BRSW CPA'S
DECEMBER 2022 NEWSLETTER

Dear Clients and Friends,

With year-end approaching, it is time to start thinking about moves that may help lower your tax bill for this year and next. At this point we are waiting to see if Congress will pass a year end tax extender bill which will "extend" any provisions that were set to expire for 2022. That is the only tax legislation being considered at this time.

The standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results for all but the highest income taxpayers, as will the bunching of deductible expenses into this year or next to avoid restrictions and maximize deductions.

Most of the current tax provisions will remain in effect until the end of 2025, at which point the law will revert back to the pre-Trump tax rules. With a divided Congress in place for the next two years it unlikely any changes will be implemented before the next election so by default the Trump tax rates should remain through 2025.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all of them will apply to you, but you (or a family member) may benefit from many of them. We can narrow down specific actions when we meet to tailor a particular plan for you. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial.
We appreciate the opportunity to be of service to you!

Sincerely,

Bashore Reineck Stoller & Waterman Inc

Your friends at Bashore Reineck Stoller & Waterman Inc

YEAR-END TAX PLANNING FOR INDIVIDUALS

Long Term Capital Gains

Long-term capital gain from sale of assets held over one year is taxed at 0%, 15% or 20%, depending on taxable income. Planning for the timing of sales to capture gains or losses to maximize the 0% or 15% brackets can save significant tax dollars over time.

Taxpayers whose 2022 taxable income from long-term capital gains and other sources is below the zero-rate amount should try to avoid recognizing long-term capital losses before year end as they may receive no benefit from the loss.

Health Savings Account

The rising cost of health care coverage has caused many individuals and employers to switch from traditional health insurance coverage to high-deductible health plans (HDHPs). Individuals or employees who were covered by a HDHP plan at any time during 2022 may have a tax-sheltered savings opportunity. Depending on the health plan deductible and out-of-pocket limits, they may be able to make contributions to a health savings account (HSA) and receive an above-the-line deduction.

Required Minimum Distribution

Required minimum distributions (RMDs) from an IRA or 401(k) plan (or other employer-sponsored retirement plan) have not been waived for 2022. If you were 72 or older in 2021 you must take an RMD during 2022. Those who turn 72 this year have until April 1 of 2023 to take their first RMD but may want to take it by the end of 2022 to avoid having to double up on RMDs next year. The IRS removed the penalties on 2021 and 2022 RMDs who inherited retirement plans or individual retirement accounts and elected not to take Required Minimum Distributions (RMDs) in 2021 or 2022 even though the Proposed Regulations released earlier this year indicated these taxpayers should take them. These RMDs only applied if you inherited retirement assets from a person who was already taking RMDs and were subject to the ten-year rule.

The SECURE Act imposed the ten-year rule, in which you have 10 years to fully take distributions out of the account. The ten-year period begins in the year after death of the retirement account owner. Certain beneficiaries such as spouses are not subject to these rules. Instead, they are allowed to take an annual distribution over their lifetime (in most cases) and no penalty relief is available for them since these rules really had not changed due to the SECURE Act.

Roth IRA

Individuals considering whether to roll over or convert to a Roth IRA for 2022 should keep in mind that unlike the usual IRA rollover, a switch from traditional IRA, qualified plan to Roth IRA, or an In Plan Roth Rollover (IPPR) is not income-tax-free. Instead, it is subject to tax as if it were distributed from the traditional IRA or qualified plan and not recontributed to another IRA, but it generally is not subject to the 10% premature distribution tax.

Home Office Deduction

Independent contractors or self-employed individuals who work out of part of their home for business may be eligible to claim a home office deduction. Employees working from home during the COVID-19 pandemic cannot deduct expenses for using their home as an employee because misc. itemized deductions on Sch A are suspended through 2025.

Documents for Tax Return

Form 1095-A for enrollment in a Marketplace Health Insurance Plan.

Identity PIN Form if you signed up for one.

FARM ESTATE & RETIREMENT PLANNING

Grain Gifting

To gift grain to a charity, the farmer cannot sell the grain and order the proceeds to be sent to charity. This would result in the transaction being considered a cash sale and cash donation since the farmer has not given up control of the property. Instead, the farmer should transfer the bushels directly to the charity's name and then the charity sells the bushels. When gifting grain to an individual, the donor's opening inventory must be reduced for any costs or un-deducted expenses relating to the transferred property. That means the donor cannot deduct current-year costs applicable to the commodity. However, costs deducted on prior returns are allowed. Thus, a farmer reporting on a calendar-year basis under the cash method is allowed full deductibility of expenses if a gift of raised commodity is not made until the tax year after harvest (i.e., the grain which is the subject of the gift was raised in a year prior to the gift, and all associated expenses would have been deducted in the prior year).

