Dear valued client,

Following is a quick overview of the tax changes impacting individuals. Please keep in mind that proposed legislation may change some of the information listed below.

The following are changes of the CARES Act and SECURE Act passed in 2020:

- The CARES Act expands the definition of qualifying medical expenses for HSAs and FSAs to include over the counter drugs (without prescription). This includes pain relievers, cough suppressants, antihistamines and other drugs that treat issues from heartburn to acne. Feminine hygiene products are also qualifying expense under the law.
- The SECURE Act makes changes to 529 plans to allow use of the plan to repay up to $10,000 of student loans (principal or interest) for the 529 beneficiary or their sibling.
- The SECURE Act also expands the definition of higher education expenses to include fees, books, supplies, and equipment required for participation in an apprenticeship program registered and certified with the Secretary of Labor.

The following changes of the Tax Cuts and Jobs Act and American Rescue Plan Act and continue to be effective through the 2025 tax year:

- The standard deduction was increased ($13,850 for single and married filing separate filers; $27,700 for married filing joint filers; and $20,800 for head of household filers in 2023).
- Personal exemptions were suspended.
- Tax rates were decreased to the following seven tax brackets for individuals: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
- A qualifying business income deduction was added for taxpayers with qualified business income from pass-through entities. This 20% deduction is subject to limitations. Rental income must meet certain criteria in order to be considered qualifying business income.
- The deduction for personal casualty & theft losses is suspended, except for losses incurred in a Federally-declared disaster.
- The itemized deduction for state and local income and property taxes will be limited to a total of $10,000 ($5,000 for married taxpayers filing separately).
- The deduction for interest on home equity indebtedness is suspended, and the deduction for mortgage interest is limited to underlying indebtedness of up to $750,000 ($375,000 for married taxpayers filing separately) for acquisition debt incurred after 12/15/2017.
- The charitable contribution deduction for cash contributions to public charities and certain private foundations has been increased from 50% of AGI to 100% of AGI for 2021.
- The deduction for miscellaneous itemized deductions that are subject to the 2% floor is suspended.
- The Pease Limitation (on itemized deductions for certain higher income taxpayers) was suspended.
- The deduction for moving expenses is suspended, except for members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station.
- The AMT exemption is increased to $126,500 ($81,300 for single taxpayers). The exemption is phased out for taxpayers with AMTI over $1,156,300 for joint filers, and over $578,150 for all others.
- Like-kind exchange tax deferral is no longer available for *personal property*. This means that if you trade-in a vehicle that has been used for business you may have a tax consequence.
- The American Rescue Plan Act specifies that gross income does not include any amount that would otherwise be included in income due to the discharge of any student loan for 2021-2025.

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The following are changes of the Inflation Reduction Act passed in 2022:

- Government subsidized medical insurance premiums under the ACA, otherwise known as the premium tax credit, will be extended through 2025.
- The nonbusiness energy credit was extended and expanded. Taxpayers may take the credit for energy-efficient property placed in service before 2033. The Act repeals the lifetime credit limitation, and instead limits the allowable credit to $1,200 per taxpayer per year. In addition, there are annual limits of $600 for credits with respect to residential energy property expenditures, windows, and skylights, and $250 for any exterior door ($500 total for all exterior doors). Notwithstanding these limitations, a $2,000 annual limit applies with respect to amounts paid or incurred for specified heat pumps, heat pump water heaters, and biomass stoves and boilers.
- The residential energy efficient property credit for solar electric, solar hot water, fuel cell, small wind energy, geothermal heat pump, and biomass fuel property was extended to property installed before 2035. The Act also makes the credit available for qualified battery storage technology expenditures. Under the Act, the applicable rate is 30% for property placed in service after December 31, 2021, and before January 1, 2033, 26% for property placed in service after December 31, 2032, and before January 1, 2034, and 22% for property placed in service after December 31, 2033, and before January 1, 2035.
- The clean vehicle credit was modified in many ways. A separate letter is posted on our website detailing all provisions of the new clean vehicle credit including: credit for previously owned clean vehicles, removal of the manufacturer limitation, AGI limits, MSRP limitations, and North America vehicle assembly.

The following are changes of the SECURE Act 2.0 passed in 2022:

- The Act adds a new way to do a tax-free and penalty-free rollover from a 529 plan to a Roth IRA under certain conditions, effective 1/1/2024. A separate letter is posted on our website detailing all conditions of the 529 to Roth IRA rollover provision.
- The RMD age is increased to 73 beginning 1/1/2023, and to 75 beginning 1/1/2033.
- Roth 401-k and Roth 403-b plans no longer require an annual RMD for original account holders, effective 1/1/2024.
- Penalty for failure to take an RMD is reduced from 50% to 25%. If a failure to take an RMD is corrected in a timely manner, the penalty is further reduced from 25% to 10%.

The following are changes to Indiana tax deductions and credits:

- For the 2023 tax year, the max 529 College Choice credit is increased to $1,500 MFJ ($750 S/MFS). The credit is still 20% of the contribution. Indiana is also allowing a credit up to $500 for Indiana ABLE plan contributions.
- Military retirement income and survivor benefits are 100% deductible on Indiana for tax year 2022 and going forward.
- Indiana's state income tax rate lowered to 3.15% for 2023 and 2024. Indiana will continue to gradually reduce the rate and is working toward a 2.9% rate by 2029.

Feel free to contact my office with any questions you may have.

Sincerely,

Angela Leasure

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