

ClientLine®

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THE 2022 INFLATION REDUCTION ACT

Learn about the key tax provisions of the 2022 Inflation Reduction Act (Act) signed into law by the President on August 16, 2022, most of which become effective in the new year.

GREEN CARS

Several green energy tax provisions are included in the Act. Effective as of 08/16/22, only electric vehicles with parts assembled in North America qualify for the \$7,500 clean vehicle credit. That means some brands of vehicles immediately lose credit eligibility because they are built abroad. The vehicle identification number will trace whether an automobile is assembled in North America.

The clean car credit was available on the first 200,000 units sold prior to the Act. But as of January 1, 2023, the cap will be lifted, and those models will qualify if bought after 2022.

Also, the Act places caps on the prices of vehicles that qualify for the credit and income limits on the taxpayer claiming the credit. Effective after

2022, passenger cars are capped at \$55,000, with vans, SUVs, and trucks limited to \$80,000. And the buyer's adjusted gross income (AGI) must be below \$150,000 for single (\$300,000 for MFJ) to claim the credit.

Finally, the Act allows partial credits for buying a used electric vehicles. Previously, the credit was only available for new car purchases. But there are AGI limits, too (\$75,000 for single filers and \$150,000 for married filing jointly).

GREEN HOMES

Homeowners can also receive enhanced tax breaks to help make their homes more energy efficient. Starting in 2023, up to 30% of the costs of installing Energy Star-rated doors and windows and upgrading insulation qualify for a tax credit with a total annual cap of \$1,200. Previously there was a \$500 lifetime credit per taxpayer.

Upgrading your A/C and appliances and completing energy audits can qualify for the credit, too. There are caps on how much you can spend on different types of improvements.

Consult your tax professional.



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WHEN TO SWITCH ACCOUNTING SYSTEMS

If your business has grown during the post-pandemic recovery, you may have noticed that your old bookkeeping system needs an upgrade.

It might seem logical to change software at the end of the year so you can have a fresh start for 2023. However, at the end of the year, your accounting staff will be working in overdrive to prepare the financial records and prepare financial statements and tax returns. Also, the accountants and consultants you may need to help with a transition and implementation will be busy at year-end. So, they may have limited availability, and their fees may be higher than other times of the year.

Consider the end of a quarter (e.g., March 31, June 30, or September 30) to make the change. Your tax advisor can provide guidance so you can make the right decisions.



CLIENT PROFILE

Vince owns a construction company, and during the holidays, he lets employees volunteer at their favorite charity and pays them for their time. Can he deduct these employee payments from his business tax return?



Although Vince is serving his community by encouraging his staff to contribute their time or skills to charity, the payment he makes to his employees doesn't qualify as a charitable deduction. Instead, he should pay his employees if they volunteer during regular working hours, which would be recorded as payroll expenses.

However, if he incurs direct, non-payroll expenses on behalf of his employees' volunteer efforts, he generally can deduct those as a charitable contribution. For example, if he supplies building materials for his employees to serve with Habitat for Humanity building homes, the construction materials he provides will be tax deductible. He needs to keep receipts for all donated materials and may need a written acknowledgment for amounts over \$250.

Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

YEAR-END TAX MOVES

There's still time for last-minute tax savings if you act before January 1.

DEFER INCOME TO 2023

Some tax thresholds for 2023 will see larger than usual increases due to 2022's inflation. (See page 3 for more information on how inflation impacts your tax bill.) The 2023 standard deduction will increase significantly. If you don't itemize deductions, consider deferring some of your 2022 income into 2023 to take advantage of a larger standard deduction. While it might not be possible to put off your wages, you may be able to delay an expected year-end bonus until 2023.

TAKE RMDs ON TIME

If you reach age 72 in 2022, this is the first year you must take minimum distributions (RMD) from most of your tax-deferred retirement accounts. RMDs must be taken by December 31 each year. But if it's your first year taking RMDs, you have a grace period until April 1, 2023, to take your first distribution. Failing to withdraw the required minimum amount each year comes with hefty penalties.

