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Dear Clients and Friends,

It's tax planning time. We welcome you to contact us for planning and projections of your 2022 tax. Avoid the April surprise, and let us provide a sneak preview and look for opportunities before the end of the year.

Two temporary COVID related programs to help people with children have expired.

There have been attempts including the Build Back Better plan to extend these breaks, but they did not pass. For those who benefited from this relief last year, they will get a much smaller benefit, or no benefit at all for 2022 returns filed in 2023.

Last year, families with dependents could get up to $3,600 per child under 18 plus $500 for other dependents as a refundable credit. For 2022 the credit only applies for children under 17, the maximum amount $2,000 per child, and only $1,500 is refundable. The credit is lowered by $50 for each $1,000 your income exceeds $200k for single and $400k for married filers.

Similar for the dependent care credit, but for families needing child care so all parents could work or be in school, the maximum credit was $4,000 for one child or $8,000 more two or more children. For 2022, the typical credit is only $600 for one child and $1,200 for two or more children.

The credit is based on how much you spend on child care. The 2021 maximum amount of care that applied toward the credit was $16,000. For 2022 it goes back down to $6,000 where is has not increased since 2003.

Inherited IRAs confusion.

The IRS changed their mind, then flip-flopped, then reversed that decision, and now want more time to think about it. The SECURE Act was signed December 20, 2019. This changed when beneficiaries had to withdraw and pay tax on inherited IRAs. While we know all the funds must be withdrawn by 12/31 following the 10th anniversary the open question is if you need to take annual distributions until then. The IRS keeps changing their mind and just punted. In a recent announcement, the official position, as of today, is that distributions are NOT required until at least 2023 when they hope to make a final decision.

Congress passed the Inflation Reduction Act.

This Act extended COVID relief that allows taxpayers with higher incomes to receive a subsidy to purchase health insurance through the Marketplace (Obamacare). Previously if your income was one dollar over 400% of the poverty level you would lose your entire subsidy. We had several cases where a few dollars of income cost taxpayers thousands in subsidies they had to pay back. Under the new formula, the subsidies are subject to a gradual phase out instead of falling off a cliff.

We believe this is a better policy. Previously, people were encouraged to earn less to maintain insurance subsidies. We prefer policies that encourage success without penalty.

The major parts of the Act are new green energy provisions.

Please appreciate that these rules are still being interpreted and as recently as October 5, 2022 the Internal Revenue Service issued six notices asking for comments on interpreting and implementing different aspects of the new energy tax benefits.

Tax credits for clean energy such as solar, geothermal and wind were increased from 22% to 30% for qualified improvements once placed in service.

There are also credits for improving the energy efficiency of your primary or second home. This covers a range of products including qualified doors, windows, insulation, water heaters, heat pumps, central air, hot water boilers, furnaces, and home energy audits. For anything to qualify for the credit it needs to meet specific energy standards. Generally, the items will cost more, but save energy, to qualify.

Timing is important. The amount of the credit for 2022 remains unchanged with a $500 maximum lifetime limit. However, starting in 2023 the lifetime limit is gone and replaced with a credit of up to $1,200 per year. It may pay to spread out improvements over two years to double the credit. Additional dollar limits also apply to the specific purchases of each type of qualifying property.

You may need to be an engineer to decipher the technical specifications to determine if your item qualifies for the credit. The best ways are asking your contractor, looking for an EnergyStar sticker on the item, or going to the EnergyStar website below. While this site is the authoritative source for the credit, it is not yet updated for the new law.
www.energystar.gov/about/federal_tax_credits/non_business_energy_property_tax_credits

There is a new $7,500 credit for the purchase of some electric vehicles, for some taxpayers.

As soon as this credit was signed into law, most electric car manufacturers raised their prices by $7,500. Meanwhile, there is a new obstacle in actually getting the credit: Not only does the car need to qualify, but the buyer does as well.

The new rules are complex and a moving target as they are being phased in beginning August 16, 2022 and then changes January first of each year thereafter. There are price caps on cars of $55,000 and trucks at $80,000. The new law also imposes new requirements that an increasing percentage of critical minerals used in the car must have been extracted or processed in the United

States or in a country with which the US has a free trade agreement. There are even smaller credits of up to 30% of the price, limited to $4,000 available for the purchase of some used electric vehicles. The vehicle must be more than two years old and cost less than $25,000. The best way to find out if a car qualifies is to ask the dealer.

