Child-Related Adjustments

The **kiddie tax** applies to unearned income for children under the age of 19 and college students under the age of 24. Unearned income is income from sources other than wages and salary, like dividends and interest.

Your child must pay taxes on their unearned income in 2024, but if that amount is more than $1,300 but less than $13,000, you may be able to elect to include that income on your return rather than file a separate return for your child.

The same “regular” rules apply to earned income.

There's a lot of chatter in Congress about making changes to the **Child Tax Credit**, but so far, there’s no action. If nothing changes, the maximum amount of the child tax credit that may be refundable will be $1,700 in 2024.

For 2024, the maximum **Earned Income Tax Credit (EITC)** amount available is $7,830 for married taxpayers filing jointly who have three or more qualifying children—it was $7,430 in 2023. Phaseouts apply.

For 2024, the **adoption credit** for adopting a child with special needs is $16,810, and the maximum credit allowed for other adoptions is the amount of qualified adoption expenses up to $16,810—up from $15,950 in 2023. The available adoption credit begins to phase out for taxpayers with modified adjusted gross income (MAGI) in excess of $252,150; it’s completely phased out at $292,150 or more.

Health Savings Accounts (HSAs)

The annual cap on deductible contributions to health savings accounts (HSAs) rose in 2023 from $3,650 to $3,850 for self-only coverage and from $7,300 to $7,750 for family coverage. People born before 1969 can put in $1,000 more (same as for 2022).

Qualifying insurance policies must limit out-of-pocket costs in 2023 to $15,000 for family health plans ($14,100 in 2022) and $7,500 for people with individual coverage ($7,050 in 2022). Minimum policy deductibles increase for 2023 to $3,000 for families and $1,500 for individual coverage ($2,800 and $1,400, respectively in 2022).

Flexible Spending Accounts (FSAs)

For 2023, the limit on employee contributions to a healthcare flexible spending account (FSA) is $3,050, which is $200 more than the 2022 limit. If the employer's plan allows the carryover of unused amounts, the maximum carryover amount for 2023 is $610 ($570 for 2022).

Payroll taxes

The Social Security annual wage base is $160,200 for 2023 (that's a $13,200 hike from 2022). The Social Security tax rate on employers and employees stays at 6.2%. Both workers and employers continue to pay the 1.45% Medicare tax on all compensation in 2023, with no cap. Workers also pay the 0.9% Medicare surtax on 2023 wages and self-employment income over $200,000 for singles and $250,000 for couples. The surtax doesn't hit employers, though.

The nanny tax threshold went up to $2,600 for 2023, a $200 increase from 2022.

Kiddie tax

The kiddie tax has less bite in 2023. The first $1,250 of a child's unearned income is tax-free if the child is 18 years old or younger, or a full-time student under 24. The next $1,250 is taxed at the child's rate. Any excess over $2,500 is taxed at the parent's rate. (For 2022, only the first $1,150 was exempt and the next $1,150 was taxed at the child's rate.)

Parking and transportation benefits

Employers can provide more to their workers in 2023 when it comes to parking and transportation-related fringe benefits. The 2023 cap on employer-provided tax-free parking goes up from $280 to $300 per month. The 2023 exclusion for mass transit passes and commuter vans is also $300 ($280 in 2022).

Student loan interest deduction

If you have college debt that you are paying down, you may be able to deduct up to $2,500 of student loan interest paid each year. And you don't have to itemize on Schedule A to get this money saver. The break is instead claimed on Schedule 1 of Form 1040.

But there is an income limitation. The credit amount is generally reduced to zero if your modified AGI is over a certain amount. And these income amounts have gone up for 2023. For joint filers, the credit begins to phase out at modified AGIs over $155,000 ($145,000 for 2022) and ends at modified AGIs that exceed $185,000 ($175,000 for 2022). For other filers, the credit phaseout begins at a modified AGI over $75,000 ($70,000 for 2022) and ends at a modified AGI over $90,000 ($85,000 for 2022).

