Claudia A. Traynor

Certified Public Accountant

S111 McKay Avenue, PO Box 209
Spring Valley, WI 54767
715/778-4500
www.catcpa.net

2022 TAX CHANGES & TIPS

The tax laws continue to provide opportunities for the wise and traps for the unwary. Often, tax savings can be achieved by taking action before the year-end. The information and strategies discussed herein may or may not be appropriate for your situation. Remember to consult with your tax professional before implementing them.

New Tax Laws

The Inflation Reduction Act was passed by Congress and signed into law by President Joe Biden on August 16, 2022, with the goal to curb inflation by reducing the deficit, lowering prescription drug prices, and investing into domestic energy production while promoting clean energy. The main point applicable to the average taxpayer include electric vehicle tax credits and credits for making energy efficient improvements to your home.

Electric vehicle credits. Major changes were made to the federal tax credits for purchasing electric vehicles (EV). Some of those tax law changes include:

- Effective immediately, qualifying vehicles must be assembled in North America.
- Starting in 2023, increasing percentages of battery minerals and components must be sourced from the U.S. or from one of its free-trade partners.
- There are significant new eligibility limits on both the price of the vehicle and the income of the buyer; if either figure is too high, the credit is not allowed.
- Used EVs sold by dealers will be eligible for a one-time tax credit.
- The manufacturer vehicle sales cap will be eliminated. This means that brands such as Chevrolet, Tesla and Toyota that reached the previous 200,000-unit sales are eligible for credits starting in 2023.
- Starting in 2024, a provision will allow buyers to take the EV tax credit directly from the dealer at the point of sale rather than having to wait for the next tax season.

Effective January 1, 2023, the following price and income limits apply:

Price limits for new vehicles:

- SUVs, vans, and pickup trucks - $80,000
- Any other qualifying vehicle - $55,000

Income limits for new vehicles:

- $300,000 - Joint returns or surviving spouse
- $225,000 - Head of household
- $150,000 - Any other filing status

For used vehicles, the credit is 30% of the value, not to exceed $4,000.

Energy efficient property credit. Property owners are eligible for a tax credit for installing energy efficient property to their homes. Under prior law, there was a lifetime limit on the amount of credit you could claim. The new law repeals the lifetime limit and instead limits the allowable credit to $1,200 per taxpayer per year. In addition, there are annual limits of $600 for credits with respect to residential energy property expenditures, windows, and skylights, and $250 for any exterior door ($500 total for all exterior doors). Additionally, a $2,000 annual limit applies with respect to amounts paid or incurred for specified heat pumps, heat pump water heaters, and biomass stoves and boilers. The new law also allows and increase to the credit of up to $150 for a home energy audit.

The new law also allows taxpayers to claim the credit for expenses incurred on energy efficient property installed on any home they own and is no longer limited to their principal residence.

Residential clean energy credit. This credit was formerly referred to as the residential energy efficient property (REEP) credit which was equal to 26% of property place installed in residential homes in years before 2024.

The new law increases the credit to 30% for property placed in service after December 31, 2021, and before January 1, 2033, 26% for property placed in service after December 31, 2032, and before January 1, 2034, and 22% for property placed in service after December 31, 2033, and before January 1, 2035. Qualified expenditures include the costs incurred for installing qualified solar property for generating electricity and hot water, geothermal heat pumps, fuel cell property biomass fuel property and small wind energy.

Additional Information

Required distributions to plan beneficiaries. In 2020, taxpayers who reached age 72 (and taxpayers who attained age 70½ after Dec. 31, 2019), were required to begin annual distributions from their IRA. If the IRA or plan owner died either before or after taking the required minimum distributions, there are specific rules for the designated beneficiaries.

Before the SECURE Act changed the beneficiary IRA rules, individuals who inherited an IRA were required to make a withdrawal from the account each year. The amount of those withdrawals was based on the beneficiary's age, and distributions could stretch out over their own lifetime. This allowed the funds to benefit from tax-deferral for decades, depending on the age of the beneficiary.

New rules that apply to retirement accounts inherited after December 31, 2019, will require most beneficiaries of IRAs and other retirement accounts to withdraw the entire balance in the account within 10 years.

Special rules apply to beneficiaries who are spouses, minor children, disabled individuals, or beneficiaries who are less than 10 years younger than the deceased account owner.

Student loan debt forgiveness. (pending court approval) In addition to forgiving up to $10,000 per borrower (or $20,000 if you received a Pell Grant) for those with an adjusted gross income (AGI) under $125,000 in 2020 or 2021 (or $250,000 for married borrowers), President Joe Biden announced he was also extending the current moratorium on student loan payments and interest until January 1, 2023.