If your car qualifies, do you also qualify? The new law put income limits on taxpayers to get the credit. If your income exceeds these amounts in the year of the purchase, you are not entitled to the credit. Beginning August 16, 2022, the income limits for new vehicle credits are $300,000 for joint returns, $225,000 for heads of household, and $150,000 for single taxpayers. For used cars the income limits are even lower at $150,000 for joint returns, $112,500 for heads of household, and $75,000 for single taxpayers.

The Act also contains some issues that are more political than relevant.

Corporate minimum tax on book income. Early estimates in accounting journals have estimated that this calculation would be applicable on 83 companies. Most will not be subject to the tax with an estimated 10-15 that may pay more tax. However, most of the differences in book versus tax income are timing, so depending on the fine details, they may eventually get back any tax paid in a future year. We can't imagine the net benefit to the Government will exceed the effort to figure this out.

Taxes are how we regulate society, from parking tickets to energy and other incentives, so it's no surprise that tax acts are full of politics as well.

Carried interest "loophole" is more political than reality. Fund managers share profit with investors. Each quarter a portion of gains are allocated to the managers as their share of profit and is for their efforts, so it's reasonable that they should pay ordinary tax on that gain. However, typically the managers are required to keep their profits invested in the fund for three to five more years. It seems fair that that portion of gain should be taxed as an investor. The compromise currently in effect is that managers need to wait three years for long term capital gain treatment versus one year for investors.

What's not in the Act is raising, or getting rid of, the limit on state and local tax deductions (SALT). Many NY, NJ, CT, IL & CA Representatives threatened "No SALT, no deal!" No one should be surprised that politicians did not live up to their promise of restoring the state and local deduction.

The IRS receiving $80 billion of additional funding is concerning.

IRS claims it will audit more big corporations, pass-through entities, high net worth individuals, virtual currency transactions and more. They claim they will not increase audits on people with incomes less than $400,000.

Our issue with this is the common misconception that the wealthy pay little tax due to loopholes. We are exceptional at what we do and can state affirmatively that our clients pay a lot of tax – and their burden has grown with each president under both parties.

We find that taxpayers who are 98% accurate are bigger targets than businesses that pretend to not even exist. We believe the vast majority of tax fraud is in a massive number of very small businesses and side gigs, some of which can't compete and abide by all the rules at the same time. By example, if a pizzeria were 100% legitimate, a pie would have to cost $40 and they would have no customers. There is new 1099 / 1099k reporting coming our way to try combat this, but it's missing the mark. More on this later.

The IRS should not hire more people until they build a better infrastructure, provide better training, and have change in attitude from doing the minimum to proudly servicing their customers – the American taxpayer! Exceptions aside, the IRS does not attract or retain talented agents with the ability to audit large companies or complex high net worth transactions. Once these issues are resolved they should consider if they need more workers, but training more to work in a failing system is akin to trying to dig yourself out of a hole.

Coincidentally or not, there have been a significant uptick in diners and pizzerias owners getting arrested and being found guilty for not reporting income. Our suspicion in many of these cases is that a large chunk of the unreported income was likely used to pay undocumented employees in cash.

Separately, the IRS and the Justice Department are on the prowl for undisclosed foreign accounts and virtual currency transactions. Taxpayers are required to report them each year and the penalties are harsh at 50% of the highest value during the year for willfully not reporting.

New reporting of amounts from Venmo, PayPal and other on-line services

If you collect funds from a third-party settlement network or online marketplace, you may get a tax form 1099-K. Previously, the threshold to get this form was $20,000 of income or 200 transactions. The new standard is $600 of transactions.

We are expecting problems. This is designed to catch people and businesses failing to report taxable income. It is not intended for friends sharing the bill at a restaurant or your other personal transactions. If you are not a business, or trying to make a profit, but sell an occasional ticket or clothing item you purchased for personal use, it's reportable, but usually not taxable.
Please provide us with these forms and we will help you work through it.

In a year with down markets, there are a couple items to think about.

Convert a Traditional IRA to a Roth. Tax is due now, but all the growth and hopefully recovery, will be tax free. This is irreversible so please ask us for advice on your situation first.

Take losses in taxable accounts to lower your 2022 tax. Losses in excess of $3,000 are carried forward to future years against future gains. Most states follow this rule as well, but New Jersey does not, so those residents should try to bring gains and losses as close to even as possible and take unused losses in a future year.

Year-end employer elections.

