BOAL & Associates PC
CERTIFIED PUBLIC ACCOUNTANTS

Greetings as we rapidly close in on the end of another year. We hope that you and your families had a fulfilling and successful year. Nonetheless, it is time to start thinking about year-end tax planning as well as preparing for 2023 and beyond. Please take a few moments to review this summary and please consult with us on any impact regarding your particular situation.

- **Tax Rates** – As in years past, planning for your marginal tax rate continues to be the most solid tax planning strategy. For singles, the cut-off from the lowest 12% bracket to the 22% bracket is $41,775 of taxable income (income after deductions). For married filers, the cut-off is $83,550 (income after deductions). For income over $539,900 for singles and $647,850 for marrieds, the highest rate bracket remains 37%. Taxpayers whose income exceeds $200K single and $250K married are still liable for an additional 0.9% Medicare tax on wages as well as a 3.8% Net Investment Tax on investment earnings.
- **Itemized Deductions** – Many taxpayers are now utilizing the $25,900 (married) or $12,950 (single) standard deduction; however, it is still prudent to accumulate your itemized deductions just in case you can itemize (medical expenses, state, local and property taxes, charitable donations and mortgage interest expense).
- **Medical Expenses** – Medical expenses (to include long-term care costs) remain deductible subject to the 7.5% of AGI limitation. Health insurance, Medicare, and supplemental insurance are included as part of this deduction.
- **Taxes (SALT)** – State and local income taxes, sales taxes and real estate taxes are still capped at $10,000 maximum deduction per year.
- **Mortgage Interest** – Mortgage interest on a mortgage secured by the principal and/or second residence remains deductible on indebtedness of up to $750,000. ($1,000,000 for homes that were mortgaged prior to 12/16/17 or under binding contract before such date and closed by April 1, 2018).
- **Investment Interest** – Investment interest expense (i.e., margin interest) remains deductible as an itemized deduction.
- **Home Equity Interest** – Home equity interest is not deductible unless it can be proven that the debt incurred was used to buy, build or substantially improve your home. If you used the home equity line to pay off credit card bills or buy a vehicle, etc., the interest is not deductible.
- **Charitable Donations** –In order to benefit from additional charitable donations as an itemized deduction, you may want to consider strategies such as moving two years of charitable giving in to one year, donating appreciated stocks, maximizing non-cash contributions, utilization of qualified RMD donations from your IRA,

etc. Make certain you are giving to a recognized IRS Section 501-c(3) charity in order to secure your tax deduction – www.irs.gov.

- **IRS Identity Theft** – Identity theft, fraud and scams continue to be at an all-time high. Should you receive a notice from the IRS or a call or email from someone representing they are from the IRS please DO NOT provide any information to them. The IRS does NOT initiate contact via email or telephone. Additionally, more and more taxpayers are being issued a 6-digit IP PIN number to help mitigate identify theft. If you receive an IP PIN, please ensure that you provide it to us for filing purposes or the return will reject. If you are still waiting on last year's refund, you may want to call the IRS to see if there is an identity theft issue – 1-800-829-1040.
- **Alimony** – For divorces that finalized after December 31, 2018, alimony is no longer a tax deduction to the payor and is no longer taxable to the payee.
- **Estate Tax and Gift Tax** – The federal gift and estate tax exemption is currently set at $12.06 million per person in 2022. The annual gift tax exclusion is $16,000 per year per donee. Gifts in excess of this amount require an annual gift tax filing with the IRS due April 15. Portability is still a major issue to consider as well as state exemption limits which are much less than federal.
- **Required Minimum Distributions on IRAs** – Owners of Traditional IRA's are not required to take a mandatory distribution until Age 72 (formerly age 70.5).
- **Qualified Charitable Gifting from IRA** - IRA owners that are eligible to take a RMD may also make tax-free qualified distributions to a charity directly from their IRA. This is a key planning point under the current tax law as itemized deductions are harder to achieve and can be a great planning opportunity.
- **Capital Gains and Qualified Dividends** – There remains a huge opportunity for the federal 0% capital gain. This is open to you if you are in the 10% or 12% tax bracket. The 15% rate on both long-term capital gains and qualified dividends remains in effect if you are in the 22% bracket or above. There is still a higher 20% capital gain rate for taxpayers in the highest tax brackets.
- **Health Savings Accounts (H.S.A.) –** Consider having a H.S.A. if you have a high deductible health insurance policy ($1,400 or more for singles and $2,800 for families). This can provide beneficial deductions for your out-of-pocket medical expenses. The 2022 contribution limits are $3,650 for singles and $7,300 for a family. Contributions must be made by April 15, 2023. Catch-up contributions of up to $1,000 per year are allowed for folks age 55 or older. People enrolled in Medicare can't contribute to H.S.A's.
- **Conversions to Roth IRAs** – Once again for 2022, traditional IRAs can be converted to Roth IRAs without earnings restrictions. This can be a very solid strategy if you have excess room in the 12% tax bracket to absorb the conversion. If you expect your tax rate to be higher in retirement than the rate you will pay on the conversion, this can be very advantageous to complete now.
- **Medicare Part B Premium Increase** – Monthly Medicare Part B Premiums for 2022 will decrease to $164.90 per month for filers if their joint income for 2021 exceeded $194,000 and $97,000 for singles.

