

Subject: Greenleaf Newsletter: Don't Forget These Tax Deductions + State Payments: Are They Taxable?

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From: Greenleaf Financial Group

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***Hello Greenleaf,
Welcome to Our Client Newsletter
In the February Issue:***

- **Don't Forget These Deductions on Your 2022 Tax Return.**
- **Question: Do I Need to Include My State's "Special Payment" on My Tax Return? Will I Pay Taxes on It?**
- **Market News: Near-Term Uncertainty for Stocks and Bonds.**

Don't Forget These Deductions on Your 2022 Tax Return

Many tax deductions are easily forgotten. They may be on an electronic statement that you never pulled up or not totaled on any document at this time.

If you use a tax preparer, make sure they know about any of the following that apply to you. If you use DIY tax software, make sure you find the applicable section, especially if the contribution is new to you for 2022.

Question:

I received a "special payment" from my state last year. Do I need to include this payment on my federal return and will I pay taxes on it?

Answer: The IRS formally announced on February 10, 2023 that special payments made by 21 states in 2022 (including California and Indiana) ***do not need to be reported*** on federal tax returns.

**Market News:
Near-Term
Uncertainty for
Stocks and Bonds**

The robust returns of January have been followed by both ups and downs in February. The uncertainty of the next several months means the market, too, is wavering.

Behind this uncertainty is some strong economic news. Retail sales recently posted their biggest monthly gain in two years and the unemployment

529 Plan Contributions On Your State Return

Many states, including Indiana (though not California), offer a tax deduction for contributions to that state's 529 Education Plan. However, you must use your year-end statement as a record of your contributions. The Indiana 529 Plan -- College Choice Direct -- does not create or send a separate tax-reporting document.

HSA Contributions

Your employer will report any HSA contributions they make to you (and to the IRS), but since you have until the mid-April tax filing deadline to make your own contributions, the burden is on you to report your HSA contributions on your return. Fill out Form 8889 on your federal return to get your valuable HSA deduction.

Self-Employed 401k or SEP IRA Contributions

Some small business retirement plans also have a mid-April deadline for contributions. If you've made Self-Employed 401k or SEP IRA contributions applicable to 2022, don't forget to include these on your return.

Higher Education Tuition Deductions

Although both the Lifetime Learning Credit and the American Opportunity Tax Credit have income limits and

Consequently, you do not owe taxes on these pandemic-related state payments.

Included States

Payments from California, Colorado, Connecticut, Delaware, Florida, Hawaii, Idaho, Indiana, Maine, New Jersey, New Mexico, Oregon, Pennsylvania, and Rhode Island can all be excluded from your 2022 income for federal tax purposes.

California

California Taxpayers may have received a 1099-MISC form if their payment was more than \$600. This form designates such payments as "middle class tax refunds" that are taxable.

However, the IRS ruling has made these payments non-taxable. Californians do not need to report these payments and the California tax authority will likely correct these 1099 forms with the IRS.

Two Possible Exceptions

Illinois and New York issued multiple stimulus payments and the IRS has determined that one of the payments was a tax refund and another is considered to be a disaster relief payment. If you are an Illinois or New York resident who received these payments, their taxability depends on

and the unemployment rate fell to a 53-year low in January as employers added more than half a million jobs.

While this strong economic news is positive, investors now look at all news in the context of interest-rate policy. If the U.S. economy stays too robust, then the Federal Reserve will have to raise rates higher and hold them there for longer than previously anticipated. Market watchers have dubbed this new possibility "higher for longer."

The possibility of more than a few additional 25 basis point (0.25%) interest-rate increases halted the January stock- and bond-market rallies. Bonds have sunk back almost -3% during February and only small-company stocks show gains for the month.

Still, for the year-to-date, the broad U.S. stock market has maintained gains of almost 5%. Investing is never smooth and steady, but is quite often a two-steps forward, one-step backward pattern.

Don't abandon your investment resolve during the setbacks. Gains will eventually come again.

Credit have income limits and other requirements, parents that paid tuition costs for a dependent student should investigate these credits.

Please note that you must have paid the necessary deduction amounts in cash to claim the credit. If your 529 plan paid all tuition costs for the year, then you do not qualify for a second education deduction.

IRA Contributions

Deductible or non-deductible IRA contributions -- though not Roth IRA contributions -- must be reported on your return, but Fidelity and other brokerage firms will not report contributions until after the April 18th contribution deadline. Here, too, you are responsible for remembering to report your IRA contribution for 2022.

multiple circumstances. Let your tax preparer know about your payments or consult your state's taxing authority website for the many details.

Four States Where It Depends

Taxpayers in Georgia, Massachusetts, South Carolina, and Virginia must meet some eligibility requirements in order to leave these payments off their returns.

In these states, eligibility depends on factors from previous tax filings, including whether you itemized deductions on your current tax returns. Here, too, taxability depends upon the taxpayer's circumstances and the resident state's tax rules.

California

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