



# High-Income Taxpayers



## CA Tax & Financial Services

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### High-Income Taxpayers

In addition to being subject to higher federal tax rates, taxpayers whose income exceeds certain levels have tax deductions and credits that are reduced or eliminated.

The provisions listed may have additional qualifications and restrictions. Other provisions of the tax code, such as fringe benefit limitations and taxation on the sale of a principal residence, may further restrict a taxpayer's ability to take deductions or cause the taxpayer to pay additional tax. Ask your tax professional for more details.

### Capital Gain Tax Rates

Long-Term Capital Gain and Qualified Dividend Income Maximum Tax Rates			
Taxable Income	Maximum Rate	Taxable Income	Maximum Rate
<b>Single</b>		<b>MFJ or QSS</b>	
\$0 to \$44,625.....	0%	\$0 to \$89,250.....	0%
\$44,626 to \$492,300 .....	15%	\$89,251 to \$553,850 .....	15%
\$492,301 and over.....	20%	\$553,851 and over.....	20%
<b>HOH</b>		<b>MFS</b>	
\$0 to \$59,750.....	0%	\$0 to \$44,625.....	0%
\$59,751 to \$523,050 .....	15%	\$44,626 to \$276,900 .....	15%
\$523,051 and over.....	20%	\$276,901 and over.....	20%

### Itemized Deductions and Personal Exemptions

**Taxes paid.** The itemized deduction for state and local taxes is limited to \$10,000 (\$5,000 MFS). Foreign real property taxes are not deductible.

**Home mortgage interest.** A taxpayer may treat no more than \$750,000 as acquisition indebtedness (\$375,000 MFS). A \$1,000,000 (\$500,000 MFS) limitation applies for any indebtedness incurred prior to December 15, 2017.

A deduction for home equity indebtedness (other than for acquisition or improvement) is not allowed.

**Personal exemptions.** The deduction for personal exemptions is suspended for tax years 2018 through 2025.

### Individual Retirement Arrangements (IRAs)

IRA Individual Contribution Limits		
	2023	2022
Under age 50 .....	\$6,500.....	\$6,000
Age 50 or older .....	\$7,500.....	\$7,000

### Traditional IRA Phaseout Based on Modified AGI (MAGI)

If an individual is an active participant in an employer-sponsored retirement plan, the deduction for a traditional IRA contribution is phased out when MAGI is between the following.

Tax Year	MFJ, QSS	Single, HOH	MFS
2023 .....	\$116,000 to \$136,000.....	\$73,000 to \$83,000 .....	\$0 to \$10,000
2022 .....	\$109,000 to \$129,000.....	\$68,000 to \$78,000 .....	\$0 to \$10,000

If you are not an active participant, but your spouse is, your deduction is phased out when modified AGI is between the following.

Tax Year	MFJ, QSS	MFS
2023 .....	\$218,000 to \$228,000.....	\$0 to \$10,000
2022 .....	\$204,000 to \$214,000.....	\$0 to \$10,000



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### Roth IRA Phaseouts

	2023	2022
MFJ or QSS.....	\$218,000 to \$228,000	\$204,000 to \$214,000
Single, HOH, or MFS* .....	\$138,000 to \$153,000	\$129,000 to \$144,000
MFS.....	\$0 to \$10,000	

\* MFS and did not live with spouse during the year.

### Child Tax Credit

\$2,000 credit (under age 17), reduced by \$50 for each \$1,000 of modified AGI above \$400,000 Married Filing Jointly (\$200,000 all other filing statuses).

### Credit for Other Dependents

A nonrefundable credit of up to \$500 is allowed for dependents other than a qualifying child for the Child Tax Credit.

### Adoption Expenses

2023 maximum credit.....	\$15,950
2023 maximum exclusion.....	\$15,950
AGI phaseout.....	\$239,230 – \$279,230
Unused credit carryforward.....	5 years

### Additional Medicare Tax

#### Medicare Tax on Earned Income

The employee portion of the hospital insurance (Medicare) tax is increased by an additional tax of 0.9% on wages received in excess of the threshold amount. However, unlike the general 1.45% hospital insurance (Medicare) tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return.

#### Medicare Tax on Unearned Income

The Net Investment Income tax is 3.8% on the lesser of net investment income or the excess of modified adjusted gross income over the threshold amount.

#### Threshold Amount

Joint return or surviving spouse.....	\$250,000
Married individual filing separately.....	\$125,000
All other tax filers .....	\$200,000

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## Education Benefits

### 2023 Education Benefits Comparison Chart

	Benefit	Annual Limit	Modified AGI Phaseout
<i>American Opportunity Credit</i>	40% of the credit may be refundable (limited to \$1,000).	\$2,500 credit per student.	\$80,000 – \$90,000 \$160,000 – \$180,000 (MFJ)
<i>Lifetime Learning Credit</i>	Tax credit (non-refundable).	\$2,000 credit per tax return.	\$80,000 – \$90,000 \$160,000 – \$180,000 (MFJ)
<i>Coverdell Education Savings Account (ESA)</i>	Tax-free earnings.	\$2,000 contribution per beneficiary.	\$95,000 – \$110,000 \$190,000 – \$220,000 (MFJ)
<i>U.S. Savings Bond Interest Exclusion</i>	Tax-free interest.	Amount of qualified education expenses.	\$91,850 – \$106,850 \$137,800 – \$167,800 (MFJ)
<i>Student Loan Interest Deduction</i>	Above-the-line tax deduction.	\$2,500 deduction per tax return.	\$75,000 – \$90,000 \$155,000 – \$185,000 (MFJ)

### Qualified Business Income

Threshold amounts for qualified business income limitations are:

- \$364,200 Married Filing Jointly.
- \$182,100 Single, Head of Household, Qualifying Surviving Spouse.
- \$182,100 Married Filing Separately.

### Excess Business Loss Limitation

For 2023, the threshold amount for determining an excess business loss is \$289,000 (\$578,000 MFJ).

### Gift Exclusion

The annual gift exclusion for gifts to any person is \$17,000.

### Estate Tax Exclusion

The basic estate tax exclusion amount is \$12,920,000.

## Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.