Bonds used for deduction

One way to avoid paying federal income tax on accrued I bond or EE bond interest is to cash in the bonds before maturity and use the proceeds to help pay for college or other higher education expenses. But there are lots of hurdles to jump through to take advantage of this interest income exclusion. For example, the exclusion is subject to strict income limits, which are indexed each year for inflation. For 2023, the exclusion starts phasing out above $137,800 of modified AGI for joint filers and $91,850 for others ($128,650 and $85,800 for 2022). It ends at a modified AGI of $167,800 and $106,850, respectively ($158,650 and $100,800 for 2022). The savings bonds must be redeemed to help pay for tuition and fees for college, graduate school, or vocational school for the taxpayer, spouse, or a dependent.

Alternative Minimum Tax (AMT)

There's good news for anyone worried about getting hit with the alternative minimum tax: AMT exemptions ticked upward for 2023. They increased from $118,100 to $126,500 for couples filing a joint return and from $75,900 to $81,300 for single filers and heads of household. The phaseout zones for the exemptions start at higher income levels for the 2023 tax year as well — $1,156,300 for couples and $578,150 for singles and household heads ($1,079,800 and $539,900, respectively, for 2022).

In addition, the 28% AMT tax rate kicks in at higher incomes in 2023 — above $220,700 of alternative minimum taxable income. (The 28% rate for 2022 applied to AMTI over $206,100.)

Americans working abroad

U.S. taxpayers working abroad have a larger foreign earned income exclusion in 2023. It jumped from $112,000 for 2022 to $120,000 for 2023. (Taxpayers claim the exclusion on Form 2555.)

The standard ceiling on the foreign housing exclusion is also increased from $15,680 to $16,800 for 2023 (although overseas workers in many high-cost locations around the world qualify for a significantly higher exclusion).

Standard mileage rates

The 2023 standard mileage rate for business driving rose to 65.5¢ a mile. The mileage allowance for medical travel and military moves also increased to 22¢ a mile in 2023. However, the charitable driving rate stayed put at 14¢ a mile — it's fixed by law.

Health Savings Accounts (HSAs)

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Flexible Spending Accounts (FSAs)

For 2023, the limit on employee contributions to a healthcare flexible spending account (FSA) is $3,050, which is $200 more than the 2022 limit. If the employer's plan allows the carryover of unused amounts, the maximum carryover amount for 2023 is $610 ($570 for 2022).

Long-term care insurance premiums

The limits on deducting long-term care insurance premiums are higher in 2023. Taxpayers who are age 71 to 80 can deduct up to $5,960 ($5,640 for 2022). Taxpayers ages 61 to 70 can deduct up to $4,770 ($4,510 for 2022). Individuals who are 51 to 60 can take up to $1,790 ($1,690 for 2022). Taxpayers who are 41 to 50 can deduct up to $890 ($850 for 2022). People who are 40 or younger can take up to $480 ($450 for 2022).

For most people, long-term care premiums are medical expenses deductible only by itemizers on Schedule A and only to the extent that their total amount of medical expenses exceeds 7.5% of adjusted gross income. However, self-employed people can deduct them on Schedule 1 of the 1040.

Earned Income Tax Credit (EITC)

This one's a biggie. The EITC is a refundable credit designed to help out low- and middle-income households.[8] To qualify for the credit in tax season 2024, a single filer with no children must have an AGI below $17,640, while the cap for a married couple with three or more children is $63,398.[9]

Maximum Adjusted Gross Income Limits

Dependents Claimed	Single, Head of Household or Widowed	Married Filing Jointly
0	$17,640	$24,210
1	$46,560	$53,120

2	$52,918	$59,478
3 or more	$56,838	$63,398[10]

And here's the maximum EITC credit amounts you can get based on your AGI and number of qualifying dependents:

Maximum EITC Credit Amounts

Qualifying Dependents	Maximum Credit Amounts
0	$600
1	$3,995
2	$6,604
3 or more	$7,430[11]

You *cannot* claim the EITC in tax season 2024 if you have investment income over $11,000 or if you're married filing separately.

