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Tax Newsletter

Top Tax Strategies for Individuals
Tax-saving ideas at year-end

As the year rapidly draws to a close, you can take steps to improve your tax picture for 2022 based on the latest laws of the land, including the new Inflation Reduction Act (the IRA). Following are several frequently-used strategies.

- **Capital gains and losses:** Under longstanding tax rules, investors may use capital gains and losses to offset each other. For example, you might realize capital gains from sales of securities to absorb capital losses from earlier in the year or realize losses to offset capital gains plus up to $3,000 of ordinary income in 2022. Note: The maximum tax rate on long-term capital gain for assets held longer than a year remains at 15% (20% for certain high-income taxpayers).

- **Charitable donations:** If you itemize deductions, you can boost your charitable deduction by donating money or property to charity at year-end. For 2022, the annual limit on your deduction for monetary gifts is equal to 60% of your adjusted gross income (AGI), down from 100% in 2021. Note: You may deduct the current fair market value of gifts of property that would have qualified for long-term capital gain treatment if sold.

- **Electric vehicle credits**: The IRA revises the existing tax credit for electric vehicles (EVs) and plug-in hybrids. Notably, you may be eligible for a credit for up to $7,500 for the cost of buying a new qualified EV if certain requirements are met. Alternatively, you may qualify for a credit of up to $4,000 if you buy a used EV. Note: The credit for used EVs is not available until 2023.

- **Required minimum distributions:** Normally, if you are age 72 or older (recently increased from age 70½), you must take annual required minimum distributions (RMDs) from traditional IRAs and qualified plans like a 401(k). Otherwise, you are hit with a 50% tax penalty in addition to regular income tax liability. Note: RMDs are based on life expectancy tables and the balance in your account on December 31 of the prior year.

- **Medical expenses:** An itemizer can deduct unreimbursed medical expenses above an annual threshold of 7.5% of AGI (recently lowered from 10% of AGI). Thus, if you are near or over the 7.5%-of-AGI threshold for 2022, you might accelerate non-emergency expenses, such as physical exams or dental cleanings, from 2023 into 2022. Note: Different rules may apply on the state income tax level.

- **Residential energy credits:** The IRA expands and extends the rules for residential energy credits. Generally, you may qualify for a 30% "residential clean energy credit" for installing solar panels or other equipment to harness renewable energy this year. Also, a 30% "nonbusiness energy property credit" of up to $1,200 is available for the cost of qualified energy-efficient improvements: Note: Dollar caps may limit credits for certain specific items.

- **Estimated tax:** If you underpay income tax during the year, you could be liable for an estimated tax penalty. When it is appropriate, take advantage of one of two “safe harbor” exceptions. Generally, you can avoid the penalty by paying at least 90% of your current tax liability or 100% of the prior year’s tax liability. Note: The latter safe harbor is increased to 110% of the prior year’s tax liability if your AGI exceeded $150,000.

Reminder: These are just several possibilities to consider. With assistance from your professional advisor, you can develop a tax plan personalized for your situation.

Top Tax Strategies for Small Businesses
Tax-saving ideas at year-end

Of course, tax planning is not just for individuals. Your small business may also benefit from implementing year-end tax strategies. Following are several ideas to consider.

- **Business property:** Section 179 of the tax code allows a business to expense (i.e., currently deduct) up to $1.08 million of qualified business property placed in service in 2022.This amount begins to phase out above a threshold of $2.7 million. Furthermore, a business may be able to claim 100% first-year “bonus depreciation” on any remaining cost. Note: 100% first-year bonus depreciation begins to phase down after 2022.

- **Payroll tax deferral:** Under recent legislation, an employer could defer its share of the Social Security tax portion of certain payroll taxes due in 2020. (This tax deferral break was subsequently extended through 2021.) The first half of the deferred amount was due at the end of 2021. Be careful to pay the portion of tax that is due by January 3, 2023. Note: If your business does not remit the payroll taxes in time, the penalty is equal to 10% of the entire deferral amount.

- **Start-up costs:** Did you undertake a new business venture in 2022? Normally, start-up costs must be amortized over 180 months, but you can currently deduct up to $5,000 of qualified expenses. This includes costs normally deductible by an active business. Make sure you are “open for business” before 2023 to qualify for this tax break in 2022. Note: The special deduction is phased out for costs above $50,000.

