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2022 Tax Letter

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Key 2022 Tax Changes

Many 2021 expanded tax credits have expired; will the legislature extend them before year end?

Inflation Reduction Act (IRA) of 2022

How this will impact your wallet and your taxes ... from health care to additional funding for IRS enforcement to *clean energy related tax incentives*.

Also Inside...

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- About 2023 ...



The tax picture for 2022 looks a little different than 2021. The ***Inflation Reduction Act*** of 2022 includes a variety of changes that may impact your taxes. Also, several of the COVID related tax provisions have been allowed to expire. Although there are still some tax-related items that Congress would like to address before year-end, it is not clear how many of them will get done, if any. This uncertainty along with increasing interest rates, high inflation and worries over a possible recession are dominating taxpayers concerns and make tax planning more difficult than ever.

Inside this issue we will address key 2022 changes, as they stand now, revisit some proven tax planning strategies, and look ahead to 2023.

KEY 2022 TAX CHANGES

AMERICANS ARE FACING A NUMBER OF TAX CHANGES

Big tax breaks were enacted for the 2021 tax year. Most of the tax enhancements were temporary and expired at the end of 2021. As of this writing no pending legislation to extend the enhancements has passed. Here is what we know:

CHILD TAX CREDIT

For 2021, the child tax credit (CTC) was \$3,000 for each child under age 18 or \$3,600 for each child under age 6. It decreases significantly for 2022, reverting to \$2,000 for each qualifying child under age 17 and begins phasing out when income exceeds \$400,000 if you're filing a joint return or \$200,000 for any other filing status. In addition, the CTC is no longer fully refundable for 2022 if you have no earned income or no tax liability. Instead, it's only partly refundable to the extent 15% of your earned income exceeds \$2,500.

CHILD & DEPENDENT CARE TAX CREDIT

For 2022, the child and dependent care credit is much smaller and nonrefundable (in 2021 it was fully refundable). The dollar limit for eligible expenses reverts to \$3,000 (\$8,000 for 2021) for one child and \$6,000 (\$16,000 for 2021) for two or more qualifying children.

The maximum credit rate is only 35% of eligible expenses if your income is \$15,000 or less, which is much lower than the 50% credit rate that applied for 2021 if your income was \$125,000 or less. The 35% rate decreases as your income rises and is capped at 20% when your income exceeds \$43,000, compared to \$400,000 for 2021. Thus, you may have been eligible for a credit on your 2021 return, however depending on your circumstances, it may be much lower on your 2022 return or not available at all.

KEY 2022 TAX CHANGES

CONTINUED...

CHARITABLE DEDUCTIONS

The charitable deduction for **non-itemizers** was effective for two years, 2020 and 2021. For 2021, those who took the standard deduction were still allowed a charitable deduction of \$300 single or \$600 married filing joint. It has been proposed to be extended; however, at this point it remains unavailable for 2022. As of this writing, you must itemize to deduct charity in 2022.

EARNED INCOME TAX CREDIT

For 2022, the minimum and maximum age limits to claim the earned income tax credit (EIC) without any children apply once again, so you must be at least age 25 (it was 19 in 2021) and under age 65 (waived for 2021). In addition, prior year income can no longer be used to maximize the EIC credit.

1099-K FORMS (3rd Party Network Transactions)

Starting with the 2022 tax year, third-party payment settlement networks (e.g., Venmo, PayPal, ApplePay, etc.) will issue a Form 1099-K if you are paid over \$600 during the year. This change to the reporting threshold means more people will receive a 1099-K. **Please provide any 1099-K's received even if the only activity is for personal payments from family and friends. While not taxable, this activity may have to be reported on your tax return.**

CRYPTOCURRENCY

The IRS has expanded the Crypto question to, "At any time during 2022, did you: (a) receive (as a reward, award, or compensation); or (b) sell, exchange, gift, or otherwise dispose of a **digital asset** (or a financial interest in a digital asset)?" Presumably, this is to encompass other forms of digital assets besides cryptocurrency, such as non-fungible tokens, or NFTs, many of which rose rapidly in value last year before seeing sharp declines.