Self-employed people

If you're self-employed, there are some tax changes for 2023 that could impact your bottom line. First, a key threshold on the 20% deduction for pass-through income was increased for 2023. Self-employed people (along with partners in partnerships, members of LLCs, shareholders of S corporations, and other owners of pass-through entities) can deduct 20% of their qualified business income, subject to limitations for individuals with taxable incomes in excess of $364,200 for joint filers and $182,100 for others ($340,100 and $170,050, respectively, for 2022).

Second, the standard mileage rate for business driving went up to 65.5¢ per mile.

Third, first-year bonus depreciation isn't as valuable in 2023 as it was in 2022. Last year, businesses could deduct the full cost of new and used qualifying business assets with lives of 20 years or less. For 2023, the 100% write-off fell to 80%.

Fourth, expensing of business assets is higher in 2023. Up to $1,160,000 of assets can be expensed this year. This limit phases out dollar for dollar once more than $2,890,000 of assets are put in use during 2023. The amount of business assets expensed can't exceed your business's self-employed income.

Fifth, the temporary 100% write-off for business meals has expired. For 2021 and 2022, businesses, including self-employed people, were able to deduct 100% of business restaurant meals, provided the cost wasn't lavish. This COVID-related easing was temporary. Starting this year, 50% of the cost of most business meals is deductible, reverting to the rules that were in place before 2021.

1099-K forms

In 2021, Congress enacted a law requiring third-party, settlement networks (e.g. paypal, venom, square etc. to payees who are paid over $600 a year for goods and services. This reporting threshold, which is much lower than in prior years, was slated to kick in for 1099-Ks for 2022. The lower reporting thresholds received lots of criticism from across the spectrum, so the IRS decided to delay them. So, as happened for the 2022 tax year, new rules that were supposed to kick in for 2023, 1099K forms sent out in 2024 won't apply for the 2023 tax year.

NJ BEST 529 PLAN

College and Tuition Assistance

Prior to Tax Year 2022 contributions to 529 plans were not deductible, but the money grew tax-free if used for qualified educational expenses. A rollover from one account to another was considered a qualified distribution within the meaning of N.J.S.A. 54A:6-25 as long as it met the requirement in section 529(c)(3)(C)(i) of the Internal Revenue Code.

For Tax Year 2022 and forward, The New Jersey College Affordability Act allows for three Income Tax deductions for those who file tax returns showing gross income of $200,000 or less. Deductions include contributions to an NJBEST 529 savings plan, payments made for an NJCLASS student loan, and tuition costs for New Jersey colleges and universities.

New Jersey Better Educational Savings Trust (NJBEST)

You can deduct up to $10,000 of contributions made during the year into an NJBEST account.

Example: You contribute $1,000 per month, beginning in January. If your gross income is $200,000 or less, you can deduct the maximum amount of $10,000.

The Higher Education Student Assistance Authority (HESAA) may offer additional NJBEST 529 College Savings Plan benefits to New Jersey residents.

New Jersey College Loans to Assist State Students (NJCLASS)

You can deduct up to $2,500 of principal and interest paid on student loans during the year under NJCLASS if your gross income is $200,000 or less.

New Jersey Higher Education Institution Tuition Costs

If you, your spouse, or your dependent enroll in and attend a New Jersey institution of higher education, you can deduct up to $10,000 for tuition costs.

Applicable Laws and Rules

P.L. 2021, c.128

Residential clean energy credit

If you install an alternative energy system in your home that relies on a renewable energy source, such as solar, wind, geothermal, or fuel cell technology, this credit is for you. Solar panels, solar electric equipment, solar-powered water heaters, and wind turbines are eligible for the credit.

And beginning this year, 2023, the credit also applies to battery storage technology with a capacity of at least three-kilowatt hours. The size of the credit is 30% of the cost of the equipment and installation for renewable energy systems. The full credit goes through 2032. After that, it drops to 26% in 2033 and 22% in 2034, before it expires in 2035.