There is an alternative if you don't need the funds. Instead, you can make



a qualified charitable distribution (QCD). Have your account custodian distribute the money directly to your specified charity to avoid tax consequences on your personal tax return.

SPEND ALL YOUR FUNDS

Remember to use all the funds you have in your flexible spending account before the end of the year. If your plan is structured as "use it or lose it," any unused balance is forfeited, and your employer keeps the money. But some programs allow a short rollover period. If you're unsure, ask your human resources officer, so you don't lose out.

2021 HOLIDAY SPENDING

Americans spent \$886 billion on gifts in 2021, which was considerably more than they spent in 2020. Here's how much more:



Clothing purchases: 33.1%



Furniture & home furnishings: 15%



Sporting goods: 20.9%



Electronics: 13.8%



General merchandise: 15.2%



Online purchases: 11.3%

DEVELOPING AN EMPLOYEE HANDBOOK

Having an employee handbook makes it easy for you to communicate rules and responsibilities to employees, so there's no question about what's expected of them — or you, as a small business owner.

WHAT TO INCLUDE

A good employee handbook defines your unique workplace rules and practices and should be written clearly and in a voice that reflects your vision and the culture you've built.



WHERE TO START

If you're starting from scratch, begin with your company's culture and values. Consider how to create a value system that motivates employees to do their best and stay long-term.

Keep in mind the labor laws in your state. For example, many states have passed "leave laws" that govern how employers must handle certain types of leave, whether that's sick leave or jury duty.

Once you have a draft of your handbook, it's best to have an employment attorney review it. Once finalized, distribute the handbook to all employees and have them sign a form acknowledging receipt.

Q

How does inflation impact your tax bill?

A

Some tax provisions are indexed for inflation. Tax brackets, standard deduction amounts, and income caps on IRA contributions are adjusted yearly based on the prior year's inflation calculations.

But two bigger tax areas that aren't adjusted are the taxation of Social Security benefits and the home-sale exclusion. Income thresholds at which Social Security benefits are taxed have stayed static for decades despite benefits having gone up. As a result, more cumulative Social Security benefits will be taxed this year.

The home-sale exclusion has remained unchanged since 1997. Selling your home can provide a sizable tax break, but it's never been adjusted for the appreciation in residential real estate.

DIGITIZING TAX RECORDS

You don't need to keep your tax documents and receipts in boxes or files. Free up space in your home or office by scanning them.

BOOST PRODUCTIVITY

Electronic records can efficiently be searched by using keywords. But paper documents that are misplaced or misfiled could take hours of rifling through boxes, folders, or cabinets. Organize your electronic files in a similar way you would paper files so they're easier for you to find.

PROTECTION PLUS

Digital documents are better protected against the elements. Fires and floods can destroy papers and ink can fade over time. But these risks can be mitigated with proper electronic document storage.

STAY UPDATED

Electronic documents can be digitally date-stamped. This ensures you're using the most current version. You can track edits to digital records, monitor who's viewing them, and restrict access to sensitive information.

YOU HAVE OPTIONS

You can use a high-quality external hard drive to store your documents at your home or office. And there's cloud storage that gives you access anywhere you have an internet connection. But no online service is 100% secure. Regardless of the storage option you choose, after you scan your documents, be sure to shred them.



**2023
TAX NOTES**

A POPULAR TAX LAW SCHEDULED TO PHASE OUT FOR 2023

The temporary 100% tax deduction for qualified business meals eaten at restaurants that came into effect for 2021 and 2022 will revert to the old 50% deductibility requirements as of January 1, 2023, unless Congress acts to extend it.

UPCOMING 2023 TAX DEADLINES

JANUARY 16, 2023

4th quarter 2022
estimated tax payments due

JANUARY 31, 2023

Form W-2 and Form 1099 due to recipients,
Social Security Administration, and IRS

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