OTHER EXPIRING TAX PROVISIONS FOR 2022

Mortgage Insurance Premium Deduction, Recovery Rebate Credit (as there were no stimulus payments for 2022) and Enhanced Dependent Care FSA (limit reverted to \$5,000).

INFLATION REDUCTION ACT (IRA) OF 2022



PROVISIONS IMPACTING INDIVIDUALS

The tax legislation that has received the most attention in the past year is the **Inflation Reduction Act of 2022** (IRA of 2022). The IRA signed into law on August 16, 2022, directs new federal spending toward lowering healthcare costs, funding the Internal Revenue Service to improve taxpayer compliance and reducing carbon emissions.

Health Care

In general, when you purchase health insurance through the Marketplace, you don't qualify for any premium assistance if your income is too high. However, if your household income is more than 400% of the federal poverty line (FPL), you're still eligible to claim the premium tax credit (PTC) in 2022 and will not pay more than 8.5% of your income for coverage.

Other Changes ...

Educators Expense Deduction

Increased to \$300 for 2022, up \$50 from last year. This is the first increase since 2002.

Required minimum distributions (RMD)

are lower for 2022 allowing retirees to keep more money in their retirement plan ... IRS updated the RMD table for longer life expectancies.

Student loan debt forgiven for 2022-2025 will be excluded from taxable income

under the American Rescue Plan Act of 2021.

New Wave of Tax-related Text Scams Warning

The scammers typically send a text that appears to be from the IRS, which might include fake instructions to create an online IRS account, threats of tax penalties, or promises of tax or disaster relief. The message then urges recipients to click a link or call a phone number, where criminals stand ready to steal sensitive personal information like Social Security or bank account numbers.

If you receive a suspicious text claiming to be from the IRS, do not respond or click any links. The IRS does not send text messages (or emails or initiate phone calls) requesting personal, tax or financial information.

New Funds to Improve IRS Enforcement



Treasury Secretary Janet Yellen recently outlined the IRS's plans for the nearly \$80 billion in additional funding in the IRA of 2022, which includes increasing the agency's compliance and enforcement efforts. Yellen stressed that the new resources will not be used to increase the audit rates for households with less than \$400,000 in annual income.

In addition to increased enforcement, Yellen said the funds will be used to transform the IRS into a 21st century agency and improve customer service by fully staffing IRS Tax Assistance Centers, hiring 5,000 additional phone representatives and improving the agency's slow turnaround for paper returns.

The IRS will also ramp up its **Virtual Currency Compliance Campaign** in an effort to better monitor cryptocurrency and digital asset transactions.

IRA'S CLEAN ENERGY & EFFICIENCY INCENTIVES

GO GREEN AT HOME

The **nonbusiness energy property tax credit** which expired in 2021 was revived for 2022, including the \$500 lifetime limit. For 2023, the lifetime limit is removed, and the credit is renamed the **energy efficient home improvement credit**. Beginning in 2023, the credit amount will be 30% of the costs of eligible home improvements made during the tax year, with a \$1,200 annual limit. The specific annual limits for improvements are:

- \$150 for home energy audits
- \$250 for exterior doors meeting Energy Star requirements (\$500 total for all doors)
- \$600 for windows and skylights meeting Energy Star's most efficient certification requirements
- \$600 for other qualified energy property, including central air conditioners; electric panels and certain related equipment; water heaters powered by natural gas, propane, or oil; oil furnaces and water boilers
- \$2,000 for specified heat pumps and heat pump water heaters, biomass stoves and boilers (neither the \$1,200 annual limit on total credits nor the \$600 limit on other qualified energy property applies to this amount)



