEP, 401K profit sharing (for business owners) until tax filing date (including extensions).

RMDs for those who turned 72 in the last one year and this is their first year of RMDs have a deadline of 4/1/2023 to take those RMDs for the year 2022. Please note that you will also have to take second RMDs for 2023 by 12/31/2023.

Secure 2.0 updates

Beginning in 2023:

Contribution limit changes:

- The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $22,500, up from $20,500.
- The limit on annual contributions to an IRA increased to $6,500, up from $6,000. The IRA catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.
- The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $7,500, up from $6,500. Therefore, participants in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan who are 50 and older can contribute up to $30,000, starting in 2023. The catch-up contribution limit for employees aged 50 and over who participate in SIMPLE plans is increased to $3,500, up from $3,000.

Heath Savings Account (HSA): The 2023 HSA contribution limits are as follows:

- Maximum HSA contribution level for individuals: $3850
- Maximum HSA contribution level for family: $7750
- Please note, individuals who have an HSA and are over age 55 can also contribute an extra $1,000 annually, in what is commonly called a "catch-up" contribution.
- RMD age is now pushed back to 73 for those born between 1951 and 1959, and 75 for those born in 1960 and later.

Qualified Charitable Distributions (QCD): still begin at age 70

Employer matching and non-elective contributions: to retirement plans can be made to a Roth 401K. If directed this way, the contributions are taxable to the employee.

Beginning in 2024:

- Catch-up contributions (currently $1,000) to IRA accounts for individuals aged 50 and older will be indexed annually for inflation.
- If wages from employer are greater than $145,000, any catch-up contribution made by employees over age 50 must be made to a Roth option within the qualified retirement plan (e.g. 401(k)) and thus are considered after-tax contributions.
- RMDs are no longer be required from Roth 401(k) and similar qualified retirement plan accounts, equalizing the distribution rules with Roth IRAs.
- Employers will be able to "match" payments employees make to student loan debt by making contributions to an employee's retirement plan account, effectively treating the debt repayment in a manner similar to salary deferrals to the retirement plan.
- Subject to limitations, College Savings 529 plan balances can be transferred into a Roth IRA in the name of the beneficiary.

Who does this affect and what should you do? We have only highlighted *some* of the provisions that passed as part of SECURE Act 2.0. Our ask is that you please contact us and give us the opportunity to help you take advantage the opportunities available to you.