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Tax Newsletter

Can You Prove Your Charitable Deduction?
Comply with strict recordkeeping rules

Despite recent tax law restrictions on certain itemized deductions, you can still generally deduct the full amount of your contributions made to charity last year on your 2022 return. But be prepared to produce the required records if the IRS ever challenges your deductions. Here are four key tax considerations.

1. Monetary contributions: Deductions for monetary gifts, regardless of the amount, may be disallowed if the donor does not maintain a bank record—such as a cancelled check, bank statement or credit card statement—or a written communication from the charity indicating the donor's name, donation amount and date of the donation. Technically, this covers everything from million-dollar grants made to a hospital to spare change thrown in a kettle during the holidays.

Tip: The Tax Cuts and Jobs Act (TCJA) increased the annual deduction limit for monetary contributions from 50% of adjusted gross income (AGI) to 60% of AGI for 2018 through 2025. (It was temporarily raised to 100% for 2021.) Any excess can be carried over for five years.

2. Contributions of $250 or more: The IRS also requires charitable donors to obtain a written acknowledgement from a charitable organization for gifts of $250 or more. The acknowledgement must be obtained before you file your tax return. It should include the amount donated, a detailed description of any property that was donated and the value of the benefit received if any goods or services provided in return. However, you do not have to establish a value for "intangible religious benefits." Contributions made through payroll deductions may be substantiated by paystubs or a Form W-2.

Tip: Substantiation is not required if the organization files a return with the IRS providing the information to be included in an acknowledgement.

3. Quid pro quo contributions: If you make a “quid pro quo” contribution (e.g., a contribution made partially or fully in exchange for goods or services) for an amount above $75, you must obtain a good faith estimate from the charity detailing the value of the benefit received. For example, say you attend a fundraising dinner where the tickets cost $150 apiece and the dinner is valued at $50. The charity must provide a written statement limiting the deductible amount to $100 per ticket.

Tip: A written statement from a charity is not required if you receive token goods, minimal services or intangible religious benefits in exchange for your donation.

4. Additional recordkeeping: There are several other key points to keep in mind. For example, the current deduction for donations of capital gain property is limited to 30% of AGI. (Any excess may be carried over for five years.) Also, if you gave charitable gifts of property exceeding $500 in 2022, additional information must be attached to your tax return. When a donation of property (e.g., artwork) exceeds $5,000, you must also provide an independent appraisal of the property’s value.

Tip: Previously, such an appraisal was deductible as a miscellaneous expense, but the TCJA suspended miscellaneous expense deductions for 2018 through 2025.

Final words: The recordkeeping rules for charitable donations are stringent. However, if you have the proper documentation, you still may claim top-dollar deductions on your 2022 return.

Sprinkling in a SALT Deduction
Dollar cap remains for 2022 returns

Despite recent calls for removing or modifying the dollar cap on state and local tax (SALT) deductions, tax legislation enacted at the end of 2022 failed to change the status quo. Barring any further changes, the cap remains in place on the 2022 return you must file in 2023 and for three years afterward.

Nevertheless, this still may be a big write-off on your 2022 return if you expect to itemize deductions.

Background: Previously, you could deduct the full amount of SALT payments on Schedule A of your return, along with other itemized deductions. This was particularly beneficial to residents of states with high tax rates.

However, the TCJA increased the likelihood that you will not itemize deductions by effectively doubling the standard deduction and suspending certain deductions. Notably, it also limits the annual SALT deduction to $10,000. In other words, if you pay $30,000 in state and local taxes this year, you can only write off $10,000. The $20,000 difference is gone for good. These changes are effective for 2018 through 2025.

Therefore, when the standard deduction is compared to your itemized deductions figuring in the $10,000 SALT limit, the standard deduction may now be higher. For 2022 returns, the inflation-indexed standard deduction is $12,950 for single filers and $25,900 for joint filers. On the other hand, if your itemized deductions exceed the standard deduction amount, you may still benefit from a maximum SALT deduction of $10,000.

Be aware that the SALT deduction is generally comprised of the following elements.

- **Property taxes** on real estate like your principal residence, a vacation home or land, as well as taxes on personal property.

- **Income taxes** paid to the appropriate state and local tax authorities.

- **Sales taxes** on goods and services purchased in your state (subject to certain exceptions and special rules).

Important: The SALT deduction is available only for a combination of (1) state and local property taxes and (2) either state and local income taxes OR state and local sales taxes. So, you cannot count both income and sales taxes toward the $10,000 limit.