- **Solo 401k Plan** – If you are self-employed with no employees a "Solo K" can give you the ability to defer up to $61,000 of income per year. The plan must be in place no later than October 1st to be utilized in a calendar year.
- **Virtual Currency** – If you deal in virtual currency, please be aware that virtual currency transactions are taxable and must be reported to the IRS. The IRS has ramped up their enforcement of tracking cryptocurrency transactions and heavier scrutiny is anticipated in this area.
- **Foreign Bank Accounts** – If you have any bank accounts located in foreign countries, make sure that you are reporting this to us annually as separate reporting of these accounts is required and penalties for non-compliance are very significant.
- **Residential Clean Energy Credit** – The Inflation Reduction Act of 2022 increased the federal tax credit for the cost of installing qualifying electric, water heating, or temperature control systems for your home that use solar, wind, geothermal, biomass or fuel cell power. The credit was increased to 30% of the project cost for 2022 and 2023. It does not apply to biomass furnaces or water heaters anymore.
- **Electric Vehicle Tax Credit** - The electric vehicle tax credit offers taxpayers who purchase qualifying plug-in electric or "clean" vehicles a federal tax credit. For tax year 2022, the nonrefundable credit ranges from $2,500 to $7,500, and eligibility depends on the vehicle's weight, how many cars the manufacturer has sold and whether you own or lease the car. Several changes were made to the credit that will, for the most part, begin taking effect in 2023. Among them are new manufacturing requirements that the car must be manufactured in the US, updated income thresholds and expanded car type eligibility. The new credit will allow for a maximum of $7,500 for new US-manufactured electric vehicles.

SELECTED BUSINESS ITEMS FOR 2022

- **Employee Retention Credit** – The employee retention credit exists for businesses that continued paying employees while under covid-related restrictions. To be eligible, employers must have sustained a full or partial suspension of operations by government order during 2020 or the first three quarters of 2021 or experienced a significant decline in gross receipts during 2020 or the first three quarters of 2021 in comparison to 2019. Please be cautious of advertised schemes and direct solicitations promising tax refunds in this area. Many of our clients that are NOT eligible for this credit are receiving calls and emails soliciting their business.
- **Asset Purchases - Bonus Depreciation –** Businesses can deduct 100% of the cost of assets with useful lives of 20 years or less that are put into service during 2022. Please note that this changes to 80% for 2023. This includes: machinery, equipment, land improvements and some farm structures. Leasehold improvements to commercial building interiors can be eligible as well. Please note that for state tax this may not apply.
- **Section 179 Expensing Deduction** - For 2022, you may be able to expense up to $1,080,000 of qualifying property placed in service – new or used. The amount phases out as you exceed $2,700,000 in total assets placed in service during the

year. Buyers of certain SUVs weighing between 6,000-14,000 lbs can deduct up to $25,000 through this election. **Important note: to qualify for a 2022 Section 179 election, the asset must be placed in service (meaning you must physically have it and utilize it for business) by December 31 – with no exception.**