- **Work Opportunity Tax Credit:** An employer needing more staff at year-end may claim the Work Opportunity Tax Credit (WOTC) for hiring disadvantaged workers from one of several target groups. Generally, the WOTC equals 40% of the first-year wages of up to $6,000 per employee, for a maximum of $2,400. Note: For certain veterans, the credit is available for up to $24,000 in wages, for a maximum of $9,600 per employee.

- **Business meals:** Despite a recent tax law crackdown on deductions for business entertainment expenses, you can still deduct 50% of the cost of certain business meals. This includes expenses for food and beverages associated with entertainment if those amounts are invoiced separately. Note: Recent legislation increases the usual 50% deduction to 100% for food and beverages provided by restaurants in 2021 and 2022.

- **Business repairs:** Generally, an employer can currently deduct the cost of minor repairs to the business premises made before the end of the year, but the cost of major improvements must be capitalized. Under IRS regulations, you may benefit from a safe harbor election to currently deduct certain expenses. Note: If repairs are lumped in with improvements, they may have to be capitalized.

Other tax benefits may be available at year-end. Discuss your situation with your professional tax advisors.

e**New IRS Ruling Spotlights Inherited IRAs**
Future clarification needed on RMDs

The IRS has issued new guidance that provides a reprieve to certain non-spouse beneficiaries who recently inherited IRAs. Notably, they will not be penalized for failing to take required minimum distributions (RMDs) that would normally be mandated for 2021and 2022. This relates to provisions included in the Setting Every Community Up for Retirement Enhancement (SECURE) Act.

Background: In the usual course of events, you must start taking RMDs from IRAs after you have reached the required beginning date (RBD) of age 72 (increased from age 70½ by the SECURE Act). The amount of the annual RMD is based on life expectancy tables and the value of the account on the last day of the previous year. For example, a 2022 RMD reflects the account balance as of December 31, 2021.

If you do not comply with these rules, the IRS may impose a penalty equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and a lesser amount actually withdrawn). The penalty is added to the regular income tax that is due for the RMD.

Comparable rules apply when someone inherits an IRA from a person who has already reached the RBD. However, in the past, taxpayers could stretch out RMD payments by basing the amounts on their own life expectancies. Thus, by using these so-called "stretch IRAs," tax deferral could continue for decades and result in more accumulated savings.

Key change: Under the SECURE Act, IRA beneficiaries (other than surviving spouses) are generally required to empty out the account over a ten-year period. Thus, stretch IRAs were effectively eliminated. Earlier this year, the IRS issued proposed regulations that provided that beneficiaries could not effectively back-load RMDs if the original account owner died after reaching their own RBD.

But these rule changes led to considerable confusion among taxpayers and tax professionals alike. Recognizing the problems, the IRS acted before the end of the year. In new Notice 2022-53, the IRS establishes that taxpayers in this situation will not be penalized for failing to take RMDs from inherited accounts that would normally have been due for 2021 or 2022.

The IRS also states that it will be issuing final regulations in the near future that address the rule changes. The final regulations will replace the proposed regulations that can now be ignored.

What it all means: You can take a deep breath. The new regulations are expected to clarify whether RMDs can be back-loaded over the ten-year period. At the very least, this gives these IRA beneficiaries more time for planning future distributions. We will keep you up-to-date on any new developments.

New Estate and Gift Tax Thresholds

On October 18, the IRS announced a number of inflation adjustments for the 2023 tax year. Two key changes affect estate and gift taxes.

1. The annual gift tax exclusion is increasing from $16,000 per recipient to $17,000 per recipient.

2. The unified estate and gift tax exemption is increasing from $12.06 million to $12.92 million.

We will provide information on other inflation adjustments in upcoming issues.

Facts and Figures
Timely points of particular interest

Not So FAST—Are you planning a trip to a foreign country? Make sure your federal income taxes are all paid up. Under the Fixing America's Surface Transportation (FAST) Act, a passport may be denied, revoked or otherwise limited if you have a "seriously delinquent tax debt" exceeding $55,000 in 2022, barring any special exception. One such exception is if you have installment agreement worked out with the IRS.