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Tax Newsletter

Seven Tax Moves for the Summer
Ideas for individuals and businesses

Summer is a time for R&R, but also offers tax-saving opportunities for individuals and small business owners. Following are seven ways to reduce tax liability this summer.

1. Host an employee gathering. Prior to 2018, your business could deduct 50% of the cost of qualified business entertainment expenses. But this deduction has generally been eliminated. **Key exception:** If you hold a summer barbecue or similar employee outing, you can write off 100% of the event's cost if the entire workforce is invited.

2. Harvest securities sales. The maximum tax rate for long-term capital gains from securities sales remains at 15% (20% for certain high-income taxpayers). When appropriate, realize capital gains to benefit from this special tax treatment. Conversely, if it suits your purposes, you might harvest capital losses this summer instead. Capital losses offset capital gains plus up to $3,000 of ordinary income. Any remaining loss will be carried over to next year.

3. Sweep up charitable deductions. Generally, itemizers can deduct the fair market value (FMV) of property donated to a qualified charitable organization if they owned it longer than one year. For example, if you decide to clean out your basement, attic, or garage during the warm weather, you might give used clothing and furniture in good condition to charity and then claim a deduction on your 2022 return.

4. Hire targeted workers. If your short-staffed business hires workers from one of several disadvantaged "targeted groups," it may qualify for the Work Opportunity Tax Credit (WOTC). Generally, the maximum WOTC is $2,400 per qualified worker. Also, there is a special summertime credit for hiring youths in certain areas. The maximum for the summertime credit is $1,200 per qualified worker.

5. Take a trip. If you travel away from home on business, you may deduct your business-related expenses—including airfare, lodging and qualified business meals—as long as the primary purpose of the trip is business-related. But the number of days spent on business versus pleasure is critical, so monitor the time spent on activities. Note: The usual 50% limit on meal deductions is increased to 100% in 2022 for restaurant-provided food and beverages.

6. Donate a conservation easement. Do you own scenic property in a rural area? Instead of selling it to real estate developers, you might donate a "conservation easement" to a qualified charitable organization. The easement generally allows others to enjoy the views or preserve wildlife. As long as certain tax law requirements are met, you can currently deduct the value of this donated benefit.

7. Sidestep a tax penalty. The tax law requires you to pay income tax through withholding and/or installment payments during the year. The next quarterly installment due date is **June 15.** To avoid an "estimated tax penalty" for 2022, ensure that you pay at least 90% of your current tax liability or 100% of the prior year's tax liability (110% if your AGI exceeded $150,000).

These are just seven possibilities to consider this summer. Schedule a mid-year meeting with your tax advisor to discuss whether any of these ideas, or others, apply to your situation.

Do's and Don'ts for a Windfall
Manage your money carefully

Suppose you have just inherited a significant sum of money from a parent, grandparent or other relative. Your first inclination may be to rush out and buy that top-of-the-line car you have had your eye on or book the exotic vacation trip you have been dreaming about for years. This is not to say you should not indulge in any luxuries—you are deserving, after all—but use some discretion and avoid impulse buying. Instead, try to develop a plan based on sound financial principles.

What should your plan incorporate? Here are several do's and don'ts you might observe.

DON'T count your chickens before they hatch. If you have been banking on the inheritance for an extended period of time, you may be disappointed by the amount you eventually receive after the federal and state taxing authorities take their cut. What's more, assets may be worth less than you imagined or might be eroded by end-of-life expenses. Watch what you spend before you actually have the cash in hand.

DO review your insurance coverage. Once you have established the amount you will receive, or close to it, you might adjust your insurance to reflect your change in circumstances. For instance, an umbrella policy added to your automobile and home insurance can be used to protect you from personal liability. Also, additional life insurance or long-term care insurance may be more affordable to you now.