This is an easy decision for taxpayers residing in the nine states—Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming—that do not impose any state income taxes on wages. Obviously, you should take the sales tax deduction. Taxpayers in states with extremely high-income taxes, like California and New York, typically go the opposite way. Those in the middle should compare the numbers.

When you figure out the amount of sales tax you can deduct, you can use one of two methods.

1. If purchases are substantiated, you may write off your actual expenses. Review your records to find the annual total.

2. Alternatively, you may claim the deduction from an IRS table providing a flat amount for your state of residence and family size. This will often produce a smaller deduction than the actual expense method, but it is more convenient. Plus, you can add sales tax paid for vehicles, boats, and home improvement materials to the table amount.

Is it a close call? Your professional tax advisor can provide the guidance needed to claim the maximum deduction.

Four Common Retirement Mistakes
How to fix the problems now

We are all human and we all make mistakes. But some errors are more damaging than others. For instance, as you plan for your approaching retirement, certain mistakes may come back to haunt you later on. Here are four common slip-ups and what you can do now to change things.

Mistake #1: You save too little and too late. This is probably the worst mistake you can make. If you have not accounted for estimated needs in retirement, it will be more difficult to make up for lost ground. Also, consider that life expectancies have generally been increasing in recent years, due mainly to health care advances. Your money may have to last longer than you thought.

Fortunately, you can still step-up contributions to qualified plans, like 401(k)s, and IRAs while you are still working. The limit on deferrals to 401(k) plans in 2023 is $22,500 ($30,000 if you are age 50 or over) and $6,500 for IRAs ($7,500 if age 50 or over). Plus, the new SECURE Act 2.0 boosts limits for certain older individuals in future years.

Mistake #2: You fail to diversify. The rate of return on your investments is important, but it is not the be-all and end-all. In the end, you might be hurt if you simply chase after high rates of return, especially if the stock market goes into a prolonged slump prior to your retirement.

Adopt a long-term plan that emphasizes fundamentals like asset allocation and diversification. Although these strategies do not guarantee against loss of principal, especially in a declining market, they can provide less exposure to risk than you would face of you sink all your money into just a few offerings.

Mistake #3: You forget about taxes. This can backfire in two ways. First, you may be missing opportunities to reduce taxes while you save for retirement. For instance, contributions to a 401(k) effectively lower your tax bill, while pay-ins to traditional IRAs may be wholly or partially deductible, depending on your income and whether you (or your spouse, if married) actively participate in an employer-sponsored plan.

Second, you may not be considering the tax implications of amounts received in retirement. Generally, income from 401(k)s and traditional IRAs is taxed at ordinary income rates. If you receive payments from a Roth IRA, however, the amount may be tax-free. Note: The tax is constantly changing, so stay up to date on the latest developments.

Mistake #4: You stop saving and investing in retirement. When you finally call it quits, you may have saved and invested enough to maintain a comfortable lifestyle. But retirement planning does not come to a grinding halt just because you are no longer working full-time.

This is an-going process. Optimally, you can avoid mistakes like mismanaging a portfolio and tweak your plan as needed. Remember that longer life expectancies may result in you outliving your savings despite your best intentions.

Finally, one last mistake is failing to seek expert guidance. Your professional advisers can help you develop a plan for the long term that sidesteps the pitfalls that often trip up retirement-savers.

A Switch in Time

Depending on your situation, it may be beneficial to switch from the C corporation form of business ownership to **S corporation status**. This provides taxation on an individual level, like a partnership, with no corporate-level tax. But the setup is not the best approach for everyone.

The deadline for a change is the 15th day of the third month of the company's tax year. So, a calendar-year corporation has until **March 15, 2023,** to make a switch that is effective for 2023.

Facts and Figures
Timely points of particular interest

Auto Enrollment 401(k)s—The new SECURE Act 2.0 generally requires employers to use automatic enrollment with an escalation feature for new 401(k) plans. To clarify the rules, these new requirements apply to employers that adopt a new plan on or after December 29, 2022, for plan years beginning after 2024. Note that companies with 15 or fewer employees and those in existence for less than three years are exempt from the requirements.

Super Bowl Indicator—The Kansas City Chiefs just won the Super Bowl. What does this mean for your investments? If you believe one theory, it will be a down year for the stock market because the team is from the AFC division. This supposed indicator was "discovered" by a sportswriter back in the late seventies and has been accurate about 75% of the time. Better approach: Instead of relying on this indictor, base your investment decisions on sound fundamental principles.