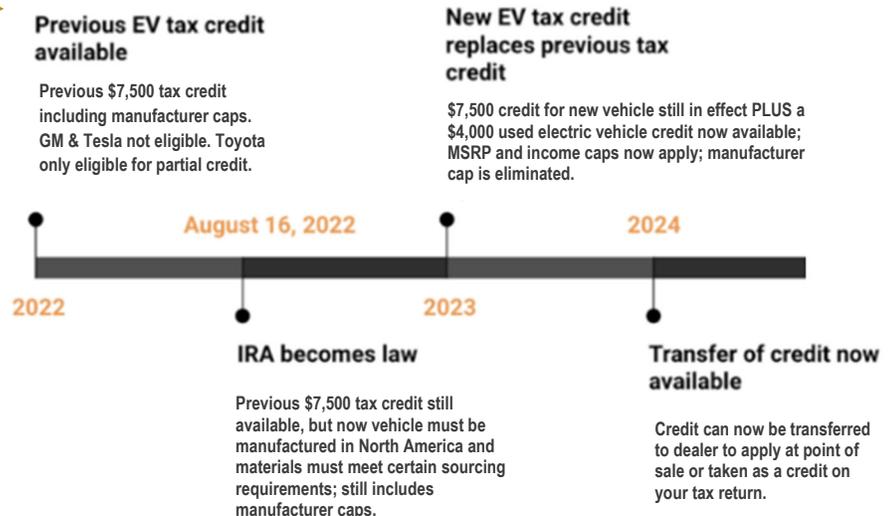
IRA'S CLEAN VEHICLE CREDITS

HIGHER EARNERS PURCHASING AN ELECTRIC VEHICLE SHOULD CONSIDER DOING SO BEFORE DECEMBER 31, 2022

The **Inflation Reduction Act** extends the \$7,500 **Clean (or EV) Vehicle Credit** until the end of 2032 and creates a new credit for previously-owned vehicles up to \$4,000. The new rules phase in beginning August 16, 2022 and are tricky to understand.

Here is a timeline of the law

Beginning in 2023, only households with incomes of up to \$300,000 qualify for the credit, with the credit limited to individual taxpayers with incomes below \$150,000. Additionally, only battery-powered cars priced at less than \$55,000 are eligible, or \$80,000 for vans, SUVs and trucks. The 2023 income and price limits may make it more advantageous for some to purchase a clean vehicle before December 31, 2022. However, finding a vehicle that qualifies may be difficult. Per the IRS only 20 vehicles now are eligible under the assembly and materials sourcing rules, and many models have reached the 200,000 vehicles sold limit.



3 ways the IRA incentivizes greener investments

Go electric with your appliances



Get money back from home energy rebate programs



Invest in heat pumps, rooftop solar, electric HVAC and water heaters



Get tax credits



Buy a new or used electric vehicle that meets requirements

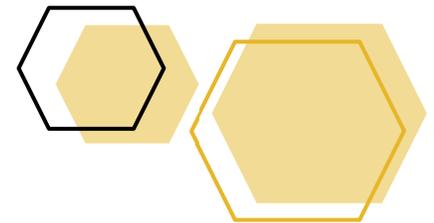


Get money off at the point of sale



Source: Summary of the Energy Security and Climate Change Investments in the Inflation Reduction Act of 2022

The IRA of 2022 also renames the residential energy efficient property credit as the **residential clean energy credit**. This credit including solar, wind and geothermal power was scheduled to expire at the end of 2023 but has been extended through 2034. The credit amount also increased to 30% for 2022 through 2032 but drops to 26% in 2033 and 22% for 2034.



For more information about this credit go to our website at www.APL2CPA.com.

YEAR-END TAX PLANNING



PROVEN STRATEGIES

The time is now to take advantage of year-end planning to reduce your next tax bill before it's too late. The following are five tax moves you'll want to consider before the clock strikes midnight on New Year's Eve.

1. **Check your paycheck tax withholding.**
2. **Donate to your favorite charity, if you itemize your deductions or, of course, just because you want to.**
3. **Maximize your 401(k) contribution to \$20,500 (\$27,000, if over age 50).**
4. **Max out your HSA contributions, \$3,650 for self and \$7,300 for family; and zero-out your flexible spending account.**
5. **Review your brokerage investment accounts for capital gains & losses and ...**
 - **Sell loser investments to offset gains...** A key year-end strategy is called "loss harvesting"; selling investments to realize losses. You can then use those losses to offset any taxable gains you have realized during the year.
 - **Sell winner investments if you have year-to-date realized losses...** If you need cash or just want to diversify your portfolio this may be the time to do it without tax consequence. You can sell stock with capital gains in your portfolio up to the amount of the losses already realized, essentially making those gains tax free. Just know, **December 30th is the last trading day of 2022 to realize a capital gain or loss. We recommend trades be initiated by December 27th to ensure they clear in time. Also, be aware of wash sale rules.**

FOR MORE DETAILED TAX PLANNING GUIDANCE VISIT OUR WEBSITE AT WWW.APL2CPA.COM

About 2023...