Energy-efficient home improvement credit

The tax credit for installing energy-efficient windows, doors, etc. in your home has been completely revamped, beginning this year. For 2022, the credit applied to 10% of the cost of certain types of insulation, plus external windows, doors, and skylights. It also included the cost of electric heat pumps and water heaters, some central air-conditioning systems, and similar energy-saving investments. There was a lifetime credit limitation of $500. And the credit was capped for many items.

This credit is now bigger and better for 2023 through 2032. First, the credit percentage increases to 30% of the cost of certain types of insulation, boilers, air-conditioning systems, windows, doors, etc. added to your residence. Second, the $500 lifetime limit is replaced with a $1,200 annual limit. This $1,200 annual limit is lowered to $500 in the aggregate for exterior doors and $600 for exterior windows and skylights and other items. The annual limit increases to $2,000 for a biomass stove or hot water boiler, or an electric or natural gas heat pump put in the home. Third, you can also get a credit of up to $150 for the cost of a home energy audit.

Residential clean energy credit

It gets a new name under the Inflation Reduction Act. It's now called the Residential Clean Energy Credit. The credit, which was scheduled to expire in 2024, is extended through 2034.

RCEC also boosts the credit amount. Previously, the credit was worth 26% of the cost to install qualifying systems that use solar, wind, geothermal, biomass or fuel cell power to produce electricity, heat water or regulate the temperature in your home. (The credit for fuel cell equipment is limited to $500 for each one-half kilowatt of capacity.)

The credit amount was also scheduled to drop to 23% in this year and then expire in 2024. Under the IRA, the credit amount jumps to 30% from 2022 to 2032. It then falls to 26% for 2033 and 22% for 2034. The credit will then expire after 2034.

The scope of the credit is also adjusted. Starting this year, in 2023, it no longer applies to biomass furnaces and water heaters, but it will apply to battery storage technology with a capacity of at least three kilowatt hours.

Alternative fuel refueling property credit

The Alternative Fuel Refueling Property Credit/ EV Charger Credit is extended through 2032. For homeowners, the credit is worth 30% of the costs of "qualified alternative fuel vehicle refueling property" installed in the home, up to $1,000.

For most homeowners, the "qualified alternative fuel vehicle refueling property" they might purchase is the equipment used to recharge an electric vehicle. (The credit also applies to equipment used to store or dispense an alternative fuel (other than electricity) for motor vehicles.)

Starting in the 2023 tax year, the credit applies to the purchase of "bidirectional" charging equipment, which can charge the battery of an electric vehicle and allow you to discharge electricity from the battery back out to the electric grid.

Retirement savings

Here's some good news for retirees: The beginning age for taking required minimum distributions (RMDs) rises to 73 from 72 for owners of traditional IRAs, 401(k)s and other workplace retirement plans. This applies to account owners who turn 72 after 2022. If your turn 73 this year, you must take your first RMD by April 1, 2024. People who work past 73 can generally delay taking RMDs from their current employer’s 401(k) until they retire.

There is a penalty for people who fail to take their RMD, but that penalty is lower than in past years. Starting in 2023, the excise tax for such failures is 25% of the missing RMD amount, which is down from 50%. Additionally, the penalty goes down to 10% for failures that are corrected in a timely manner.

For people who are still saving for retirement, many key dollar limits on retirement plans and IRAs are higher in 2023. For example, the maximum contribution limits for 401(k), 403(b), and 457 plans jump from $20,500 to $22,500 for 2023. People born before 1974 can put in $7,500 more as a “catch-up" contribution (up from $6,500 for 2022). That means a person who is age 50 or older in 2023 can stash up to $30,000 pretax in a 401(k), 403(b), or 457. The 2023 cap on contributions to SIMPLE IRAs is $15,500 ($14,000 for 2022), plus an extra $3,500 ($3,000 for 2022) for people age 50 and up.