DON'T do anything rash. In the flush of your newfound wealth, you might quit your job or make other life-altering decisions. Although more options will be available to you, take stock of your situation before you make any quick moves. Remember that a $1 million inheritance earning 10% a year would produce an annual return of $100,000, which may not be enough for you to retire on, at least not before the usual age.

DO put your money to work right away. For example, you can place your funds in an interest-bearing account while you coordinate your game plan. Even if it earns a minimal amount, it is better than nothing. Then you can decide how and where to best invest the funds based on your particular situation.

DO prioritize your wish list. Your next move may depend on where the money is best served. Do you need to put away funds for a child's college or grad school education? Would you like to live in a bigger home? Have you saved enough for retirement? The answers to these questions can help point you in the right direction.

DON'T go it alone. Last, but not least, you will likely face investment options, financial decisions, and other complications you have not encountered before. With experienced professional advisors at your side, you can address these questions and move forward in a sensible manner.

How to Postpone Estate Tax
Special election for small businesses

Do you own a small business interest that is your pride and joy? Although you may have spent years building a successful enterprise, your family may be forced to sell it soon after your death to pay the federal estate tax bill. The full amount of estate tax is due nine months after an individual's death. Fortunately, there is some tax relief available for a family that inherits a small business.

Timely tax break: If the estate qualifies, the executor can elect under Section 6166 of the tax code to pay no tax on the business interest for five years. And subsequent payments can be stretched out over ten years. Result: Your family can take up to 15 years to pay the tax. (Actually, it is a 14-year extension since the due date for the last installment of interest coincides with the first installment of tax.)

There is, however, one catch. Interest must be paid each year on the unpaid portion of the tax. But the estate pays only 2% on the tax attributable to the first $1 million of the business interest. The interest rate for tax underpayments applies to any amount above $1 million (subject to inflation indexing). The threshold for 2022 is $1.64 million.

This special Section 6166 extension is not automatically available. To qualify, the following three requirements must be met.

- The decedent must have been a U.S. citizen or resident at death.
- The interest in the closely-held business must comprise more than 35% of the decedent's adjusted gross estate.
- The election must be made by the estate's personal representative on an estate tax return filed in a timely manner.

For purposes of the 35% test, the calculation is based on subtracting from the gross estate certain deductions such as debts, funeral expenses, administration costs, mortgages, and liens. However, these deductions are taken into account prior to applying any available charitable and marital estate tax deductions.

In addition to the requirements stated above, you must have operated the business as one of the following: (1) a sole proprietor; (2) a partner with an interest of 20% or more in the partnership, or with an interest in a partnership that has no more than 45 partners; or (3) a corporate stockholder owning 20% or more of the voting stock, or owning stock in a corporation with no more than 45 shareholders.

Caution: The benefit of this special provision may be lost if all the i's are not dotted and the t's are not crossed. Do not hesitate to ask your professional advisors for assistance.

Tax Ace in the Hole

Perhaps you live in an area where a golf or tennis tournament or a concert series is being held this summer.

Unique tax break: You can rent out your home to event-goers for up to two weeks without paying a penny of tax on the rental income. It is 100% tax-free.

On the other hand, you cannot deduct rental expenses, either. There are no federal income tax consequences to this short-term rental—period.

Facts and Figures
Timely points of particular interest

Staying Active—Is your business moving, merging, or shutting down for good? Do not be so quick to close out all your bank accounts. Frequently, customers and clients will continue to send payments to an old account number, even if they have been informed of a change. The same thing applies to email accounts. So how long should you wait? There is no definitive timeframe for keeping accounts active—use a healthy dose of common sense.

Teachable Moment—If you are a teacher, professor, or other educator, you may deduct up to $250 of your qualified out-of-pocket expenses incurred to benefit students ($500 for joint filers if both spouses qualify). This includes payments for participation in professional development courses, books, supplies, computer and other equipment and supplementary materials used in the classroom. After decades, the $250 limit is finally being boosted to $300 per filer for 2022.