SUBMIT YOUR TAX DOCUMENTS ELECTRONICALLY

We strongly encourage uploading tax paperwork electronically either through *My1040Data* (our e-Organizer) or using the *ShareSafe* secure link provided in the signature block of our email. Additional instructions on how to do this will be sent via email early-mid January 2023.

Please note: Documents submitted electronically must be in PDF format. JPEG, GIF, PNG, etc. will no longer be accepted. There are free PDF converter apps you can download on your android or iPhone that make the conversion easy.

You may also mail or drop off your paperwork to our office Monday – Thursday during normal business hours.

Deadline to submit your paperwork is March 17, 2023

A fee of \$145 will be charged to process an extension.

COMPLETE THE ENCLOSED "TAX SEASON CHECKLIST" AND SUBMIT WITH YOUR TAX DOCUMENTS

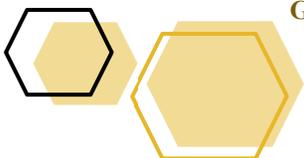
Staying organized will reduce your stress (and ours!) and allow us to be more efficient. Please utilize the enclosed checklist along with your prior year tax return to determine which documents need to be submitted.

This year we are encouraging e-Delivery of tax returns. Please check the box on the checklist "YES" if would like to receive AND SIGN your tax return electronically.

SIGN YOUR ENGAGEMENT LETTER

Enclosed is our client engagement letter outlining our services. Please submit a signed and dated copy with your tax paperwork.

VISIT OUR WEBSITE FOR MORE TAX SEASON GUIDANCE



The 2023 income tax brackets coupled with a higher standard deduction will mean tax savings for many Americans.

The IRS has released adjustments to tax brackets for 2023, adding thousands of dollars to most marginal tax brackets, and potentially protecting more of your income from taxes next year. The 7.1% adjustment is one of the biggest in decades, and more than twice what it was in 2022.

2023 Federal Tax Brackets

TAX BRACKET/RATE	SINGLE	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD
10%	\$0 - \$11,000	\$0 - \$22,000	\$0 - \$15,700
12%	\$11,001 - \$44,725	\$22,001 - \$89,450	\$15,701 - \$59,850
22%	\$44,726 - \$95,375	\$89,451 - \$190,750	\$59,851 - \$95,350
24%	\$95,376 - \$182,100	\$190,751 - \$364,200	\$95,351 - \$182,100
32%	\$182,101 - \$231,250	\$364,201 - \$462,500	\$182,101 - \$231,250
35%	\$231,251 - \$578,125	\$462,501 - \$693,750	\$231,251 - \$578,100
37%	\$578,126+	\$693,751+	\$578,101+

Additionally, **the standard deduction will rise.** For married couples the bump up is \$1,800 to \$27,700. For single filers, it's an increase of \$900 to \$13,850. The adjustment reflects record inflation of 8.2%. Plus, there's good news for savers: higher contribution limits for 401(k)s, IRAs, and HSAs.

An opportunity to save more in a 401(k)

Participants can contribute \$22,500 (pretax), up from \$20,500 in 2022. People 50 and older can make catch-up contributions of \$7,500, an increase from \$6,500 in 2022.

2023 IRA contribution limits

IRA contribution limits have also increased to \$6,500 for 2023, compared to \$6,000 for 2022. (Catch-up contributions did not change.)

2023 HSA contribution limits

The inflation adjustment lets individuals save \$3,850, up from \$3,650 in 2022. For family coverage, contribution limits for next year have jumped to \$7,750 from \$7,300. HSAs can help people save for rising health care costs now and in retirement.

All in all, the tax changes for 2023 should help offset some of the pain of rising inflation and help people save for retirement.