The 2023 contribution limit for traditional IRAs and Roth IRAs increased from $6,000 to $6,500, plus $1,000 as an additional catch-up contribution for individuals aged 50 and up. The income ceilings on Roth IRA contributions went up. Contributions phase out in 2023 at adjusted gross incomes (AGIs) of $218,000 to $228,000 for couples and $138,000 to $153,000 for singles (up from $204,000 to $214,000 and $129,000 to $144,000, respectively, for 2022).

Deduction phaseouts for traditional IRAs also start at higher levels in 2023, from AGIs of $116,000 to $136,000 for couples and $73,000 to $83,000 for single filers (up from $109,000 to $129,000 and $68,000 to $78,000 for 2022). If only one spouse is covered by a plan, the phaseout zone for deducting a contribution for the uncovered spouse starts at $218,000 of AGI and ends at $228,000 (they were $204,000 and $214,000 for 2022).

More lower-income individuals may be able to claim the saver's credit in 2023, too. This tax break can be worth up to $1,000 ($2,000 for joint filers), but you must contribute to a retirement account and your AGI must be at or below a certain threshold to qualify. For 2023, the AGI thresholds are $36,500 for single filers and married people filing a separate return ($34,000 for 2022), $73,000 for married couples filing jointly ($68,000 for 2022), and $54,750 for head-of-household filers ($51,000 for 2022).

Retirement Plans: 401(k)s, IRAs and More

There are several key changes and inflation adjustments to retirement plans—and some of those changes could impact your tax bill in 2024. Let's dive in.

401(k) and IRA Contribution Limits Increase

To account for inflation and an increased cost of living, the IRS bumped up 401(k) and IRA retirement plan contribution limits for tax year 2023:

- If you contribute to a 401(k) or 403(b), you can now put in up to $22,500 a year (up from $20,500). You can also contribute an extra $7,500 as a catch-up contribution if you're 50 or older.
- If you have a traditional or Roth IRA, you can now contribute up to $6,500 (up from $6,000). If you're 50 or older, you can put in an extra $1,000.

Income Limits Increase for Roth IRA Contributions

The Roth IRA income limits for contributions also went up in tax year 2023:

- **Single and head of household:** You can contribute up to the limit if you make less than $138,000, a reduced amount between $138,000 and $153,000 (up from between $129,000 and $144,000), and nothing after $153,000.
- **Married filing jointly:** You can contribute up to the limit if you make less than $218,000, a reduced amount between $218,000 and $228,000 (up from between $204,000 and $214,000), and nothing after $228,000.
- **Married filing separately:** Here's where it gets a little tricky. If you lived with your spouse for any amount of time during the year and your income is more than $10,000, you won't be able to contribute anything to a Roth. But if you *didn't* live with your spouse at all, you'll have the same contribution limits as a single or head of household taxpayer (see above).

Deduction Limits Increase for Traditional IRA Contributions

Remember this for the 2024 tax season: Phase-out limits for deducting traditional IRA contributions are increasing. What are phase-out limits? It simply means that your deduction gets lower as your income gets higher.

You can take a full deduction up to the limit ($6,500 for most folks and $7,500 if you're 50 or older) if neither you nor your spouse participate in an employer-sponsored plan. *Cha-ching!* If you *do* contribute to an employer-sponsored plan, the deduction phases out as your income increases depending on your filing status:

- **Single:** You get a full deduction if your income is less than $73,000. You can take a partial deduction if your income is between $73,000 and $83,000. The deduction phases out completely if you make more than $83,000.
- **Married filing jointly:** You get a full deduction if you make less than $116,000. If your income is between $116,000 and $136,000, the deduction is only partial. Couples making more than $136,000 get no deduction.[27]
- **Married filing separately:** You get a partial deduction if you make less than $10,000. There's no deduction if you make more than $10,000.[28]

If you're *not* covered by an employer-sponsored plan at work but your spouse is, you'll need to file jointly to get the deduction. You can take a full deduction if you make less than $218,000, a partial deduction if you make between $218,000 and $228,000, and no deduction if you make more than $228,000.