As we get toward the end of the year, employers offer fresh elections for tax advantaged plans. Participating in **dependent care reimbursement plans** is the best way to save on child care. While there is a credit for child care on your personal return, that is subject to income thresholds, so take advantage of the plan through work!

Employer **medical reimbursement plans** and HSAs are frequently the only way to deduct medical expenses so they are worth asking your employer about as well. The only caution is that some of these plans are "use it or lose it" so just do the amount you are confident to spend.

Of course, think about your **401k plan** and consider increasing your contribution and decide if traditional or Roth suits you best. We would be glad to discuss this with you. One caution for those who max out their contributions, make sure you are getting the most match. Some employers compute this based on each pay while others true it up annualy. If your company does not true-up, consider spreading out your contributions through the entire year instead of funding early.

Looking into 2023, while we wait for the mid-term elections, we are hoping for a bipartisan vote on the SECURE Act 2. While the House and Senate have different versions, most of it is similar. Possible provisions include:
Encouraging higher 401k participation with automatic enrollment and forced increases.
Enhancements to the "Savers Credit". This was funny when enacted. Low-income taxpayers get a credit for funding retirement accounts. Problem is, most low-income taxpayers don't pay tax.
Increase to the contribution limits and delaying required distributions from 72 to 75 over time.

Teaching kids about taxes

Late night comedian Jimmy Kimmel has a Halloween prank where parents pretend to have eaten all their kids' candy. Us hilarious accountants have a similar stunt that teaches kids about taxes.

Have your child put their haul on display and talk about the effort they went through to collect it. Draw a correlation between the haul of candy and how parents go to work to bring home money. Similar to trick-or-treating, there's an action done in exchange for a good.

Introduce them to their Uncle Sam. Take a piece of their favorite candy and explain that when parents earn money some of it goes to the government as a tax, to pay for social needs. Elaborate by explaining examples like schools, libraries, roads, and helping those less fortunate.

Then the punchline… Explain you are the like the government and your child is the taxpayer. You provide housing, rides, and even the costume they used for Halloween. Then tax half their candy for the greater good of society.

Please contact us for further guidance on these topics.

Westfield CPAs, LLC
Annoj, Bob, Cathy, Danielle, Jack, Jenica, John, Kellianne,
Louis, Michelle, Patty, Robyn, Susannah & Vanessa

Westfield CPAs LLC
Special supplement just for New Jersey residents!

2019 ANCHOR Program, applications available now, payable in 2023

The Affordable New Jersey Communities for Homeowners and Renters program. (ANCHOR) replaces the Homestead Benefit and should benefit more people than the Homestead rebate.

Homeowner benefit amounts will be $1,500 for taxpayers with 2019 gross incomes up to $150,000 or $1,000 for those with 2019 gross income above $150,000 but no higher than $250,000.

Tenants with 2019 gross income up to $150,000 will qualify for a $450 benefit. Applications will be available this fall, and the deadline for submission is December 30, 2022. The benefit will be paid no later than May 2023.

Six opportunities to help pay for college in New Jersey

Opportunity 1: Open a NJ 529 and get a $750 matching grant**.**
This must be a new account and the participant's income from their latest tax return income must be less than $75,000. Married income must be combined. The funds can eventually be used at any college, in or out of NJ. Info and the application can be found at the following link. Must leave your initial deposit in the account for three years for the grant to vest.
https://www.hesaa.org/Pages/njbestmatchingprogram.aspx

Opportunity 2: Connect your account to "Spryng."
Set up a link and share it with others to make gifts to the account. Check out the video.
https://www.njbest.com/njbest/gift-giving/spryng

Opportunity 3: Get a $10,000 New Jersey tax deduction for contributing to the NJ 529 Plan.
Per tax return, not taxpayer, NJ taxable income that year must be less than $200,000.
https://www.njbest.com/njbest/why-njbest/njbest-benefits

Opportunity 4: First year of college there may be a scholarship of up to $3,000.
Must be to a NJ college. Based on your contributions and how long the account is open. For the maximum award, you need to have contributed $3,600 and had it open for 12 years. But with $1,200 and 4 years you still get $1,000.
The following link explains the program and has a link to "How to apply."
https://www.hesaa.org/Pages/njbestscholarship.aspx

Opportunity 5: There is a NJ tax deduction of up to $10,000 for tuition paid to a NJ college.

Opportunity 6: Take a new tax deduction for student loan principal and interest payments of up to $2,500 for NJCLASS loans if your gross income is less than $200,000.

Visit our website for live links to these programs
at WestfieldCPAs.com and then hit "Client Resources"