The moratorium on student loan payments and interest includes all federally held student loans, regardless of what company is servicing the loan. Eligible student loans include:

- Direct federal student loans

- Federal Family Education Loan program loans held by the Department of Education, aka FFEL
- Federal Perkins Loans held by the Department of Education
- Defaulted FFEL loans not held by the Department of Education
- Defaulted Health Education Assistance loans, aka HEA

Student loans that are not eligible include:

- Nondefaulted FFEL loans not held by the Department of Education
- Federal Perkins Loans not held by the Department of Education
- Nondefaulted HEAL loans
- Private student loans

Educator expenses. Eligible educators can take up to a $300 deduction for out-of-pocket classroom expenses in 2022. An eligible educator is an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide. The individual must work in a school for at least 900 hours during a school year.

Out-of-pocket expenses include books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment, including related software and services and other equipment, and supplementary materials used by them in the classroom. In addition, qualified expenses include personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of COVID-19. Covered items include face masks; disinfectant; hand soap; hand sanitizer; disposable gloves; tape, paint, or chalk used to guide social distancing; physical barriers, such as clear plexiglass; air purifiers; and other items recommended by the Centers for Disease Control (CDC) for the purpose of preventing the spread of COVID-19.

Standard Mileage Rate. Taxpayers can use the standard mileage rate (in lieu of actual expenses) in computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups, or panel trucks) for business purposes. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for business travel.
The following rates are applicable for the 2022 tax year:

January 1 – June 30	Cents per mile
Business	58.5
Medical	18
Moving	18
Charitable	14

July 1 – December 31	Cents per mile
Business	62.5
Medical	22
Moving	22
Charitable	14

Retirement plan contribution limits for 2023. The IRS recently announced the qualified plan and IRA contribution limits for 2023.

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $22,500.

The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $7,500. Therefore, if you are 50 and older you can contribute up to $30,000, starting in 2023.

The catch-up contribution limit for employees aged 50 and over who participate in SIMPLE plans is increased to $3,500, up from $3,000.

The limit on annual contributions to an IRA increased to $6,500. The IRA catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

Year-End Planning

Year-end planning is always complicated by the uncertainty of what the following year may bring, but this year presents yet another challenge. Inflation is growing and everything seems to be more expensive than that year. Looking for ways to save will require some creativity and saving on your tax bill is a good place to start.

Standard deduction versus itemizing. Many taxpayers can no longer itemize their deductions because of the high basic standard deduction. For 2022, this amount is $12,950 for singles or married taxpayer filing separate, $25,900 for married taxpayers, or $19,400 if you qualify as head of household. You are entitled to an additional $1,400 of you are over age 65 and/or blind. The standard deduction along with the elimination of many deductions previously deducted as an itemized deductions presents an opportunity for some careful planning.

Consider bunching your deductions every other year. This can include making charitable contributions and paying medical expenses in years where you can exceed the standard deduction.

Disaster losses. If you were in federally declared disaster area, and there were a lot of them in 2022, and you suffered uninsured or unreimbursed disaster-related losses, you can choose to claim the loss either on the return for the year the loss occurred (in this instance, the 2022 return), or on the return for the prior year (2021), generating a quicker refund. Remember, you have three years from the due date of your return to file a claim for refund.

IRA contributions. If you are considering making an IRA contribution for 2022, you have until April 15, 2023. For 2022, you can contribute up to $6,000 or $7,000 if you are age 50 or older. Income limits apply if you or your spouse are covered by an employer provided retirement plan.

Health savings accounts. For 2022, the maximum contribution you can make is $3,650 for self-only coverage, and $7,300 for family coverage. You can contribute an additional $1,000 if you are over age 50.

You are eligible to make contributions into a health savings account if you are covered under a high deductible health plan.

Maximize your retirement plan contributions. If you participate in your employer's 401(k) plan, now is the time to review the contributions you made for 2022. This is one of the most important tax deductions available. Not only do your contributions grow tax-free, but you are also allowed to contribute on a pre-tax basis. In many cases, your employer will match your contribution up to a certain percentage. The maximum 401(k) contribution allowed for 2022 is $20,500 (or $27,000 if you are 50 or over).

Charitable giving. If you are age 72 or older by the end of 2022, have traditional IRAs, and especially if you are unable to itemize your deductions, consider making 2022 charitable donations via qualified charitable distributions from your IRA(s). These distributions are made directly to charities from your IRA. The amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040. However, you are still entitled to claim the entire standard deduction.

These contributions are made via a <u>direct transfer</u> from your IRA to the charity. The limit is $100,000 per year .