- **Consider Hiring Family –** If you decide to hire family members, pay a reasonable salary for the work actually performed. You may be able to provide tax-deductible fringe benefits as well as save on payroll taxes. This strategy can be beneficial to shift income to lower tax brackets.
- **Maryland PTE Deduction** – For 2022, Maryland pass-through entities (partnerships and S-Corporations) are eligible to make their estimated tax payments through the entity rather than at the individual level to utilize them as a federal tax deduction for the business.
- **Retirement Plans –** Consider setting up a retirement plan for your business – Simple IRA, SEPs, 401(k)s – There are many options, and these plans can create significant tax liability savings. In certain cases, up to $61,000 of income can be sheltered from taxation through these plans.

PLANNING IDEAS: You may be able to reduce your taxes by controlling the payment of deductible expenses and the timing of the collection of income. Several strategies to consider may include:

- **State and Local Taxes** - Pay all state and local income taxes (4th Qtr Estimated Payments) and full-year real estate taxes prior to the end of the year (by 12/31/22). Postmark validation required.
- **Maximize your contributions to employer-sponsored retirement plans and IRAs – this is so important and can be so beneficial from a deduction standpoint.**
- **Education** - It may be beneficial to pay 2023 tuition in 2022 to take advantage of the American Opportunity Tax Credit worth up to $2,500 per student to cover the cost of tuition, fees and course materials paid during the taxable year. **Form 1098-T is required from the college for the tax filing – typically the student has access to this through the college website – we must receive this form.**
- **Charitable Donations**. Make year-end donations to qualified charitable organizations. Use your credit card or mail your check as late as December 31.
- **Medical Expenses** – Try to bunch medical expenses. For example, trying to pay medical bills in one year bunched together instead of two years can give you a better chance of exceeding the thresholds.
- **Section 529** – College Savings Plan Contributions must be made by 12/31/22. **Consider a one-time gift of up to $80,000 to a 529 plan for college planning.**
- **Please contact us to see if you have a capital-loss carry-forward from 2021 and make your investment advisor aware of it before year-end for utilization of losses against capital gain income. This can be a key planning strategy.**

- **Keep good mileage logs**. The 2022 standard mileage rate for business is 62.5 cents per mile post 6/30/22 and 58.5 through 6/30/22. Please provide us with copies of your mileage logs for our records as the IRS is requesting these on a frequent basis and requires a sufficient log be kept.
- **Plan Beneficiaries** – review your retirement plan and life insurance beneficiaries to ensure that no changes are necessary – VERY IMPORTANT ANNUALLY.
- **W-4** Complete a new Form W-4 for your employer to adjust tax withholding.
- **Agency Correspondence** - Please be aware that it has become increasingly difficult for us to make contact with government agencies to obtain updates on refund status and such. IRS and other agency response rates are at an all-time low and we appreciate your patience as we try to obtain information for you from these agencies in regards to your particular case.

IMPORTANT FIGURES FOR 2022/2023

SOCIAL SECURITY LIMIT FOR WAGE EARNERS FOR 2023: $160,200

RETIREMENT PLAN CONTRIBUTION LIMITS*:

	YEAR 2022	***YEAR 2023 (estimated)***
IRA(REG/ROTH)	***$6,000***	***$6,500***
SIMPLE IRA	***$14,000***	***$15,500***
401K/403B/SEP	***$20,500***	***$22,500***

**NOTE: IF YOU ARE OVER AGE 50, YOU ARE ELIGIBLE TO CONTRIBUTE ADDITIONAL CATCHUP AMOUNTS DEPENDENT ON THE TYPE OF PLAN– PLEASE CALL FOR DETAILS.*

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In closing, we wish all of you a Happy New Year. It has been our pleasure of assisting you in this trying year and always. Tax organizers will be mailed out in early January. We are looking forward to seeing you again this year and will continue to offer the opportunity to do meetings by way of telephone and/or Zoom along with in-person. We would also encourage you to utilize our drop box on the driveway side of our building for any after-hour drop-offs. If you have any questions, please contact our office.

Yours very truly,

All of us at Boal and Associates CPAs