Trust and Estate Distributions

Complex trust and estate distributions made within the first 65 days of 2022 may electively be treated as paid and deductible in 2022. The election is generally made on the return for the election year. Thus, fiduciaries do not need to make payments in 2022 for the payments to be deductible in that year. They can wait until 2023, when the 2022 tax picture will be clearer, to decide whether the payments may be more profitably imputed back to 2022 via the 65-day rule or treated as 2022 payments.

Equipment Sales and Leases

Since equipment values are high and interest is no longer cheap, consider selling some of that excess equipment you no longer use. The tax will take care of itself with the increase in prices.

To avoid self-employment tax on equipment leases, a retired farmer should include the equipment lease and land lease together.

Portability and Estate Limits

The estate limit is currently $12,060,000 per person. When someone dies be sure to elect portability so any unused portion of the estate limit can be transferred to their spouse. Otherwise, the unused portion of the estate exemption will be lost. The estate exemption limit will fall back to $6.8 million in 2026 when the Trump cuts expire.

Related Party Loans

To avoid imputed interest on a related party or land sale loan, make sure to watch out for below market loans so you do not incur imputed interest. One way to avoid imputed interest is to look at the IRS applicable federal rate chart when determining the interest rate. Those have substantially increased over the past year.

Gift Tax Exclusion

The annual gift tax exclusion for 2022 is $16,000 per person, increasing to $17,000 per person in 2023.

YEAR-END TAX PLANNING FOR BUSINESSES

Other Tax Cuts and Jobs Act (TCJA) and CARES Act Business Provisions

20% Business Deduction: Pass-through businesses, e.g., sole proprietorships, partnerships, limited liability companies and S corporations, may be able to take a deduction of up to 20% of their business income from a qualified trade or business (qualified business income (QBI) deduction). The deduction cannot exceed 20% of the excess of the taxpayer's taxable income over his or her net capital gain for the tax year.

Interest Limitation: New for 2022, businesses are no longer allowed to add back depreciation expense when calculating net income for the interest limitation at 30% of income. This means capital intensive businesses with a high depreciation expense may not be able to deduct all interest expense in 2022.

Research & Development Amortization: Also new for 2022, research & development expenses must be amortized over time instead of being deducted as a current year expense.

An accrual basis corporation can take a deduction in its current tax year for a bonus not actually paid to its employees until the following tax year if 1) the employee does not own more than 50% in value of the C corporation's stock, or 2% or more of the S corporation's stock, 2) the bonus is properly accrued on its books before the end of the current tax year, and 3) the bonus is actually paid within the first 2-1/2 months of the following tax year (for a calendar year taxpayer, within the first 2-1/2 months of 2020).

Work from Home Employees

Due to COVID-19, many employers asked their employees to work from home. This could have some withholding tax implications when an employee lives in a different state from the company or works in more than one state. Many states have issued guidance as to what creates nexus for an employer. This may force a business to file additional state income tax returns.

Bonus Depreciation

Bonus Depreciation remains at 100% for 2022. However, in 2023 bonus depreciation is only allowed at 80%. Taxpayer may want to consider higher depreciation in 2022 when 100% is allowed versus 2023 when it is only 80%.

January 31 Reminders

Gift cards are taxable to employees and must be included in gross wages on Form W-2.

Employers will need to use Form 1099-NEC to report nonemployee compensation. The due date for filing Forms 1099 is January 31.

INFLATION REDUTION ACT

Healthcare Costs

The Inflation Reduction Act will:

- Empower Medicare to negotiate prescription drug prices, beginning with ten of the highest costing drugs in 2023 and expanding to 20 each year by 2029, saving $100 billion.
- Cap Medicare beneficiaries' out-of-pocket costs at $2,000 per year, with the ability to spread the cost over monthly payments, saving more than a million seniors $1,200 per year.
- Extend for three years provision from the American Rescue Plan that improved health care affordability for people who buy insurance on the individual marketplaces.
- Cap out-of-pocket spending on insulin for seniors in the Medicare program, ensuring that no senior pays more than $35 a month for the medicine they need to survive.
- Increase help for low-income seniors, giving all qualifying Medicare beneficiaries the full low-income subsidy under Medicare Part D. The average value of this assistance is around $5,000 per person.
- Stabilize Part D premiums in Medicare, ensuring seniors and people with disabilities will never see their premiums increase more than 6% from year to year through 2029.

Clean Energy Tax Credit for Homeowners

Tax credits are extended to 2032 incentivizing homeowners to add solar or wind power systems. Eligible homeowners could qualify for a 30% tax credit. After 2032, a 26% tax credit would apply until 2034. Tax incentives are also included for the purchase of energy-efficient water heaters, heat pumps and HVAC systems. Rebates for these items can add up to as much as $14,000. These rebates take effect immediately. Also, the non-business energy credit for various home improvements has been expanded to be $1,200 a year, but only for purchases made after December 31, 2022.

Alternative Fuel Vehicle Refueling Property Credit

Beginning January 1, 2023, fueling equipment for natural gas, propane, hydrogen, electricity, E85, or diesel fuel blends containing a minimum of 20% biodiesel is eligible for a tax credit of 30% of the cost or 6% in the case of property subject to depreciation, not to exceed $100,000.

Qualified Commercial Clean Vehicles Credit

Effective for vehicles acquired after December 31, 2022, and before January 1, 2033. A taxpayer can claim a credit for purchasing and placing in service a qualified commercial clean vehicle during the taxable year. The amount of the credit is the lesser of (1) 15 percent of the taxpayer's basis in the vehicle (30 percent in the case of a vehicle not powered by a gasoline or diesel internal combustion engine), or (2) the incremental cost of the vehicle. The credit is limited to $7,500 in the case of a vehicle that has a gross vehicle weight rating of less than 14,000 pounds, and $40,000 for all other vehicles.

2023 Changes for Tax Returns Filed in 2024

2023 Tax Brackets

For tax year 2023, the top tax rate remains 37% for individual single taxpayers with incomes greater than $578,125 ($693,750 for married couples filing jointly.

Other rates are:

35% for incomes over $231,250
($462,500 for married couples filing jointly)

32% for incomes over $182,100
($364,200 for married couples filing jointly)

24% for incomes over $95,375
($190,750 for married couples filing jointly)

22% for incomes over $44,725
($89,450 for married couples filing jointly)

12% for incomes over $11,000
($22,000 for married couples filing jointly)

10% for incomes less than $11,000
($22,000 for married couples filing jointly)

Medical Savings Account Limitation Changes

For the tax year 2023, participants who have self-only coverage in a Medical Savings Account, the plan must have an annual deductible that is not less than $2,650, but not more than $3,950, up $200 and $250 from the prior year, respectively. For self-only coverage, the maximum out-of-pocket expense amount is $5,300, up $350 from 2022. For family coverage, the annual deductible is not less than $5,300, up from $4,950 for 2022. However, the deductible cannot be more than $7,900, up $500 from the limit for tax year 2022. For family coverage, the out-of-pocket expense limit is $9,650 for the tax year 2023, an increase of $600 from tax year 2022.

Standard Deduction and Earned Income Tax Credit

The standard deduction for married couples filing jointly for tax year 2023 rises to $27,700, up $1,800 from the prior year.

For single taxpayers and married filing separately, the standard deduction rises to $13,850 for 2023, up $900 from the prior year.

For heads of household, the standard deduction will be $20,800 for tax year 2023, up $1,400 from the amount for tax year 2022.

The tax year 2023 Earned Income Tax Credit amount is $7,430 for qualifying taxpayers who have three or more qualifying children, up from $6,935 for tax year 2022. The revenue procedure contains a table providing maximum EITC amount for other categories, income thresholds, and phase-outs.

Gift Exclusion and Adoption Credit Increases

The annual exclusion for gifts increases to $17,000 for calendar year 2023, up from $16,000 for calendar year 2022.

The maximum credit allowed for adoptions for tax year 2023 is the amount of qualified adoption expenses up to $15,950, up from $14,890 for 2022

Alternative Minimum Tax Exemption Increase

The Alternative Minimum Tax exemption amount for tax year 2023 is $81,300 and begins to phase out at $578,150 ($126,500 for married couples filing jointly which phases out at $1,156,300). The 2022 exemption amount was $75,900 and began to phase out at $539,900 ($118,100 for married couples filing jointly and phasing out at $1,079,800).